The New York Times Company
Third-Quarter Earnings Conference Call
October 25, 2012

Paula Schwartz

Thank you. Good morning and welcome to our third-quarter 2012 earnings conference call. We have several members of our senior management team here to discuss our results with you, including:

- Arthur Sulzberger, Jr., chairman and chief executive officer;
- Jim Follo, senior vice president and chief financial officer;
- Scott Heekin-Canedy, president and general manager, The New York Times; and
- Denise Warren, senior vice president & chief advertising officer, The New York Times Media Group and general manager of NYTimes.com.

All of the comparisons on this conference call will be for the third quarter of 2012 to the third quarter of 2011, unless otherwise stated. As we noted in our release earlier this morning, the results for the About Group are reported in discontinued operations for all periods presented.

Our discussion will include forward-looking statements, and our actual results may differ from those predicted. Some of the factors that may cause them to differ are included in our 2011 10-K. Our presentation will also include non-GAAP financial measures, and we have provided reconciliations to the most comparable GAAP measures in our earnings press release, which is available on our corporate Web site at www.nytco.com under Investor Relations.

And now, I would like to turn the call over to Arthur Sulzberger.

Arthur Sulzberger, Jr.

Thank you, Paula, and good morning everyone.

Our results for the third quarter reflect continued pressure on advertising revenues, which have been dampened by the challenging economic environment, rapidly changing consumer habits and an increasingly complex and fragmented digital advertising marketplace. At the same time, our results also reflect continued growth in circulation revenues led by the ongoing expansion of our digital subscription plan. Digital subscription trends have remained robust and at quarter end, paid digital subscriptions across the Company totaled approximately 592,000, up 11 percent from the end of the second quarter.

Over the past three months, we have taken a number of decisive actions to better position our Company for the future. First was the selection of our new president and CEO, Mark Thompson, who will be joining us next month. We believe that his experience and accomplishments make him the ideal person to take the helm of the Times Company as we focus on growing our businesses through digital and global expansion.

Second, just after the quarter closed, we completed the sale of the About Group for approximately $300 million in cash, plus a working capital adjustment. This sale will allow us to continue to enhance our focus on our core business of generating and distributing high-quality journalism. And in early October, our ownership interest in Indeed.com was sold for approximately $167 million. The after-tax proceeds from these two transactions further strengthened our solid liquidity position.

We have remained disciplined in managing our expenses even as we invest in our digital transformation and journalistic initiatives, including our extensive coverage of the London Olympic Games, the presidential campaign and the unrest in North Africa and the Middle East.

We continue to look for opportunities to broaden and deepen reader interaction, expand The Times brand and extend our global footprint. Over the past quarter, we have enhanced our presence in video, mobile and social engagement. In August, The Times re-launched its online video player, which was developed for optimal viewing across multiple platforms. And we have made significant strides in the breadth of our video capabilities, including multi-hour live-streaming video coverage of the Republican and Democratic conventions as well as the presidential and vice presidential debates.

We have expanded our mobile product offerings, building on our NYT Everywhere strategy of offering Times content on a wide variety of platforms to reach subscribers and non-subscribers where they want to access our journalism. In June, The Times became available on the Flipboard app, which was the first time we've expanded our reach to users on a third-party platform. Earlier this month The Times launched an experimental HTML 5 app for the iPad.

In addition to our large presence on Facebook and Twitter, we have been extending our brand on multiple social networks including Pinterest, Tumblr and Google+.

With regard to our international expansion, we have announced that in the second half of next year we will be launching a Portuguese-language site for readers in Brazil, which is one of the fastest growing economies in the world, not to mention the site of the next Summer Olympics.

At the New England Media Group, BostonGlobe.com recently marked its one-year anniversary and continues to make progress in growing paid digital subscriptions. The site has implemented a variety of initiatives to increase the engagement of its readers and increase subscription opportunities including new subscriber targeting capabilities, reducing the number of unlocked articles on Boston.com and rolling out new features such as monthly eBooks. On Boston.com, with content enhancements in the areas of business innovation, Boston public schools sports, local college news and an expanding network of community bloggers, there is a strong focus on increasing engagement and building community.

As you know, I assumed an active part on these calls this year, as I stepped into the role of interim CEO. I'm proud of all that we have accomplished as a Company during this time − adjusting our portfolio, improving our balance sheet, driving our digital presence and platforms − all while maintaining our high-quality journalism and our brands. With Mark Thompson joining us, it will be time for me to step away from these calls and turn the microphone over to him next quarter. I've enjoyed the dialog with all of you and look forward to focusing on my duties as chairman and publisher.

Before I close, I'd like to say that we are delighted to welcome Mark Thompson, the former director general of the BBC, as our president and CEO who will begin November 12. I'm sure that you have read the recent reports of a controversy regarding the BBC's decision in late 2011 to cancel a news story investigating allegations of child molestation by one of their on-air BBC talents, Jimmy Savile, who died last year. Mark has provided a detailed account of that matter and I am satisfied that he played no role in the cancellation of that segment.

In the months leading to our decision to bring Mark to the Times Company, Michael Golden, our vice chairman, and I, along with the rest of our Board of Directors, got to know him very well. Our opinion was then, and remains now, that he abides by high ethical standards and is the ideal person to lead our Company as we focus on growing our businesses through digital and global expansion. Mark has already been in our offices this week, getting to know many of our employees.

And now I would like to turn the call over to Jim Follo.

Jim Follo

Thank you, Arthur, and good morning, everyone.

Our results for the third quarter reflect the continued strength in the circulation side of our business, led by double-digit growth in The Times digital subscriptions. Halfway through the second year of the subscription model, this meaningful revenue stream has helped to partially offset the continued softness we have been seeing in our advertising business, resulting in total revenues declining about 1 percent in the third quarter.

Circulation revenues rose 7 percent for the Company and 9 percent for The Times Media Group in the quarter led by growth in digital subscriptions. Total circulation revenues also benefited from print circulation price increases at The Times and the Globe in the first half of 2012, which helped to offset declines in print copies sold at The Times and New England Media Groups. The Times has continued to see growth in Sunday home-delivery and improved retention rates of home-delivery subscribers, who receive all digital access for free.

Meanwhile the advertising landscape has been characterized by a challenging economic environment, which has been compounded by weakened business confidence associated with the uncertainty around the election and the pending fiscal cliff. It has also been affected by ongoing secular trends and an increasingly complex and fragmented digital advertising marketplace. Print advertising revenues decreased 11 percent and digital advertising revenues ended down 2 percent.

Operating expenses before depreciation, amortization and severance were up 3 percent. On a GAAP basis, costs were up 2 percent and we reported an operating profit of $8.5 million in the third quarter. Excluding depreciation, amortization and severance, operating profit was $34 million.

Diluted loss per share from continuing operations, excluding severance and the special items in 2011, was 1 cent in each of the third quarters of 2012 and 2011.

Now let me provide more depth on our third-quarter results. Total advertising revenues decreased 9 percent year-over-year and were down 4 percent in July, and 11 percent in both August and September. August and September were particularly difficult months with declines in both print and digital advertising as business confidence weakened. Third-quarter print advertising revenues decreased in the national, retail and classified ad categories. Digital advertising revenues declined 2 percent as lower ad revenues in the national and real estate classified categories were offset in part by growth in the retail display and automotive classified categories.

Turning to The New York Times Media Group, total revenues were flat for the quarter, with advertising revenues down 10 percent, circulation revenues up 9 percent and other revenues down 13 percent. The Group's total advertising revenues were lower due to declines in the national, classified and retail categories. Given the high percentage of its advertising revenues that comes from national advertisers, the increased pressure on that ad category weighed on The Times Media Group's performance for the quarter.

Digital advertising results trended lower in the quarter mainly due to the difficult economic climate and an increasingly competitive landscape. Standard web-based digital display advertising has been experiencing challenges, including a glut of available ad inventory and the resulting downward price pressure as well as a shift toward ad exchanges, real-time bidding and other programmatic buying channels that allow advertisers to buy audience at scale, including through platforms owned or operated by Google and Yahoo.

The Times's digital strategy remains centered on growing its subscriber base while at the same time extending its brand to subscribers and non-subscribers on a wide range of platforms. The steady progress in digital subscriptions in the third quarter was helped by a variety of marketing initiatives. To update our digital subscription volume numbers, as of the end of the quarter The Times Media Group had approximately 566,000 paid digital subscribers, up 57,000 or 11 percent from the end of the second quarter. This number includes subscribers to The Times and the International Herald Tribune digital packages.

Looking at mobile, in the third quarter we experienced very healthy traffic and reader engagement on our mobile apps, particularly for our coverage of the Olympics and the presidential campaign. We also saw good advertiser interest in mobile, with Ralph Lauren as the solo sponsor of our iPad app for our Olympics coverage. Similar to its ad sponsorship of the iPad app for Fashion Week last year, Ralph Lauren provided free access to certain sections including Sports, Fashion, Travel, Home & Garden, T Magazine and the Olympics during the two weeks of the games.

Moving to the New England Media Group, total revenues declined 1 percent in the third quarter, with advertising and circulation revenues down 6 percent and 1 percent, respectively. Other revenues rose 19 percent on higher commercial printing revenues. The decline in advertising revenues was due to softness in the national, retail and real estate classified categories. Automotive and help-wanted classified were up and each saw increases in both print and digital advertising revenue. And while total retail advertising revenues was lower due to softness in print, digital retail advertising revenues were up for the quarter.

At of the end of the quarter, BostonGlobe.com had approximately 26,000 paid digital subscribers up 3,000, or 13 percent since the end of the second quarter.

Turning to costs, while we have remained disciplined in our expense management, as expected, operating costs rose in the third quarter largely because of higher benefits and performance-based compensation costs, stock-based compensation expense and costs associated with increased commercial printing activity at the New England Media Group. Costs were also up due to expenses associated with our growing digital businesses as well as news-related expenses for our coverage of the Olympics and the presidential campaign.

Meanwhile we have achieved savings in certain areas, including outside printing, professional fees and raw materials. With newsprint prices generally flat for the past two years, newsprint expense declined 4 percent in the quarter, mainly due to lower consumption.

At the end of the third quarter, our cash and short-term investments totaled $614 million and net debt was $163 million.* This does not include the after-tax proceeds from the transactions that occurred early in the fourth quarter. As Arthur mentioned, in late September, we completed the sale of the About Group for $300 million in cash, plus a net working capital adjustment of approximately $16 million and in early October our remaining ownership interest in Indeed.com was sold for approximately $167 million.

Following the sale of our interest in Indeed.com, we now have a minority interest in about a dozen new media companies. In addition to growing our digital businesses organically, from time to time we make investments in new media businesses that complement our existing properties and expand our digital holdings.

Our liquidity and overall debt position also improved after the end of the third quarter as we paid off $75 million 4.61 percent notes that matured on September 26.

As we have said, one of our main priorities for cash has been managing our pension-related obligations. Building on our strategy to reduce our pension obligations and the resulting volatility of our overall financial condition, last month we offered certain former employees in The New York Times Companies Pension Plan the option to commence their pension benefit immediately, by electing to either take their pension as a lump sum or as a monthly annuity. If an individual elects to receive a lump sum, the Company's pension obligation to the individual will be settled.

*Total debt and capital lease obligations was $777 million at the end of the third quarter of 2012.

While it's too early to estimate the participation rate, assuming an acceptance rate of 50 percent of the pension obligations associated with the offer, the Company would make settlement distributions of approximately $100 million, the majority of which will be made by the end of 2012, and would record a non-cash settlement charge of approximately $45 million in the fourth quarter of 2012. The settlement distributions will be made with existing assets of the pension plan and not with Company cash. The actual amount of the settlement distribution and the charge will largely depend upon the number of participants electing the offer and the associated pension benefit of those electing participants as well as interest rates and asset performance. This offer is expected to have a minimal impact on our underfunded pension plan balance and timing and amount of our pension funding obligations.

This offer augments the actions we have taken over the past few years to address our pension obligations. As of December 31, 2009, we discontinued future benefit accruals and froze existing accrued benefits in the Company-sponsored qualified pensions for non-union employees, and eliminated certain retirement benefits for various employees at the Globe with the amendment of certain collective bargaining agreements in 2009. We plan to build on these accomplishments and to adjust the size of our pension obligations relative to the size of the Company.

In addition, we have modified our investment strategy to reduce the volatility in the funded status of our plans and are planning to shift some of these assets from equity investments to fixed income investments as the plans become more fully funded. Over time we expect to have a significant percentage of the pension assets invested in fixed income instruments as our plans become fully funded.

We currently expect to make a decision of the amount, if any, of discretionary contributions to our pension plans before year end. We will consider several factors, including current and future expected direction of interest rates in determining the amount of any contribution.

Capital expenditures totaled approximately $5 million in the third quarter and $20 million for the first nine months of the year. We expect fourth-quarter capital expenditures to approximate $15 million as we continue to invest in our digital initiatives and other IT projects across the Company. Accordingly, we are now projecting capital expenditures will total approximately $35 million for 2012.

While we know there's been a lot of focus lately on our significant cash balances and the uses of this cash, as we have stated in the past, any decision to reinstate the dividend is considered on an ongoing basis by our Board of Directors, which takes into account our earnings and capital requirements as well as restrictions in our debt agreements, among other relevant factors. Given that we are in the midst of our 2013 planning season and Mark, who will participate in this discussion, does not join us until next month, we plan on having more to say on this matter early next year.

Turning to the fourth quarter, we will have 14 weeks as opposed to 13 weeks since 2012 is a 53-week year. We plan to provide the revenue impact of the additional week when we release our fourth-quarter results.

To recap the special charges that we expect to record in the fourth quarter, there will be

- An approximate $100 million after-tax gain on the sale of our interest in Indeed.com; and
- A settlement charge related to the immediate pension benefit offer.

In addition, we expect to record an estimated $68 million after-tax gain on the sale of the About Group, which will be included in discontinued operations.

Moving to our outlook for revenues and costs, in the fourth quarter, overall advertising revenue trends are expected to be similar to third-quarter levels.

Although we have cycled past the first full year of digital subscription packages at The Times and the Globe, we expect to see continued benefit from our various offerings, as well as the print price increases implemented earlier this year, and total fourth-quarter circulation revenues are expected to increase in the mid- to high-single digits.

Operating expenses are expected to increase modestly in the fourth quarter.

And with that we'd be happy to take your questions.