

GateHouse Media, Inc.
Form 10-Q
April 28, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 27, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 001-33091

GATEHOUSE MEDIA, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4197635
(I.R.S. Employer
Identification No.)

350 WillowBrook Office Park,
Fairport, NY
(Address of principal executive offices)

14450
(Zip Code)

Telephone: (585) 598-0030
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 26, 2011, 58,077,756 shares of the registrant's common stock were outstanding.

Table of Contents

| | Page |
|---|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. <u>Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets as of March 27, 2011 (unaudited) and December 31, 2010</u> | 3 |
| <u>Unaudited Condensed Consolidated Statements of Operations for the three months ended March 27, 2011 and March 31, 2010</u> | 4 |
| <u>Unaudited Condensed Consolidated Statement of Stockholders' Equity (Deficit) for the three months ended March 27, 2011</u> | 5 |
| <u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 27, 2011 and March 31, 2010</u> | 6 |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | 7 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 26 |
| Item 4. <u>Controls and Procedures</u> | 26 |
| PART II. OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | 27 |
| Item 1A. <u>Risk Factors</u> | 27 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 27 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 27 |
| Item 4. <u>(Removed and Reserved)</u> | 27 |
| Item 5. <u>Other Information</u> | 27 |
| Item 6. <u>Exhibits</u> | 27 |
| <u>Signatures</u> | 28 |

Table of Contents**Item 1. Financial Statements****GATEHOUSE MEDIA, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(In thousands, except share data)**

| | March 27, 2011 | December 31, |
|---|-----------------------|---------------------|
| | (unaudited) | 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,242 | \$ 9,738 |
| Restricted cash | 5,182 | 5,182 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,045 and \$3,260 at March 27, 2011 and December 31, 2010, respectively | 52,327 | 61,512 |
| Inventory | 7,703 | 7,731 |
| Prepaid expenses | 5,345 | 10,506 |
| Other current assets | 7,539 | 7,253 |
| Total current assets | 91,338 | 101,922 |
| Property, plant, and equipment, net of accumulated depreciation of \$106,081 and \$101,739 at March 27, 2011 and December 31, 2010, respectively | 147,679 | 152,293 |
| Goodwill | 14,343 | 14,343 |
| Intangible assets, net of accumulated amortization of \$161,051 and \$154,927 at March 27, 2011 and December 31, 2010, respectively | 264,938 | 271,061 |
| Deferred financing costs, net | 3,994 | 4,334 |
| Other assets | 1,340 | 1,400 |
| Assets held for sale | 944 | 974 |
| Total assets | \$ 524,576 | \$ 546,327 |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| Current liabilities: | | |
| Current portion of long-term liabilities | \$ 1,228 | \$ 1,224 |
| Current portion of long-term debt | | 11,249 |
| Accounts payable | 7,791 | 5,905 |
| Accrued expenses | 30,112 | 26,766 |
| Accrued interest | 4,403 | 2,805 |
| Deferred revenue | 27,988 | 27,348 |
| Total current liabilities | 71,522 | 75,297 |
| Long-term liabilities: | | |
| Long-term debt | 1,181,238 | 1,181,238 |
| Long-term liabilities, less current portion | 3,263 | 3,636 |
| Derivative instruments | 58,121 | 65,490 |
| Pension and other postretirement benefit obligations | 12,627 | 12,787 |
| Total liabilities | 1,326,771 | 1,338,448 |
| Stockholders' deficit: | | |
| Common stock, \$0.01 par value, 150,000,000 shares authorized at March 27, 2011 and December 31, 2010; 58,313,868 and 58,313,868 shares issued, and 58,077,756 and 58,078,607 outstanding at March 27, 2011 and December 31, 2010, respectively | 568 | 568 |

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

| | | |
|---|-------------|-------------|
| Additional paid-in capital | 831,043 | 830,787 |
| Accumulated other comprehensive loss | (54,752) | (62,614) |
| Accumulated deficit | (1,577,433) | (1,559,465) |
| Treasury stock, at cost, 236,112 and 235,261 shares at March 27, 2011 and December 31, 2010, respectively | (310) | (310) |
| Total GateHouse Media stockholders' deficit | (800,884) | (791,034) |
| Noncontrolling interest | (1,311) | (1,087) |
| Total stockholders' deficit | (802,195) | (792,121) |
| Total liabilities and stockholders' deficit | \$ 524,576 | \$ 546,327 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**GATEHOUSE MEDIA, INC. AND SUBSIDIARIES****Unaudited Condensed Consolidated Statements of Operations****(In thousands, except share and per share data)**

| | Three months ended March 27, 2011 | Three months ended March 31, 2010 |
|--|---|---|
| Revenues: | | |
| Advertising | \$ 81,648 | \$ 92,415 |
| Circulation | 32,169 | 34,089 |
| Commercial printing and other | 6,000 | 6,599 |
| Total revenues | 119,817 | 133,103 |
| Operating costs and expenses: | | |
| Operating costs | 72,463 | 77,036 |
| Selling, general, and administrative | 38,153 | 42,298 |
| Depreciation and amortization | 11,057 | 11,861 |
| Integration and reorganization costs | 1,457 | 897 |
| Loss on sale of assets | 348 | 266 |
| Operating income (loss) | (3,661) | 745 |
| Interest expense | 13,780 | 14,908 |
| Amortization of deferred financing costs | 340 | 340 |
| Loss on derivative instrument | 379 | 2,797 |
| Other income | (2) | (9) |
| Loss from continuing operations before income taxes | (18,158) | (17,291) |
| Income tax expense | 34 | 158 |
| Loss from continuing operations | (18,192) | (17,449) |
| Loss from discontinued operations, net of income taxes | | (24) |
| Net loss | (18,192) | (17,473) |
| Net loss attributable to noncontrolling interest | 224 | 153 |
| Net loss attributable to GateHouse Media | \$ (17,968) | \$ (17,320) |
| Loss per share: | | |
| Basic and diluted: | | |
| Loss from continuing operations attributable to GateHouse Media | \$ (0.31) | \$ (0.30) |
| Loss from discontinued operations attributable to GateHouse Media, net of income taxes | | |
| Net loss attributable to GateHouse Media | \$ (0.31) | \$ (0.30) |
| Basic weighted average shares outstanding | 57,856,889 | 57,626,412 |
| Diluted weighted average shares outstanding | 57,856,889 | 57,626,412 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**GATEHOUSE MEDIA, INC. AND SUBSIDIARIES****Unaudited Condensed Consolidated Statement of Stockholders' Equity (Deficit)**

(In thousands, except share data)

| | Common stock | | paid- | comprehensive | Accumulated | Treasury stock | | Non- | |
|---|--------------|--------|------------|---------------|----------------|----------------|----------|-------------|--------------|
| | Shares | Amount | in capital | loss | deficit | Shares | Amount | controlling | |
| | | | | | | | | interest | Total |
| | | | | | | | | in | |
| | | | | | | | | subsidiary | |
| Balance at January 1, 2011 | 58,313,868 | \$ 568 | \$ 830,787 | \$ (62,614) | \$ (1,559,465) | 235,261 | \$ (310) | \$ (1,087) | \$ (792,121) |
| Comprehensive loss: | | | | | | | | | |
| Net loss | | | | | (17,968) | | | (224) | (18,192) |
| Gain on derivative instruments, net of income taxes of \$0 | | | | 7,748 | | | | | 7,748 |
| Net actuarial loss and prior service cost, net of income taxes of \$0 | | | | 114 | | | | | 114 |
| Comprehensive loss | | | | | | | | | (10,330) |
| Non-cash compensation expense | | | 256 | | | | | | 256 |
| Purchase of treasury stock | | | | | | 851 | | | |
| Balance at March 27, 2011 | 58,313,868 | \$ 568 | \$ 831,043 | \$ (54,752) | \$ (1,577,433) | 236,112 | \$ (310) | \$ (1,311) | \$ (802,195) |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**GATEHOUSE MEDIA, INC. AND SUBSIDIARIES****Unaudited Condensed Consolidated Statements of Cash Flows**

(In thousands)

| | Three months ended March 27, 2011 | Three months ended March 31, 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | \$ (18,192) | \$ (17,473) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,057 | 11,863 |
| Amortization of deferred financing costs | 340 | 340 |
| Loss on derivative instrument | 379 | 2,797 |
| Non-cash compensation expense | 256 | 461 |
| Loss on sale of assets | 348 | 266 |
| Pension and other postretirement benefit obligations | (9) | (142) |
| Changes in assets and liabilities, net of sales: | | |
| Accounts receivable, net | 9,185 | 9,123 |
| Inventory | 28 | (106) |
| Prepaid expenses | 5,161 | 876 |
| Other assets | (226) | 913 |
| Accounts payable | 1,886 | 1,839 |
| Accrued expenses | 3,163 | 3,082 |
| Accrued interest | 1,598 | (148) |
| Deferred revenue | 640 | 1,404 |
| Other long-term liabilities | (373) | (145) |
| Net cash provided by operating activities | 15,241 | 14,950 |
| Cash flows from investing activities: | | |
| Purchases of property, plant, and equipment | (525) | (636) |
| Proceeds from sale of other assets | 37 | 471 |
| Net cash used in investing activities | (488) | (165) |
| Cash flows from financing activities: | | |
| Repayments under current portion of long-term debt | (11,249) | (2,513) |
| Repayments under short-term debt | | (1,500) |
| Net cash used in financing activities | (11,249) | (4,013) |
| Net increase in cash and cash equivalents | 3,504 | 10,772 |
| Cash and cash equivalents at beginning of period | 9,738 | 5,734 |
| Cash and cash equivalents at end of period | \$ 13,242 | \$ 16,506 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(1) Unaudited Financial Statements

The accompanying unaudited condensed consolidated financial statements of GateHouse Media, Inc. and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, each as promulgated by the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in comprehensive annual financial statements presented in accordance with GAAP have generally been condensed or omitted pursuant to SEC rules and regulations.

Management believes that the accompanying condensed consolidated financial statements contain all adjustments (which include normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the Company's consolidated financial condition, results of operations and cash flows for the periods presented. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2010, included in the Company's Annual Report on Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total comprehensive loss for the three months ended March 27, 2011 and March 31, 2010 was \$10,330 and \$30,774, respectively.

Prior to 2011, the Company's fiscal year ended on December 31. Effective January 1, 2011, the Company's fiscal year changed to a 52 week operating year ending on the Sunday closest to December 31. For the first quarter 2011 a portion of the business had only eighty six days of operations compared to ninety days in the first quarter of 2010.

Recent Developments

The newspaper industry and the Company have experienced declining same store revenue over the past several years. While these trends are stabilizing, it has eliminated the availability to the Company of additional borrowings under our 2007 Credit Facility. As a result, the Company previously implemented plans to reduce costs and preserve cash flow. This includes the suspension of the payment of cash dividends, the continued implementation of cost reduction programs, and the sale of non-core assets. The Company believes these initiatives will provide the financial resources necessary to invest in the business and ensure its future success and provide sufficient cash flow to enable its to meet its commitments for the next year.

Recently Issued Accounting Pronouncements

In January 2010, the FASB issued guidance as Accounting Standards Updated (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which amends ASC 820. ASU No. 2010-06 amends the ASC to require disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also require more detailed disclosure about the activity within Level 3 fair value measurements. The changes to the ASC as a result of this update was effective for annual and interim reporting periods beginning after December 15, 2009 (January 1, 2010 for the Company), except for requirements related to Level 3 disclosures, which are effective for annual and interim reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company). The adoption of ASU No. 2010-06 did not have an impact on the Company's Condensed Consolidated Financial Statements.

(2) Share-Based Compensation

The Company recognized compensation cost for share-based payments of \$256 and \$461 during the three months ended March 27, 2011 and March 31, 2010, respectively. The total compensation cost not yet recognized related to non-vested awards as of March 27, 2011 was \$298, which is expected to be recognized over a weighted average period of 1.4 years through April 2013.

Restricted Share Grants (RSGs)

Prior to the Company's IPO in 2006, the Company had issued 792,500 RSGs to certain management investors pursuant to each investor's management stockholder agreement (each, a Management Stockholder Agreement). Under the Management Stockholder Agreements, RSGs vest by one-third on each of the third, fourth and fifth anniversaries from the grant date. Following the adoption of the GateHouse Media, Inc. Omnibus Stock Incentive Plan (the Plan) in October 2006, an additional 268,680 RSGs were granted

Table of Contents

during the year ended December 31, 2006 to Company directors, management, and employees. During the year ended December 31, 2007 an additional 198,846 RSGs were granted to Company directors, management and employees, 105,453 of which were both granted and forfeited. During the year ended December 31, 2008 an additional 266,795 RSGs were granted to Company directors, management and employees, 42,535 of which were both granted and forfeited. During the year ended December 31, 2009 an additional 100,000 RSGs were granted to Company management. The majority of the RSGs issued under the Plan vest in increments of one-third on each of the first, second and third anniversaries of the grant date. In the event a grantee of an RSG is terminated by the Company without cause, a number of unvested RSGs immediately vest that would have vested under the normal vesting period on the next succeeding anniversary date following such termination. In the event an RSG grantee's employment with the Company is terminated without cause within twelve months after a change in control as defined in the applicable award agreement, all unvested RSGs become immediately vested at the termination date. During the period prior to the lapse and removal of the vesting restrictions, a grantee of an RSG will have all of the rights of a stockholder, including without limitation, the right to vote and the right to receive all dividends or other distributions. As a result, the RSGs are reflected as outstanding common stock and the unvested RSGs have been excluded from the calculation of basic earnings per share. With respect to Company employees, the value of the RSGs on the date of issuance is recognized as employee compensation expense over the vesting period or through the grantee's eligible retirement date, if shorter, with an increase to additional paid-in-capital.

As of March 27, 2011 and March 31, 2010, there were 133,424 and 385,915 RSGs, respectively, issued and outstanding with a weighted average grant date fair value of \$6.74 and \$9.67, respectively. As of March 27, 2011, the aggregate intrinsic value of unvested RSGs was \$21. During the three months ended March 27, 2011, the aggregate fair value of vested RSGs was \$27.

RSG activity was as follows:

| | Number of RSGs | Weighted-Average Grant Date Fair Value |
|-------------------------------|----------------|--|
| Unvested at December 31, 2010 | 299,560 | \$ 8.89 |
| Vested | (166,136) | 10.62 |
| Unvested at March 27, 2011 | 133,424 | \$ 6.74 |

FASB ASC Topic 718, *Compensation - Stock Compensation*, requires the recognition of share-based compensation for the number of awards that are ultimately expected to vest. The Company's estimated forfeitures are based on forfeiture rates of comparable plans. Estimated forfeitures are reassessed periodically and the estimate may change based on new facts and circumstances.

(3) Reclassifications

Certain amounts in the prior period unaudited condensed consolidated financial statements have been reclassified to conform to the 2011 presentation.

(4) Restructuring

Over the past several years, and in furtherance of the Company's cost reduction and cash preservation plans outlined in Note 1, the Company has engaged in a series of individual restructuring programs, designed primarily to right size the Company's employee base, consolidate its facilities and improve its operations. These initiatives impact all of the Company's geographic regions and are often impacted by the terms of union contracts within the region. All costs related to these programs, which primarily reflect severance expense, are accrued at the time of announcement.

Information related to restructuring program activity during the twelve months ended December 31, 2010 and the three months ended March 27, 2011 is outlined below.

| Severance and Related | Other Costs ⁽¹⁾ | Total |
|--------------------------|-------------------------------|-------|
|--------------------------|-------------------------------|-------|

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

| | Costs | | |
|---|----------|---------|----------|
| Balance at December 31, 2009 | \$ 245 | \$ 20 | \$ 265 |
| Restructuring provision included in integration and reorganization (2) | 1,189 | 1,288 | 2,477 |
| Cash payments | (1,181) | (1,307) | (2,488) |
| Balance at December 31, 2010 | \$ 253 | \$ 1 | \$ 254 |
| Restructuring provision included in integration and reorganization (2) | 1,443 | 14 | 1,457 |
| Cash payments | (425) | (15) | (440) |
| Balance at March 27, 2011 | \$ 1,271 | \$ | \$ 1,271 |

(1) Other costs primarily included costs to consolidate operations.

Table of Contents

(2) Included above are amounts that were initially recognized in integration and reorganization and were subsequently reclassified to discontinued operations expense at the time the operations ceased.

The following table summarizes the costs incurred and cash paid in connection with these restructuring programs for the three months ended March 27, 2011 and March 31, 2010.

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 27, 2011 | March 31, 2010 |
| Severance and related costs ⁽²⁾ | \$ 1,443 | \$ 399 |
| Other costs ^{(1) (2)} | 14 | 504 |
| Cash payments | (440) | (839) |

(1) Other costs primarily included costs to consolidate operations.

(2) Included above are amounts that were initially recognized in integration and reorganization and were subsequently reclassified to discontinued operations expense at the time the operations ceased.

(5) Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

| | Gross carrying amount | March 27, 2011 | |
|--|-----------------------------|-----------------------------|------------------------|
| | | Accumulated amortization | Net carrying amount |
| Amortized intangible assets: | | | |
| Noncompete agreements | \$ 4,970 | \$ 4,017 | \$ 953 |
| Advertiser relationships | 286,479 | 121,021 | 165,458 |
| Customer relationships | 8,940 | 2,459 | 6,481 |
| Subscriber relationships | 83,158 | 31,217 | 51,941 |
| Trade name | 5,493 | 2,243 | 3,250 |
| Publication rights | 345 | 94 | 251 |
| Total | \$ 389,385 | \$ 161,051 | \$ 228,334 |
| Nonamortized intangible assets: | | | |
| Goodwill | \$ 14,343 | | |
| Mastheads | 36,604 | | |
| Total | \$ 50,947 | | |

| | Gross Carrying Amount | December 31, 2010 | |
|-------------------------------------|-----------------------------|-----------------------------|---------------------------|
| | | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | |
| Noncompete agreements | \$ 4,970 | \$ 3,833 | \$ 1,137 |
| Advertiser relationships | 286,478 | 116,618 | 169,860 |
| Customer relationships | 8,940 | 2,296 | 6,644 |
| Subscriber relationships | 83,158 | 29,987 | 53,171 |
| Trade name | 5,493 | 2,105 | 3,388 |
| Publication rights | 345 | 88 | 257 |

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

| | | | |
|---------------------------------|------------|------------|------------|
| Total | \$ 389,384 | \$ 154,927 | \$ 234,457 |
| Nonamortized intangible assets: | | | |
| Goodwill | \$ 14,343 | | |
| Mastheads | 36,604 | | |
| Total | \$ 50,947 | | |

The weighted average amortization periods for amortizable intangible assets are 4.4 years for noncompete agreements, 16.8 years for advertiser relationships, 13.8 years for customer relationships, 17.2 years for subscriber relationships, 10.0 years for trade names and 15.0 years for publication rights.

Table of Contents

Amortization expense for the three months ended March 27, 2011 and March 31, 2010 was \$6,123 and \$6,135, respectively. Estimated future amortization expense as of March 27, 2011 is as follows:

| For the years ending the Sunday closest to December 31: | |
|---|------------|
| 2011 | 18,277 |
| 2012 | 24,092 |
| 2013 | 23,809 |
| 2014 | 23,764 |
| 2015 | 23,730 |
| Thereafter | 114,662 |
| Total | \$ 228,334 |

The Company's annual impairment assessment is made on the last day of its second fiscal quarter.

As of March 31, 2010 a review of impairment indicators was performed with the Company noting that its financial results and forecast had not changed materially since the June 30, 2009 impairment test and its market capitalization exceeded its consolidated carrying value. It was determined that an impairment analysis was not required.

As part of the annual impairment assessment, as of June 30, 2010, the fair values of the Company's reporting units for goodwill impairment testing and individual newspaper mastheads were estimated using the expected present value of future cash flows, recent industry transaction multiples and using estimates, judgments and assumptions that management believes were appropriate in the circumstances. The estimates and judgments used in the assessment included multiples for revenue and EBITDA, the weighted average cost of capital and the terminal growth rate. Given the current market conditions, the Company determined that current transactions provided the best estimate of the fair value of its reporting units. Given the stabilization of operating results, no impairment indicators were identified for the only remaining reporting unit having a goodwill balance and all mastheads as the estimated fair value exceeded carrying value. The total Company's estimate of fair value was reconciled to its then market capitalization (based upon the stock market price and fair value of debt) plus an estimated control premium.

As of September 30, 2010, December 31, 2010, and March 27, 2011 a review of impairment indicators was again performed with the Company noting that its financial results and forecast had not changed materially since the June 30, 2010 impairment test and its market capitalization exceeded its consolidated carrying value. It was determined that an impairment analysis was not required.

It is reasonably possible that impairment charges could be incurred in the future based on industry and market factors present at that time. The Company is unable to estimate any possible future impairment charges at this time.

(6) Indebtedness**2007 Credit Facility**

GateHouse Media Operating, Inc. (*Operating*), an indirect wholly-owned subsidiary of the Company, GateHouse Media Holdco, Inc. (*Holdco*), an indirect wholly-owned subsidiary of the Company, and certain of their subsidiaries (together, the *Borrowers*) entered into an Amended and Restated Credit Agreement, dated as of February 27, 2007, with a syndicate of financial institutions with Wells Fargo Bank, N.A., successor-by-merger to Wachovia Bank, National Association, (*Wells Fargo Bank*) as administrative agent (the *2007 Credit Facility*).

The 2007 Credit Facility, prior to execution of the Second Amendment (defined below), provided for: (a) a \$670,000 term loan facility that matures on August 28, 2014; (b) a delayed draw term loan facility of up to \$250,000 that matures on August 28, 2014, and (c) a revolving credit facility with a \$40,000 aggregate loan commitment amount available, including a \$15,000 sub-facility for letters of credit and a \$10,000 swingline facility, that matures on February 28, 2014. The Borrowers used the proceeds of the 2007 Credit Facility to refinance existing indebtedness and for working capital and other general corporate purposes, including, without limitation, financing acquisitions permitted under the 2007 Credit Facility. The 2007 Credit Facility is secured by a first priority security interest in: (a) all present and future capital stock or other membership, equity, ownership or profits interest of Operating and all of its direct and indirect domestic restricted subsidiaries; (b) 65% of the voting stock (and 100% of the nonvoting stock) of all present and future first-tier foreign subsidiaries; and (c) substantially all of the tangible and intangible assets of Holdco, Operating and their present and future direct and indirect domestic restricted subsidiaries. In addition, the loans and other obligations of the Borrowers under the 2007 Credit Facility are guaranteed, subject to specified limitations, by Holdco, Operating and

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

their present and future direct and indirect domestic restricted subsidiaries.

Borrowings under the 2007 Credit Facility bear interest, at the borrower's option, equal to the LIBOR Rate for a LIBOR Rate Loan (as defined in the 2007 Credit Facility), or the Alternate Base Rate for an Alternate Base Rate Loan (as defined in the 2007 Credit Facility), plus an applicable margin. The applicable margin for the LIBOR Rate term loans and Alternate Base Rate term loans, as amended by the First Amendment (defined below), is 2.00% and 1.00%, respectively. The applicable margin for revolving loans is adjusted quarterly based upon Holdco's Total Leverage Ratio (as defined in the 2007 Credit Facility) (*i.e.*, the ratio of Holdco's Consolidated Indebtedness (as defined in the 2007 Credit Facility) on the last day of the preceding quarter to Consolidated EBITDA

Table of Contents

(as defined in the 2007 Credit Facility) for the four fiscal quarters ending on the date of determination). The applicable margin ranges from 1.50% to 2.00%, in the case of LIBOR Rate Loans and, 0.50% to 1.00% in the case of Alternate Base Rate Loans. Under the revolving credit facility, GateHouse Media will also pay a quarterly commitment fee on the unused portion of the revolving credit facility ranging from 0.25% to 0.5% based on the same ratio of Consolidated Indebtedness to Consolidated EBITDA and a quarterly fee equal to the applicable margin for LIBOR Rate Loans on the aggregate amount of outstanding letters of credit. In addition, GateHouse Media will be required to pay a ticking fee at the rate of 0.50% of the aggregate unfunded amount available to be borrowed under the delayed draw term facility.

No principal payments are due on the term loan facilities or the revolving credit facility until the applicable maturity date. The Borrowers are required to prepay borrowings under the term loan facilities in an amount equal to 50.0% of Holdco's Excess Cash Flow (as defined in the 2007 Credit Facility) earned during the previous fiscal year, except that no prepayments are required if the Total Leverage Ratio (as defined in the 2007 Credit Facility) is less than or equal to 6.0 to 1.0 at the end of such fiscal year. In addition, the Borrowers are required to prepay borrowings under the term loan facilities with asset disposition proceeds in excess of specified amounts to the extent necessary to cause Holdco's Total Leverage Ratio to be less than or equal to 6.25 to 1.00, and with cash insurance proceeds and condemnation or expropriation awards, in excess of specified amounts, subject, in each case, to reinvestment rights. The Borrowers are required to prepay borrowings under the term loan facilities with the net proceeds of equity issuances by GateHouse Media in an amount equal to the lesser of (a) the amount by which 50.0% of the net cash proceeds exceeds the amount (if any) required to repay any credit facilities of GateHouse Media or (b) the amount of proceeds required to reduce Holdco's Total Leverage Ratio to 6.0 to 1.0. The Borrowers are also required to prepay borrowings under the term loan facilities with 100% of the proceeds of debt issuances (with specified exceptions), except that no prepayment is required if Holdco's Total Leverage Ratio is less than 6.0 to 1.0. If the term loan facilities have been paid in full, mandatory prepayments are applied to the repayment of borrowings under the swingline facility and revolving credit facilities and the cash collateralization of letters of credit.

The 2007 Credit Facility contains a financial covenant that requires Holdco to maintain a Total Leverage Ratio of less than or equal to 6.5 to 1.0 at any time an extension of credit is outstanding under the revolving credit facility. The 2007 Credit Facility contains affirmative and negative covenants applicable to Holdco, Operating and their restricted subsidiaries customarily found in loan agreements for similar transactions, including restrictions on their ability to incur indebtedness (which GateHouse Media is generally permitted to incur so long as it satisfies an incurrence test that requires it to maintain a pro forma Total Leverage Ratio of less than 6.5 to 1.0), create liens on assets, engage in certain lines of business, engage in mergers or consolidations, dispose of assets, make investments or acquisitions, engage in transactions with affiliates, enter into sale leaseback transactions, enter into negative pledges or pay dividends or make other restricted payments, except that Holdco is permitted to (a) make restricted payments (including quarterly dividends) so long as, after giving effect to any such restricted payment, Holdco and its subsidiaries have a Fixed Charge Coverage Ratio (as defined in the 2007 Credit Facility) equal to or greater than 1.0 to 1.0 and would be able to incur an additional \$1.00 of debt under the incurrence test referred to above and (b) make restricted payments of proceeds of asset dispositions to GateHouse Media to the extent such proceeds are not required to prepay loans under the 2007 Credit Facility and/or cash collateralize letter of credit obligations and such proceeds are used to prepay borrowings under acquisition credit facilities of GateHouse Media. The 2007 Credit Facility also permits the borrowers, in certain limited circumstances, to designate subsidiaries as unrestricted subsidiaries which are not subject to the covenant restrictions in the 2007 Credit Facility. The 2007 Credit Facility contains customary events of default, including defaults based on a failure to pay principal, reimbursement obligations, interest, fees or other obligations, subject to specified grace periods; any material inaccuracy of a representation or warranty; breach of covenant; failure to pay other indebtedness and cross-accelerations; a Change of Control (as defined in the 2007 Credit Facility); events of bankruptcy and insolvency; material judgments; failure to meet certain requirements with respect to ERISA; and impairment of collateral. There were no extensions of credit outstanding under the revolving credit portion of the facility at March 27, 2011 and, therefore, the Company was not required to be in compliance with the Total Leverage Ratio covenant.

First Amendment to 2007 Credit Facility

On May 7, 2007, the Borrowers entered into the First Amendment to amend the 2007 Credit Facility. The First Amendment provided an incremental term loan facility under the 2007 Credit Facility in the amount of \$275,000. As amended by the First Amendment, the 2007 Credit Facility includes \$1,195,000 of term loan facilities and \$40,000 of a revolving credit facility. The incremental term loan facility amortizes at the same rate and matures on the same date as the existing term loan facilities under the 2007 Credit Facility. Interest on the incremental term loan facility accrues at a rate per annum equal to, at the option of the borrower, (a) adjusted LIBOR plus a margin equal to (i) 2.00%, if the corporate family ratings and corporate credit ratings of Operating by Moody's Investors Service Inc. and Standard & Poor's Rating Services, are at least B1, and B+, respectively, in each case with stable outlook or (ii) 2.25%, otherwise, as was the case as of March 27, 2011, or (b) the greater of the prime rate set by Wells Fargo Bank, or the federal funds effective rate plus 0.50%, plus a margin 1.00% lower than that applicable to adjusted LIBOR-based loans. Any voluntary or mandatory repayment of the First Amendment term loans made with the proceeds of a new term loan entered into for the primary purpose of benefiting from a margin that is less than the margin applicable as a result of the First Amendment will be subject to a 1.00% prepayment premium. The First Amendment term loans are subject to a most favored nation interest provision that grants the First Amendment term loans an interest rate margin that is 0.25% less than the highest margin of any future term loan borrowings under the 2007 Credit Facility.

Table of Contents

As previously noted, the First Amendment also modified the interest rates applicable to the term loans under the 2007 Credit Facility. Term loans thereunder accrue interest at a rate per annum equal to, at the option of the Borrower, (a) adjusted LIBOR plus a margin equal to 2.00% or (b) the greater of the prime rate set by Wells Fargo Bank, or the federal funds effective rate plus 0.50%, plus a margin equal to 1.00%. The terms of the previously outstanding borrowings were also modified to include a 1.00% prepayment premium corresponding to the prepayment premium applicable to the First Amendment term loans and a corresponding most favored nation interest provision.

Second Amendment to 2007 Credit Facility

On February 3, 2009, the Company entered into a Second Amendment to the 2007 Credit Facility (the *Second Amendment*).

The Second Amendment, among other things, permits the borrowers to repurchase term loans outstanding under the 2007 Credit Facility at prices below par through one or more Modified Dutch Auctions (as defined in the Second Amendment) through December 31, 2011, provided that: (a) no Default or Event of Default under the Credit Agreement has occurred and is continuing or would result from such repurchases, (b) the sum of Unrestricted Cash and Accessible Borrowing Availability (as defined in the Second Amendment) under the 2007 Credit Facility is greater than or equal to \$20,000; and (c) no Extension of Credit (as defined in the Second Amendment) is outstanding under the revolving credit facility before or after giving effect to such repurchases. The Second Amendment further provides that such repurchases may result in the prepayment of term loans on a non-pro rata basis. No debt repurchases are required to be made pursuant to the Second Amendment and the Company cannot provide any assurances that any such debt repurchases will be made or, if made, the prices at which such repurchases will be made.

The Second Amendment also reduced the aggregate principal amounts available under the 2007 Credit Facility, as follows: (a) for revolving loans, from \$40,000 to \$20,000; (b) for the letter of credit subfacility, from \$15,000 to \$5,000; and (c) for the swingline loan subfacility, from \$10,000 to \$5,000.

In addition, the Second Amendment provides that Holdco may not incur additional term debt under the 2007 Credit Facility unless the Senior Secured Incurrence Test (as defined in the Second Amendment) is less than 4.00 to 1 and the current Incurrence Test (as defined in the Second Amendment) is satisfied.

In conjunction with the Second Amendment, the Company incurred and expensed approximately \$550 of fees. The existing unamortized deferred financing fees that should be written off, in accordance with FASB ASC Topic 855, *Debt*, as a result of the decrease in borrowing capacity were not significant. The Company determined that the approximate net impact of \$400 was immaterial and as a result the Company expensed \$550 of new fees and continued to amortize the existing deferred financing fees.

Agency Amendment to 2007 Credit Facility

On April 1, 2011, the Borrowers entered into an Agency Succession and Amendment Agreement, dated as of March 30, 2011, to the 2007 Credit Facility (the *Agency Amendment*).

Pursuant to the Agency Amendment, among other things, (a) Wells Fargo Bank resigned as administrative agent and (b) Gleacher Products Corp. was appointed as administrative agent. In addition, the Agency Amendment effected certain amendments to the 2007 Credit Facility that provide that (x) the administrative agent need not be a lender under the 2007 Credit Facility and (y) the lenders holding a majority of the outstanding term loans and loan commitments under the 2007 Credit Facility have (i) the right, in their discretion, to remove the administrative agent and (ii) the right to make certain decisions and exercise certain powers under the 2007 Credit Facility that had previously been within the discretion of the administrative agent.

As required by the 2007 Credit Facility, as amended, on March 2, 2011 and March 5, 2010, the Company made principal payments of \$11,249 and \$2,513, respectively, which represented 50% of the Excess Cash Flow related to the fiscal years ended December 31, 2010 and 2009, respectively. As of March 27, 2011, a total of \$1,181,238 was outstanding under the 2007 Credit Facility; \$662,284 was outstanding under the term loan facility, \$247,121 was outstanding under the delayed draw term loan facility, \$271,833 was outstanding under the incremental term loan facility and no amounts were outstanding under the revolving credit facility.

Compliance with Covenants

The Company currently is in compliance with all of the covenants and obligations under the 2007 Credit Facility, as amended. However, due to restrictive covenants and conditions within the facility, the Company currently does not have the ability to draw upon the revolving credit facility portion of the 2007 Credit Facility for any immediate short-term funding needs or to incur additional long-term debt and do not expect to

be able to do so in the foreseeable future.

Table of Contents

2008 Bridge Facility

On February 15, 2008, GateHouse Media Intermediate Holdco, Inc., a subsidiary of the Company, and the Company entered into the 2008 Bridge Facility with Barclays Capital (Barclays), as subsequently modified and amended. The 2008 Bridge Facility originally provided for a \$20,600 secured term loan facility. On June 7, 2010, the Company paid off in full the remaining balance under the 2008 Bridge Facility.

Preferred Stock Agreement with Subsidiary

On August 21, 2008, FIF III Liberty Holdings LLC (FIF III) purchased an aggregate of \$11,500 in 10% cumulative preferred stock of GateHouse Media Macomb Holdings, Inc. (Macomb), an operating subsidiary of the Company. Macomb, an Unrestricted Subsidiary under the terms of the 2007 Credit Facility, used the proceeds from such sale of preferred stock to make an \$11,500 cash investment in Holdco non-voting 10% cumulative preferred stock. On December 7, 2010, FIF III exercised its right to require the Company to purchase its Macomb preferred stock. During the five-year period following the full repayment by the Company of its 2008 Bridge Facility, which repayment occurred in the second quarter of 2010, FIF III had the right to require the Company to purchase the preferred stock. The Company paid the purchase price of \$14,144 on December 8, 2010, which represented the sum of original purchase price of \$11,500 paid by FIF III for the Macomb preferred stock and accrued but unpaid dividends of \$2,644. FIF III is an affiliate of Fortress Investment Group, LLC, the owner of approximately 39.6% of the Company s outstanding Common Stock.

Fair Value

The fair value of the Company s total long-term debt, determined based on estimated market prices for similar issues of debt with consistent remaining maturities and terms, total approximately \$791,000.

Payment Schedule

As of March 27, 2011, scheduled principal payments of outstanding debt are as follows:

| | |
|------|---------------------|
| 2011 | |
| 2012 | |
| 2013 | |
| 2014 | 1,181,238 |
| | \$ 1,181,238 |

(7) Derivative Instruments

The Company uses certain derivative financial instruments to hedge the aggregate risk of interest rate fluctuations with respect to its long-term debt, which requires payments based on a variable interest rate index. These risks include: increases in debt rates above the earnings of the encumbered assets, increases in debt rates resulting in the failure of certain debt ratio covenants, increases in debt rates such that assets can no longer be refinanced, and earnings volatility.

In order to reduce such risks, the Company primarily uses interest rate swap agreements to change floating-rate long-term debt to fixed-rate long-term debt. This type of hedge is intended to qualify as a cash-flow hedge under FASB ASC Topic 815, *Derivatives and Hedging* (ASC 815). For these instruments, the effective portion of the change in the fair value of the derivative is recorded in accumulated other comprehensive loss in the Condensed Consolidated Statement of Stockholders Equity (Deficit) and recognized in the Condensed Consolidated Statement of Operations in the same period in which the hedged transaction impacts earnings. The ineffective portion of the change in the fair value of the derivative is immediately recognized in earnings.

Fair Values of Derivative Instruments

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

| | Liability Derivatives | | | |
|---|---------------------------------|------------------|------------------------------------|------------------|
| | March 27, 2011 Balance Sheet | | December 31, 2010 Balance Sheet | |
| | Location | Fair Value | Location | Fair Value |
| Derivative designed as hedging instruments under ASC 815 | | | | |
| Interest rate swaps | Derivative Instruments | \$ 58,121 | Derivative Instruments | \$ 65,490 |
| Total derivatives | | \$ 58,121 | | \$ 65,490 |

Table of Contents

The Effect of Derivative Instruments on the Statement of Operations
for the Three Months Ended March 27, 2011 and March 31, 2010

| Derivatives in ASC 815 Fair Value Hedging Relationships | Location of Gain or (Loss) | | Amount of Gain or (Loss) Recognized in Income on | |
|---|------------------------------------|--|--|------------|
| | Recognized in Income on Derivative | | 2011 | 2010 |
| Interest rate swaps | Loss on derivative instrument | | \$ (379) | \$ (2,797) |

| Derivatives in ASC 815 Fair Value Hedging Relationships | Amount of Gain or (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | Location of Derivative (Ineffective Portion) and Amount Excluded from Effectiveness Testing | Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) and Amount Excluded from Effectiveness Testing | |
|---|---|-------------|--|--|------------|---|--|---------|
| | 2011 | 2010 | | 2011 | 2010 | | 2011 | 2010 |
| Interest rate swaps | \$ 7,332 | \$ (16,018) | Interest income/ (expense) | \$ (7,689) | \$ (9,966) | Other income/ (expense) | \$ 37 | \$ (80) |

On June 23, 2005, the Company entered into and designated an interest rate swap based on a notional amount of \$300,000 maturing June 2012 as a cash flow hedge. Under the swap agreement, the Company received interest equivalent to one month LIBOR and pays a fixed rate of 4.135%, with settlements occurring monthly. On February 20, 2006, the Company redesignated the same interest rate swap as a cash flow hedge for accounting purposes. At December 31, 2006, the swap no longer qualified as an effective hedge. Therefore, the balance in accumulated other comprehensive income has been reclassified into earnings over the life of the hedged item. On January 1, 2007, the Company redesignated the same interest rate swap as a cash flow hedge for accounting purposes. On August 18, 2008, the Company terminated the swap and entered into a settlement agreement with Goldman Sachs in the aggregate amount of \$18,947, which also includes the termination of the swap having a notional value of \$270,000. The balance in accumulated other comprehensive income is reclassified into earnings over the remaining life of the item previously hedged. During the three months ended March 27, 2011 \$(245) was amortized and recognized through earnings relating to the balances in accumulated other comprehensive income as of December 31, 2006 and August 18, 2008, respectively. The estimated amount, net of taxes, to be reclassified into earnings during the next twelve months is \$(2,653).

In connection with financing obtained in 2006, the Company entered into and designated an interest rate swap based on a notional amount of \$270,000 maturing July 2011 as a cash flow hedge. Under the swap agreement, the Company received interest equivalent to one month LIBOR and pays a fixed rate of 5.359%, with settlements occurring monthly. On January 1, 2007, the swap was redesignated. Therefore, the balance in accumulated other comprehensive income has been reclassified into earnings over the life of the hedged item. On August 18, 2008, the Company terminated the swap and entered into a settlement agreement with Goldman Sachs in the aggregate amount of \$18,947 which also includes the termination of the swap having a notional value of \$300,000. The balance in accumulated other comprehensive income is reclassified into earnings over the remaining life of the item previously hedged. During the three months ended March 27, 2011 \$662 was amortized and recognized through earnings relating to the balance in accumulated other comprehensive income as of December 31, 2006 and August 18, 2008, respectively. The estimated amount, net of taxes, to be reclassified into earnings during the next three months is \$600.

In connection with the 2007 Credit Facility, the Company entered into and designated an interest rate swap based on a notional amount of \$100,000 maturing September 2014, as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one month LIBOR and pays a fixed rate of 5.14%, with settlements occurring monthly. During the three months ended March 27, 2011, the fair value of the swap increased by \$1,203, of which \$0 was recognized through earnings and \$1,203 was recognized through accumulated other comprehensive income.

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

In connection with the 2007 Credit Facility, the Company entered into and designated an interest rate swap based on a notional amount of \$250,000 maturing September 2014, as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one month LIBOR and pays a fixed rate of 4.971%, with settlements occurring monthly. During the three months ended March 27, 2011, the fair value of the swap increased by \$2,912, of which a decrease of \$2 was recognized through earnings and increase of \$2,914 was recognized through accumulated other comprehensive income.

In connection with the First Amendment to the 2007 Credit Facility, the Company entered into and designated an interest rate swap based on a notional amount of \$200,000 maturing September 2014, as a cash flow hedge. Under the swap agreement, the

Table of Contents

Company receives interest equivalent to one month LIBOR and pays a fixed rate of 5.079% with settlements occurring monthly. During the three months ended March 27, 2011, the fair value of the swap increased by \$2,380, of which a decrease of \$2 was recognized through earnings and an increase of \$2,382 was recognized through accumulated other comprehensive income.

In connection with the First Amendment to the 2007 Credit Facility, the Company entered into and designated an interest rate swap based on a notional amount of \$75,000 maturing September 2014, as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one month LIBOR and pays a fixed rate of 4.941% with settlements occurring monthly. During the three months ended March 27, 2011, the fair value of the swap increased by \$874, of which \$41 was recognized through earnings and \$833 was recognized through accumulated other comprehensive income.

The aggregate amount of unrealized loss related to derivative instruments recognized in other comprehensive loss as of March 27, 2011 and March 31, 2010 was \$53,321 and \$61,680, respectively.

(8) Related Party Transactions

Fortress Investment Group, LLC

On May 9, 2005, FIF III, FIF III Liberty Acquisitions, LLC, a wholly-owned subsidiary of FIF III (Merger Subsidiary), and the Company entered into an agreement that provided for the merger of Merger Subsidiary with and into the Company, with the Company continuing as a wholly-owned subsidiary of FIF III (the Merger). The Merger was completed on June 6, 2005. FIF III is an affiliate of Fortress Investment Group LLC.

As of March 27, 2011, Fortress Investment Group LLC and its affiliates (Fortress) beneficially owned approximately 39.6% of the Company s outstanding common stock.

In addition, the Company s Chairman, Wesley Edens, is also the Co-Chairman of the board of directors of Fortress Investment Group LLC. The Company does not pay Mr. Edens a salary or any other form of compensation.

Affiliates of Fortress Investment Group LLC own \$124,549 of the \$1,181,238 2007 Credit Facility as of March 27, 2011. These amounts were purchased on arms length terms in secondary market transactions.

On August 21, 2008, FIF III purchased an aggregate of \$11,500 in 10% cumulative preferred stock of GateHouse Media Macomb. The preferred stock was issued on August 21, 2008. Macomb, an Unrestricted Subsidiary under the terms of the 2007 Credit Facility, used the proceeds from such sale of preferred stock to make an \$11,500 cash investment in Holdco non-voting 10% cumulative preferred stock. On December 7, 2010, FIF III exercised its right to require the Company to purchase its Macomb preferred stock. During the five-year period following the full repayment by the Company of its 2008 Bridge Facility, which repayment occurred in the second quarter of 2010, FIF III had the right to require the Company to purchase the preferred stock. The Company paid the purchase price of \$14,144 on December 8, 2010, which represented the sum of original purchase price of \$11,500 paid by FIF III for the Macomb preferred stock and accrued but unpaid dividends of \$2,644.

On October 24, 2006, the Company entered into an Investor Rights Agreement with FIF III. The Investor Rights Agreement provides FIF III with certain rights with respect to the nomination of directors to the Company s board of directors as well as registration rights for securities of the Company owned by Fortress.

The Investor Rights Agreement requires the Company to take all necessary or desirable action within its control to elect to its board of directors so long as Fortress beneficially owns (i) more than 50% of the voting power of the Company, four directors nominated by FIG Advisors LLC, an affiliate of Fortress (FIG Advisors), or such other party nominated by Fortress; (ii) between 25% and 50% of the voting power of the Company, three directors nominated by FIG Advisors; (iii) between 10% and 25% of the voting power of the Company, two directors nominated by FIG Advisors; and (iv) between 5% and 10% of the voting power of the Company, one director nominated by FIG Advisors. In the event that any designee of FIG Advisors shall for any reason cease to serve as a member of the board of directors during his term of office, FIG Advisors will be entitled to nominate an individual to fill the resulting vacancy on the board of directors.

Pursuant to the Investor Rights Agreement, the Company has granted FIF III, for so long as it or its permitted transferees beneficially own an amount of the Company s common stock at least equal to 5% or more of the Company s common stock issued and outstanding immediately after the consummation of its IPO (a Registrable Amount), demand registration rights that allow FIF III at any time to request that the Company register under the Securities Act of 1933, as amended, an amount equal to or greater than a Registrable Amount (as defined in the Investor Rights Agreement). Parent is entitled to an aggregate of four demand registrations. The Company is not required to maintain the effectiveness of

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

the registration statement for more than 60 days. The Company is also not required to effect any demand registration within nine months of a firm commitment underwritten offering to which the requestor held piggyback rights and which included at least 50% of the securities requested by the requestor to be included. The Company is not obligated to grant a request for a demand registration within four months of any other demand registration and may refuse a request for demand registration if, in the Company's reasonable judgment, it is not feasible for the Company to proceed with the registration because of the unavailability of audited financial statements.

Table of Contents

FIF III also has piggyback registration rights that allow FIF III to include the shares of common stock that FIF III and its permitted transferees own in any public offering of equity securities initiated by the Company (other than those public offerings pursuant to registration statements on Forms S-4 or S-8) or by any of the Company's other stockholders that may have registration rights in the future. The piggyback registration rights of FIF III are subject to proportional cutbacks based on the manner of the offering and the identity of the party initiating such offering.

The Company has additionally granted FIF III and its permitted transferees for as long as Fortress beneficially owns a Registrable Amount, the right to request shelf registrations on Form S-3, providing for an offering to be made on a continuous basis, subject to a time limit on the Company's efforts to keep the shelf registration statement continuously effective and the Company's right to suspend the use of a shelf registration prospectus for a reasonable period of time (not exceeding 60 days in succession or 90 days in the aggregate in any 12-month period) if the Company determines that certain disclosures required by the shelf registration statement would be detrimental to the Company or the Company's stockholders.

The Company has agreed to indemnify FIF III and its permitted transferees against any losses or damages resulting from any untrue statement or omission of material fact in any registration statement or prospectus pursuant to which FIF III and its permitted transferees sells shares of the Company's common stock, unless such liability arose from FIF III misstatement or omission, and Parent has agreed to indemnify the Company against all losses caused by its misstatements or omissions. The Company will pay all expenses incident to registration and Fortress will pay its respective portions of all underwriting discounts, commissions and transfer taxes relating to the sale of its shares under such a registration statement.

(9) Income Taxes

The Company performs a quarterly assessment of its deferred tax assets and liabilities. FASB ASC Topic 740, *Income Taxes* (ASC 740) limits the ability to use future taxable income to support the realization of deferred tax assets when a company has experienced a history of losses even if future taxable income is supported by detailed forecasts and projections.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company concluded that during the first three months of 2011, a net increase to the valuation allowance of \$3,885 would be necessary to offset additional deferred tax assets. Of this amount, a \$6,954 increase was recognized through the income statement and a \$3,069 decrease was recognized through accumulated other comprehensive loss.

The realization of the remaining deferred tax assets is primarily dependent on the scheduled reversals of deferred taxes. Any changes in the scheduled reversals of deferred taxes may require an additional valuation allowance against the remaining deferred tax assets. Any increase or decrease in the valuation allowance could result in an increase or decrease in income tax expense in the period of adjustment.

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss), permanent and temporary differences, including purchase accounting adjustments and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, or as additional information is obtained. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on prior quarters is included in tax expense for the current quarter.

For the three months ended March 27, 2011, the expected federal tax benefit at 34% is \$6,174. The difference between the expected tax rate and the effective tax rate is primarily attributable to the tax effect of the federal valuation allowance of \$6,040 and the tax effect related to non-deductible expenses of \$134.

The Company and its subsidiaries file a U.S. federal consolidated income tax return. The U.S. federal and state statute of limitations generally remains open for the 2007 tax year and beyond.

In accordance with ASC 740, the Company recognizes penalties and interest relating to uncertain tax positions in the provision for income taxes. As of March 27, 2011, and December 31, 2010, the Company had unrecognized tax benefits of approximately \$4,947 and \$4,913, respectively. The Company did not record significant amounts of interest and penalties related to unrecognized tax benefits for the periods ending March 27, 2011 and December 31, 2010. The Company does not expect significant changes in unrecognized tax benefits within the next 12 months.

Table of Contents**(10) Pension and Postretirement Benefits**

The Company maintains a pension plan and several postretirement medical and life insurance plans which cover certain employees. The Company uses the accrued benefit actuarial method and best estimate assumptions to determine pension costs, liabilities and other pension information for defined benefit plans.

The following provides information on the pension plan and postretirement medical and life insurance plans for the three months ended March 27, 2011 and March 31, 2010.

| | Three Months Ended March 27, 2011 | | Three Months Ended March 31, 2010 | |
|---|--------------------------------------|----------------|--------------------------------------|----------------|
| | Pension | Postretirement | Pension | Postretirement |
| Components of net periodic benefit costs: | | | | |
| Service cost | \$ 50 | \$ 11 | \$ 50 | \$ 14 |
| Interest cost | 310 | 76 | 303 | 83 |
| Expected return on plan assets | (320) | | (300) | |
| Amortization of prior service cost | | (114) | | (118) |
| Amortization of unrecognized gain | 85 | | 25 | |
| Total | \$ 125 | \$ (27) | \$ 78 | \$ (21) |

During the three months ended March 27, 2011 and March 31, 2010, the Company recognized a total of \$212 and \$175 in pension and postretirement benefit expense, respectively.

The following assumptions were used in connection with the Company's actuarial valuation of its defined benefit pension and postretirement plans:

| | Pension | Postretirement |
|--|---------|----------------|
| Weighted average discount rate | 5.25% | 5.28% |
| Rate of increase in future compensation levels | | |
| Expected return on assets | 8.0% | |
| Current year trend | | 9.0% |
| Ultimate year trend | | 5.0% |
| Year of ultimate trend | | 2019 |

(11) Assets Held for Sale

As of March 27, 2011 and December 31, 2010, the Company intended to dispose of various assets which are classified as held for sale on the Condensed Consolidated Balance Sheet in accordance with ASC 360.

The following table summarizes the major classes of assets and liabilities held for sale at March 27, 2011 and December 31, 2010:

| | March 27, 2011 | December 31, 2010 |
|---|----------------|-------------------|
| Long-term assets held for sale: | | |
| Property, plant and equipment, net | \$ 944 | \$ 974 |
| Total long-term assets held for sale | \$ 944 | \$ 974 |

These assets are real property and no publication related assets are included.

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

During the year ended December 31, 2010 the Company recorded an impairment charge in the amount of \$545 related to property, plant and equipment which were classified as held for sale. No such impairment charges were recorded during the three months ended March 27, 2011.

(12) Fair Value Measurement

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Table of Contents

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

Market approach Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach Uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

Cost approach Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). The following tables provide fair value measurement information for each class of financial assets and liabilities measured on a recurring basis for the periods presented:

| | Fair Value Measurements at Reporting Date | | | Total Fair Value Measurements | Valuation Technique |
|---|--|---|---|-------------------------------|---------------------|
| | Using | | | | |
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | | |
| Liabilities | | | | | |
| Derivatives as of December 31, 2010 (1) | \$ | \$ | \$ 65,490 | \$ 65,490 | Income |
| Derivatives as of March 27, 2011 (1) | | | 58,121 | 58,121 | Income |

(1) Derivative assets and liabilities include interest rate swaps which are measured using the Company's estimates of the assumptions a market participant would use in pricing the derivative. The fair value of the interest rate derivative is determined based on the upper notional band using cash flows discounted at the relevant market interest rates in effect at the period close and incorporates an assessment of the risk of non-performance by the interest rate derivative counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities.

The following tables reflect the activity of our derivative liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 27, 2011:

| | Derivative Liabilities |
|---|------------------------|
| Balance as of December 31, 2010 | \$ 65,490 |
| Total (gains) losses, net: | |
| Included in earnings (or changes in net assets) | (37) |
| Included in other comprehensive income | (7,332) |
| Balance as of March 27, 2011 | \$ 58,121 |

During the year ended December 31, 2010 the Company recorded an impairment charge in the amount of \$545 related to property, plant and equipment which were classified as held for sale. The Company used assessed values and current market data, Level 2 inputs, to determine the fair value as of December 31, 2010.

(13) Commitments and Contingencies

The Company becomes involved from time to time in claims and lawsuits incidental to the ordinary course of its business, including with respect to matters such as libel, invasion of privacy, intellectual property infringement, wrongful termination actions, and complaints alleging employment discrimination. In addition, the Company is involved from time to time in governmental and administrative proceedings concerning employment, labor, environmental and other claims. Insurance coverage maintained by the Company mitigates potential loss for certain of these matters. Historically, such claims and proceedings have not had a material effect upon the Company's condensed consolidated results of operations or financial condition. While the Company is unable to predict the ultimate outcome of any currently outstanding legal actions, it is the opinion of the Company's management that it is a remote possibility that the disposition of these matters would have a material adverse effect upon the Company's condensed consolidated results of operations, financial condition or cash flows.

Table of Contents

Restricted cash at March 27, 2011 and December 31, 2010 consists of certificates of deposit, having maturities of less than three months, in the aggregate amount of \$5,182. These amounts are used to collateralize standby letters of credit in the name of the Company's insurers in accordance with certain insurance policies.

(14) Discontinued Operations

During the three months ended March 31, 2010, no publications were discontinued. The net revenue during the three months ended March 31, 2010 for previously discontinued operations was \$54. Loss before income taxes during the three months ended March 31, 2010 for previously discontinued operations was \$24.

(15) Subsequent Events

On April 1, 2011, the Company entered into an amendment to the 2007 Credit Facility, refer to Note 6 for additional discussion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward Looking Information

The following discussion of GateHouse Media, Inc.'s and its subsidiaries (we, us or our) financial condition and results of operations should be read in conjunction with our historical condensed consolidated financial statements and notes to those statements appearing in this report. The discussion and analysis below includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views regarding, among other things, our future growth, results of operations, performance and business prospects and opportunities, our ability to maintain debt covenants, our ability to successfully implement cost reduction and cash preservation plans, as well as other statements that are other than historical fact. Words such as anticipate(s), expect(s), intend(s), plan(s), target(s), project(s), believe(s), will, aim, would, seek(s), estimate(s) and similar expressions are intended to identify such forward-looking statements.

Forward-looking statements are based on management's current expectations and beliefs and are subject to a number of known and unknown risks, uncertainties and other factors that could lead actual results to be materially different from those described in the forward-looking statements. We can give no assurance that our expectations will be attained. Factors that could cause actual results to differ materially from our expectations include, but are not limited to, the risks, uncertainties and other factors identified by us under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Overview

We are one of the largest publishers of locally based print and online media in the United States as measured by number of daily publications. Our business model is to be the preeminent provider of local content and advertising in the small and midsize markets we serve. Our portfolio of products, which includes 440 community publications and more than 483 related websites and mobile sites and six yellow page directories, serves over 298,000 business advertising accounts and reaches approximately 10 million people on a weekly basis.

Our core products include:

86 daily newspapers with total paid circulation of approximately 690,000;

252 weekly newspapers (published up to three times per week) with total paid circulation of approximately 514,000 and total free circulation of approximately 661,000;

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

102 shoppers (generally advertising-only publications) with total circulation of approximately 1.6 million;

over 483 locally focused websites and mobile sites, which extend our franchises onto the internet and mobile devices with approximately 73 million page views per month; and

six yellow page directories, with a distribution of approximately 490,000, that covers a population of approximately 1.2 million people.

In addition to our core products, we also opportunistically produce niche publications that address specific local market interests such as recreation, sports, healthcare and real estate.

We were incorporated in Delaware in 1997 for purposes of acquiring a portion of the daily and weekly newspapers owned by American Publishing Company. We accounted for the initial acquisition using the purchase method of accounting.

Table of Contents

Since 1998, we have acquired 416 daily and weekly newspapers and shoppers and launched numerous new products. We generate revenues from advertising, circulation and commercial printing. Advertising revenue is recognized upon publication of the advertisements. Circulation revenue from subscribers, which is billed to customers at the beginning of the subscription period, is recognized on a straight-line basis over the term of the related subscription. The revenue for commercial printing is recognized upon delivery of the printed product to our customers. Directory revenue is recognized on a straight-line basis over the period in which the corresponding directory is distributed and in use in the market, typically 12 months.

Our advertising revenue tends to follow a seasonal pattern, with higher advertising revenue in months containing significant events or holidays. Accordingly, our first quarter, followed by our third quarter, historically are our weakest quarters of the year in terms of revenue. Correspondingly, our second and fourth fiscal quarters, historically, are our strongest quarters. We expect that this seasonality will continue to affect our advertising revenue in future periods.

We have experienced recent declines in advertising revenue streams and increased volatility of operating performance, despite our geographic diversity, well-balanced portfolio of products, strong local franchises, broad customer base and reliance on smaller markets. These recent declines in advertising revenue we have experienced are typical in an economic downturn. We believe our local advertising tends to be less sensitive to economic cycles than national advertising because local businesses generally have fewer advertising channels through which to reach their target audience.

Our operating costs consist primarily of labor, newsprint, and delivery costs. Our selling, general and administrative expenses consist primarily of labor costs.

Compensation represents just over 50% of our operating expenses. Over the last few years, we have worked to drive efficiencies and centralization of work throughout our company. Additionally, we have taken steps to cluster our operations thereby increasing the usage of facilities and equipment while increasing the productivity of our labor force. We expect to continue to employ these steps as part of our business and clustering strategy.

On May 9, 2005, FIF III Liberty Holdings LLC, an affiliate of Fortress Investment Group LLC (*Fortress*), entered into an Agreement and Plan of Merger with the Company pursuant to which a wholly-owned subsidiary of FIF III Liberty Holdings LLC merged with and into the Company (the *Merger*). The Merger was effective on June 6, 2005, thus at the time making FIF III Liberty Holdings LLC our principal and controlling stockholder. As of March 27, 2011, Fortress beneficially owned approximately 39.6% of our outstanding common stock.

Recent Developments

The newspaper industry and the Company have experienced declining same store revenue over the past several years. While these trends are stabilizing, it has eliminated the availability to us of additional borrowings under our 2007 Credit Facility. As a result, we previously implemented plans to reduce costs and preserve cash flow. This includes the suspension of the payment of cash dividends, the continued implementation of cost reduction programs, and the sale of non-core assets. We believe these initiatives will provide the financial resources necessary to invest in the business and ensure our future success and provide sufficient cash flow to enable us to meet our commitments for the next year.

General economic conditions, including declines in consumer confidence, continued high unemployment levels, contraction of credit availability for certain borrowers, declines in real estate values, and other trends, have impacted the markets in which we operate. These conditions may continue to negatively impact advertising and other revenue sources as well as increase operating costs in the future. Management believes that we have adequate capital resources and liquidity to meet our working capital needs, borrowing obligations and all required capital expenditures for at least the next twelve months.

We performed testing for impairment of goodwill and newspaper mastheads as of June 30, 2010, June 30, 2009, December 31 and June 30, 2008 and December 31, 2007. The fair value of our reporting units for goodwill impairment testing and individual newspaper mastheads were estimated using the expected present value of future cash flows and recent industry transaction multiples, using estimates, judgments and assumptions, that we believe were appropriate in the circumstances. While no impairment charge was recognized as part of the 2010 assessment, should general economic, market or business conditions decline, and have a negative impact on estimates of future cash flow and market transaction multiples, we may be required to record additional impairment charges in the future.

During 2008, our credit rating was downgraded to be rated below-investment grade by both Standard & Poor's and Moody's Investors Service and was further downgraded in 2009 and 2010. Any future long-term borrowing or the extension or replacement of our short-term borrowing will reflect the negative impact of these ratings, increase our borrowing costs, limit our financing options and subject us to more restrictive covenants

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

than our existing debt arrangements. Additional reductions in our credit ratings could further increase our borrowing cost, subject us to more onerous borrowing terms and reduce or eliminate our borrowing flexibility in the future.

Table of Contents

The current economic environment in our industry and its resulting impact on us has limited our ability to grow further through acquisitions in the near-term future. However, we are highly focused on integrating our prior acquisitions, realizing all synergy and de-levering opportunities, reducing our overall costs structure to fit today's revenue environment, building a multi-media platform business, and on strengthening the local market position we hold in our markets.

Critical Accounting Policy Disclosure

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make decisions based on estimates, assumptions and factors it considers relevant to the circumstances. Such decisions include the selection of applicable principles and the use of judgment in their application, the results of which could differ from those anticipated.

A summary of our significant accounting policies are described in Note 1 of our consolidated financial statements for the year ended December 31, 2010, included in our Annual Report on Form 10-K.

There have been no changes in critical accounting policies in the current year from those described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Results of Operations

The following table summarizes our historical results of operations for the three months ended March 27, 2011 and March 31, 2010.

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES**Unaudited Condensed Consolidated Statements of Operations**

(In thousands, except share and per share data)

| | Three months ended March 27, 2011 | Three months ended March 31, 2010 |
|--|---|---|
| Revenues: | | |
| Advertising | \$ 81,648 | \$ 92,415 |
| Circulation | 32,169 | 34,089 |
| Commercial printing and other | 6,000 | 6,599 |
| Total revenues | 119,817 | 133,103 |
| Operating costs and expenses: | | |
| Operating costs | 72,463 | 77,036 |
| Selling, general, and administrative | 38,153 | 42,298 |
| Depreciation and amortization | 11,057 | 11,861 |
| Integration and reorganization costs | 1,457 | 897 |
| Loss on sale of assets | 348 | 266 |
| Operating income (loss) | (3,661) | 745 |
| Interest expense | 13,780 | 14,908 |
| Amortization of deferred financing costs | 340 | 340 |
| Loss on derivative instrument | 379 | 2,797 |
| Other income | (2) | (9) |
| Loss from continuing operations before income taxes | (18,158) | (17,291) |
| Income tax expense | 34 | 158 |
| Loss from continuing operations | \$ (18,192) | \$ (17,449) |

Table of Contents***Three Months Ended March 27, 2011 Compared To Three Months Ended March 31, 2010***

The Company moved to a consistent 52 week reporting cycle for all locations during the first quarter. As a result, the first quarter 2011 had 86 days compared to 90 days in the prior year quarter for approximately 40% of the business. The associated impact on prior year revenue is approximately \$2.5 million and expense is approximately \$1.5 million to \$2.0 million. Comparisons below have not been adjusted for this calendar change.

Revenue. Total revenue for the three months ended March 27, 2011 decreased by \$13.3 million, or 10.0%, to \$119.8 million from \$133.1 million for the three months ended March 31, 2010. The difference between same store revenue and GAAP revenue for the current quarter is immaterial, therefore, further revenue discussions will be limited to GAAP results. The decrease in total revenue was comprised of a \$10.8 million, or 11.7%, decrease in advertising revenue, a \$1.9 million, or 5.6%, decrease in circulation revenue and a \$0.6 million, or 9.1%, decrease in commercial printing and other revenue. Advertising revenue declines were primarily driven by declines on the print side of our business in the local retail and classified categories which were partially offset by growth in online. The print declines reflect an uncertain economic environment, which continued to put pressure on our local advertisers. These economic conditions have also led to a decline in our circulation volumes which have been partially offset by price increases in select locations. The advertising and circulation categories were also negatively impacted by severe weather in certain markets and the timing of Easter. The decrease in commercial printing and other revenue was due to declines in printing projects as a result of continued weak economic conditions and the strategic closure of certain print facilities.

Operating Costs. Operating costs for the three months ended March 27, 2011 decreased by \$4.6 million, or 5.9%, to \$72.4 million from \$77.0 million for the three months ended March 31, 2010. The decrease in operating costs was primarily due to a decrease in compensation, delivery and postage of \$2.8 million, \$1.1 million, and \$0.7 million, respectively. The majority of these decreases was the result of permanent cost reductions and were implemented as we continue to work to consolidate operations and improve the productivity of our labor force. The declines were slightly offset by increases in newsprint expense due to pricing.

Selling, General and Administrative. Selling, general and administrative expenses for the three months ended March 27, 2011 decreased by \$4.1 million, or 9.8%, to \$38.2 million from \$42.3 million three months ended March 31, 2010. The decrease in selling, general and administrative expenses was primarily due to a decrease in compensation, other office related expenses and health insurance benefits of \$2.4 million, \$1.0 million and \$0.8 million, respectively. The majority of these reductions are also permanent in nature.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended March 27, 2011 decreased by \$0.8 million to \$11.1 million from \$11.9 million for the three months ended March 31, 2010. The decrease in depreciation and amortization expense was primarily due to the sale and disposal of assets in 2010, which reduced the depreciation expense.

Interest Expense. Total interest expense for the three months ended March 27, 2011 decreased by \$1.1 million, or 7.6%, to \$13.8 million from \$14.9 million for the three months ended March 31, 2010. The decrease was primarily due to declines in interest rates and their related impact on our unhedged debt position, and to a lesser extent, a decrease in our total outstanding debt.

Loss on Derivative Instrument. During the three months ended March 27, 2011 and March 31, 2010, we recorded a net loss of \$0.4 million and \$2.8 million, respectively, comprised of accumulated other comprehensive income amortization related to swaps terminated in 2008 partially offset by the impact of the ineffectiveness of our remaining swap agreements.

Net Income (Loss) from Continuing Operations. Net loss from continuing operations for the three months ended March 27, 2011 and March 31, 2010 was \$18.2 million and \$17.4 million, respectively. Our net loss from continuing operations decreased due to the factors noted above.

Liquidity and Capital Resources

Our primary cash requirements are for working capital, debt obligations and capital expenditures. We have no material outstanding commitments for capital expenditures. Our principal sources of funds have historically been, and will be, cash provided by operating activities and term loan borrowings for significant acquisitions.

As a holding company, we have no operations of our own and accordingly we have no independent means of generating revenue, and our internal sources of funds to meet our cash needs, including payment of expenses, are dividends and other permitted payments from our subsidiaries.

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

On February 27, 2007, we entered into an Amended and Restated Credit Agreement with a syndicate of financial institutions with Wells Fargo Bank, as administrative agent, referred to as the 2007 Credit Facility. The 2007 Credit Facility initially provided for a \$670.0 million term loan facility which matures in August 2014, a delayed draw term loan of up to \$250.0 million which matures in August 2014 and a revolving credit agreement with a \$40.0 million aggregate loan commitment available, including a \$15.0 million sub-facility for letters of credit and a \$10.0 million swingline facility, which matures in February 2014.

Table of Contents

On May 7, 2007, we amended the 2007 Credit Facility and increased our borrowing by \$275.0 million. This incremental borrowing has an interest rate of LIBOR + 2.25% or the Alternate Base Rate + 1.25%, depending upon the designation of the borrowing.

In accordance with the First Amendment, the rate on the previously existing borrowings of \$920.0 million was changed to bear interest at LIBOR + 2.00% or the Alternate Base Rate + 1.00% depending upon the designation of the borrowing. The terms of the previously outstanding borrowings were also modified to include a 1.00% premium if the debt is called within one year and an interest feature that grants the previously outstanding debt an interest rate of 0.25% below the highest rate of any borrowing under the 2007 Credit Facility.

On February 15, 2008, we entered into our 2008 Bridge Facility with Barclays, as syndication agent, sole arranger and book runner. The 2008 Bridge Facility provided for a \$20.6 million term loan facility. The 2008 Bridge Facility was paid in full on June 7, 2010.

On August 21, 2008, FIF III Liberty Holdings LLC (FIF III) purchased an aggregate of \$11.5 million in 10% cumulative preferred stock of GateHouse Media Macomb Holdings, Inc. (Macomb), an operating subsidiary of ours. The preferred stock was issued on August 21, 2008. Macomb, an Unrestricted Subsidiary, as defined under the terms of our 2007 Credit Facility, used the proceeds from such sale of preferred stock to make an \$11.5 million cash investment in Holdco non-voting 10% cumulative preferred stock. FIF III may require us to purchase its Macomb preferred stock during the five-year period following our full repayment of the 2008 Bridge Facility, which occurred in the second quarter of 2010, for an amount equal to the original purchase price, plus accrued but unpaid dividends. FIF III is an affiliate of Fortress Investment Group LLC, the owner of approximately 39.6% of our outstanding Common Stock.

On February 3, 2009, we again amended our 2007 Credit Facility and reduced the amounts available under the credit agreement, as follows: (i) for revolving loans, from \$40.0 million to \$20.0 million; (ii) for the letter of credit subfacility, from \$15.0 million to \$5.0 million; and (iii) for the swingline loan subfacility, from \$10.0 million to \$5.0 million.

As required by the 2007 Credit Facility, as amended, on March 2, 2011 and March 5, 2010, we made a principal payment of \$11.2 million and \$2.5 million, respectively, which represented 50% of our Excess Cash Flow (as defined under the 2007 Credit Facility) related to the fiscal years ended December 31, 2010 and 2009, respectively.

Our 2007 Credit Facility imposes upon us certain financial and operating covenants, including, among others, requirements that we satisfy certain financial tests, including a total leverage ratio if there are outstanding extensions of credit under the revolving facility, a minimum fixed charge ratio, and restrictions on our ability to incur debt, pay dividends or take certain other corporate actions. As of March 27, 2011 we were in compliance with all applicable covenants. Although we are currently in compliance with all of our covenants and obligations under the 2007 Credit Facility, due to restrictive covenants and conditions within this facility, we currently do not have the ability to draw upon the revolving credit facility portion of the 2007 Credit Facility for any immediate short-term funding needs or to incur additional long-term debt.

Future compliance with our financial and operating covenants will depend on the future performance of the business and our ability to curtail the negative revenue trends experience and our ability to address other risks and challenges set forth herein and in our Annual Report on Form 10-K for the year ended December 31, 2010. We believe that we have adequate capital resources and liquidity to meet our current working capital needs, borrowing obligations and all required capital expenditures for at least the next twelve months.

Our leverage may adversely affect our business and financial performance and may restrict our operating flexibility. The level of our indebtedness and our on-going cash flow requirements may expose us to a risk that a substantial decrease in operating cash flows due to, among other things, continued or additional adverse economic developments or adverse developments in our business, could make it difficult for us to meet the financial and operating covenants contained in our credit facilities. In addition, our leverage may limit cash flow available for general corporate purposes such as capital expenditures and our flexibility to react to competitive, technological and other changes in our industry and economic conditions generally.

Cash Flows

The following table summarizes our historical cash flows.

| | Three months ended March 27, 2011 | Three months ended March 31, 2010 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Cash provided by operating activities | \$ 15,241 | \$ 14,950 |
| Cash used in investing activities | (488) | (165) |

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

| | | |
|-----------------------------------|----------|---------|
| Cash used in financing activities | (11,249) | (4,013) |
|-----------------------------------|----------|---------|

Table of Contents

The discussion of our cash flows that follows is based on our historical cash flows for the three months ended March 27, 2011 and March 31, 2010.

Cash Flows from Operating Activities. Net cash provided by operating activities for the three months ended March 27, 2011 was \$15.2 million, an increase of \$0.3 million when compared to \$14.9 million of cash provided by operating activities for the three months ended March 31, 2010. This \$0.3 million increase was the result of an increase in cash provided by working capital of \$4.2 million, which was offset by a decrease in non-cash charges of \$3.2 million and an increase in net loss of \$0.7 million.

The \$4.2 million increase in cash provided by working capital for the three months ended March 27, 2011 when compared to the three months ended March 31, 2010 is primarily attributable to a decrease in prepaid expenses.

The \$3.2 million decrease in non-cash charges primarily consisted of a decrease in loss on derivative instrument of \$2.4 million, a decrease in depreciation and amortization of \$0.8 million, and a decrease in non-cash compensation expense of \$0.2 million. These decreases were partially offset by a \$0.1 million increase in pension and other postretirement benefit obligations.

Cash Flows from Investing Activities. Net cash used in investing activities for the three months ended March 27, 2011 was \$0.5 million. During the three months ended March 27, 2011, we used \$0.5 million for capital expenditures.

Net cash used in investing activities for the three months ended March 31, 2010 was \$0.2 million. During the three months ended March 31, 2010, we received \$0.4 million from the sale of publications and other assets, which was offset by \$0.6 million used for capital expenditures.

Cash Flows from Financing Activities. Net cash used in financing activities for the three months ended March 27, 2011 was \$11.2 million due to a repayment under the 2007 Credit Facility.

Net cash used in financing activities for the three months ended March 31, 2010 was \$4.0 million, which primarily resulted from \$2.5 million repayment under the 2007 Credit Facility and a \$1.5 million repayment under the Barclays Credit Agreement.

Changes in Financial Position

The discussion that follows highlights significant changes in our financial position and working capital from December 31, 2010 to March 27, 2011.

Accounts Receivable. Accounts receivable decreased \$9.2 million from December 31, 2010 to March 27, 2011, which relates to the timing of cash collections and lower revenue recognized in 2011 compared to 2010.

Prepaid Expenses. Prepaid expenses decreased \$5.2 million from December 31, 2010 to March 27, 2011, which primarily relates to the receipt of newsprint during the first quarter of 2011 that was prepaid at December 31, 2010 under a newsprint pricing agreement.

Property, Plant, and Equipment. Property, plant, and equipment decreased \$4.6 million during the period from December 31, 2010 to March 27, 2011, of which \$4.9 million relates to depreciation and \$0.4 million relates to assets sold and held for sale. These decreases in property, plant, and equipment were partially offset by \$0.5 million that was used for capital expenditures.

Intangible Assets. Intangible assets decreased \$6.1 million from December 31, 2010 to March 27, 2011, due to amortization.

Current Portion of Long-term Debt. Current portion of long-term debt decreased \$11.2 million from December 31, 2010 to March 27, 2011 due to a principal payment as required by the 2007 Credit Facility which represented 50% of the Excess Cash Flow related to the fiscal year ended December 31, 2010.

Accounts Payable. Accounts payable increased \$1.9 million from December 31, 2010 to March 27, 2011, which was primarily attributable to the timing of vendor payments.

Accrued Expenses. Accrued expenses increased \$3.3 million from December 31, 2010 to March 27, 2011, which was primarily attributable to payroll related expenses.

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

Accrued Interest. Accrued interest increased \$1.6 million from December 31, 2010 to March 27, 2011, which was primarily attributable to the timing of interest payments in relation to our calendar change.

Derivative Instruments. Derivative instrument liability decreased \$7.4 million from December 31, 2010 to March 27, 2011, due to changes in the fair value measurement of our interest rate swaps.

Table of Contents

Accumulated Other Comprehensive Loss. Accumulated other comprehensive loss decreased \$7.9 million from December 31, 2010 to March 27, 2011, which resulted from the change in fair value of the interest rate swaps of \$7.4 million, a loss on derivative instruments due to amortization of \$0.4 million, and a \$0.1 million change related to the Company's pension and post retirement plans.

Accumulated Deficit. Accumulated deficit increased \$18.0 million from December 31, 2010 to March 27, 2011 from a net loss attributable to GateHouse Media, of \$18.0 million.

Contractual Commitments

No material changes were made to our contractual commitments during the period from December 31, 2010 to March 27, 2011.

Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. We define and use Adjusted EBITDA, a non-GAAP financial measure, as set forth below.

Adjusted EBITDA

We define Adjusted EBITDA as follows:

Income (loss) from continuing operations *before*:

income tax expense (benefit);

interest/financing expense;

depreciation and amortization; and

non-cash impairments.

Management's Use of Adjusted EBITDA

Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered in isolation or as an alternative to income from operations, net income (loss), cash flow from continuing operating activities or any other measure of performance or liquidity derived in accordance with GAAP. We believe this non-GAAP measure, as we have defined it, is helpful in identifying trends in our day-to-day performance because the items excluded have little or no significance on our day-to-day operations. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieve optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

Adjusted EBITDA provides us with a measure of financial performance, independent of items that are beyond the control of management in the short-term, such as depreciation and amortization, taxation, non-cash impairments and interest expense associated with our capital structure. This metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. Adjusted EBITDA is one of the metrics we used to review the financial performance of our business on a monthly basis.

Limitations of Adjusted EBITDA

Edgar Filing: GateHouse Media, Inc. - Form 10-Q

Adjusted EBITDA has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of earnings or cash flows. Material limitations in making the adjustments to our earnings to calculate Adjusted EBITDA and using this non-GAAP financial measure as compared to GAAP net income (loss), include: the cash portion of interest/financing expense, income tax (benefit) provision and charges related to gain (loss) on sale of facilities represent charges (gains), which may significantly affect our financial results.

A reader of our financial statements may find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

Adjusted EBITDA is not an alternative to net income, income from operations or cash flows provided by or used in operations as calculated and presented in accordance with GAAP. Readers of our financial statements should not rely on Adjusted EBITDA as a substitute for any such GAAP financial measure. We strongly urge readers of our financial statements to review the reconciliation of income (loss) from continuing operations to Adjusted EBITDA, along with our consolidated financial statements included elsewhere in this report. We also strongly urge readers of our financial statements to not rely on any single financial measure to evaluate our business. In addition, because Adjusted EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, the Adjusted EBITDA measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

Table of Contents

We use Adjusted EBITDA as a measure of our core operating performance, which is evidenced by the publishing and delivery of news and other media and excludes certain expenses that may not be indicative of our core business operating results. We consider the unrealized (gain) loss on derivative instruments and the loss on early extinguishment of debt to be financing related costs associated with interest expense or amortization of financing fees. Accordingly, we exclude financing related costs such as the early extinguishment of debt because they represent the write-off of deferred financing costs and we believe these non-cash write-offs are similar to interest expense and amortization of financing fees, which by definition are excluded from Adjusted EBITDA. Additionally, the non-cash gains (losses) on derivative contracts, which are related to interest rate swap agreements to manage interest rate risk, are financing costs associated with interest expense. Such charges are incidental to, but not reflective of, our core operating performance and it is appropriate to exclude charges related to financing activities such as the early extinguishment of debt and the unrealized (gain) loss on derivative instruments which, depending on the nature of the financing arrangement, would have otherwise been amortized over the period of the related agreement and does not require a current cash settlement.

The table below shows the reconciliation of loss from continuing operations to Adjusted EBITDA for the periods presented:

| | Three months ended March 27, 2011 (in thousands) | Three months ended March 31, 2010 |
|--|--|---|
| Loss from continuing operations | \$ (18,192) | \$ (17,449) |
| Income tax expense | 34 | 158 |
| Loss on derivative instrument | 379 | 2,797 |
| Amortization of deferred financing costs | 340 | 340 |
| Interest expense | 13,780 | 14,908 |
| Depreciation and amortization | 11,057 | 11,861 |
| Adjusted EBITDA from continuing operations | \$ 7,398 ^(a) | \$ 12,615 ^(b) |

- (a) Adjusted EBITDA for the three months ended March 27, 2011 included net expenses of \$2,938, which are one-time in nature or non-cash compensation. Included in these net expenses of \$2,938 is non-cash compensation and other expense of \$1,142, non-cash portion of postretirement benefits expense of \$(9), integration and reorganization costs of \$1,457 and a \$348 loss on the sale of assets.
- (b) Adjusted EBITDA for the three months ended March 31, 2010 included net expenses of \$1,595 which are one-time in nature or non-cash compensation. Included in these net expenses of \$1,595 is non-cash compensation and other expense of \$574, non-cash portion of postretirement benefits expense of \$(142), integration and reorganization costs of \$897 and a \$266 loss on the sale of assets.
- Adjusted EBITDA also does not include \$(15) from our discontinued operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the three month period ended March 27, 2011, there were no material changes to the quantitative and qualitative disclosures about market risk that were presented in Item 7A of our annual report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer (principal executive officer) and Senior Vice President and Chief Financial Officer (principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures (as is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Senior Vice President and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control

There has not been any change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this Quarterly Report on Form 10-Q relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 1A. Risk Factors

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable

Item 6. Exhibits

See Index to Exhibits on page 33 of this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURES

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

Date: April 28, 2011

GATEHOUSE MEDIA, INC.

/s/ Melinda A. Janik
Melinda A. Janik
Senior Vice President and Chief Financial Officer

Table of Contents

Index to Exhibits

| Exhibit No. | Description of Exhibit | Included Herewith | Incorporated by Reference Herein | | |
|--------------------|---|--------------------------|---|----------------|--------------------|
| | | | Form | Exhibit | Filing Date |
| 10.1 | Agency Succession and Amendment Agreement, dated as of March 30, 2011 by and among GateHouse Media Holdco, Inc., GateHouse Media Operating, Inc., GateHouse Media Massachusetts I, Inc., GateHouse Media Massachusetts II, Inc., ENHE Acquisition, LLC, each of those domestic subsidiaries of Holdco identified as a Guarantor on the signature pages of the Credit Agreement, Wells Fargo Bank, N.A., successor-by-merger to Wachovia Bank, National Association, as the resigning Administrative Agent, and the Successor Agent. | | 8-K | 99.1 | April 7, 2011 |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer (principal executive officer). | x | | | |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Senior Vice President and Chief Financial Officer (principal financial officer). | x | | | |
| 32.1 | Section 1350 Certifications. | x | | | |