

GateHouse Media, Inc.
Form 10-Q
August 01, 2013
[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 June 30, 2013

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

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>36-4197635</u> (I.R.S. Employer Identification No.)
<u>350 Willow Brook Office Park,</u> <u>Fairport, NY</u> (Address of principal executive offices)	<u>14450</u> (Zip Code)
<u>Telephone: (585) 598-0030</u> (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 July 29, 2013, 58,077,031 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 June 30, 2013 (unaudited) and December 30, 2012</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and July 1, 2012</u>	4
<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity (Deficit) for the six months ended June 30, 2013</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and July 1, 2012</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>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	29
PART II. OTHER INFORMATION	
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	30

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

	June 30, 2013 (unaudited)	December 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,512	\$ 34,527
Restricted cash	6,467	6,467
Accounts receivable, net of allowance for doubtful accounts of \$2,233 and \$2,456 at June 30, 2013 and December 30, 2012, respectively	49,409	54,692
Inventory	5,309	6,019
Prepaid expenses	5,243	5,815
Other current assets	8,533	8,215
Total current assets	100,473	115,735
Property, plant, and equipment, net of accumulated depreciation of \$133,283 and \$128,208 at June 30, 2013 and December 30, 2012, respectively	108,679	116,510
Goodwill	13,742	13,742
Intangible assets, net of accumulated amortization of \$208,177 and \$196,878 at June 30, 2013 and December 30, 2012, respectively	207,208	218,981
Deferred financing costs, net	1,197	1,719
Other assets	1,931	2,605
Assets held for sale	474	474
Total assets	\$ 433,704	\$ 469,766
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term liabilities	\$ 708	\$ 853
Current portion of long-term debt		6,648
Accounts payable	8,367	9,396
Accrued expenses	28,407	26,258
Accrued interest	4,701	4,665
Deferred revenue	24,983	25,217
Total current liabilities	67,166	73,037
Long-term liabilities:		
Long-term debt	1,167,450	1,167,450
Long-term liabilities, less current portion	2,062	2,347
Derivative instruments	31,053	45,724
Pension and other postretirement benefit obligations	14,828	15,367
Total liabilities	1,282,559	1,303,925
Stockholders' deficit:		
Common stock, \$0.01 par value, 150,000,000 shares authorized at June 30, 2013 and December 30, 2012; 58,313,868 issued and 58,077,031 outstanding at June 30, 2013 and December 30, 2012	568	568
Additional paid-in capital	831,369	831,344

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

Accumulated other comprehensive loss	(37,928)	(52,642)
Accumulated deficit	(1,642,554)	(1,610,917)
Treasury stock, at cost, 236,837 shares at June 30, 2013 and December 30, 2012	(310)	(310)
Total GateHouse Media stockholders' deficit	(848,855)	(831,957)
Noncontrolling interest		(2,202)
Total stockholders' deficit	(848,855)	(834,159)
Total liabilities and stockholders' deficit	\$ 433,704	\$ 469,766

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30, 2013	Three months ended July 1, 2012	Six months ended June 30, 2013	Six months ended July 1, 2012
Revenues:				
Advertising	\$ 79,220	\$ 86,952	\$ 150,559	\$ 165,870
Circulation	33,047	32,744	65,513	65,114
Commercial printing and other	7,331	6,275	14,107	12,197
Total revenues	119,598	125,971	230,179	243,181
Operating costs and expenses:				
Operating costs	64,978	68,324	129,998	136,328
Selling, general, and administrative	41,156	35,215	78,722	72,054
Depreciation and amortization	9,791	9,893	19,636	20,204
Integration and reorganization costs	741	738	958	1,860
Loss on sale of assets	649	158	1,043	155
Operating income (loss)	2,283	11,643	(178)	12,580
Interest expense	14,456	14,449	28,886	28,997
Amortization of deferred financing costs	261	340	522	680
(Gain) loss on derivative instruments	5	(809)	9	(1,644)
Other (income) expense	737	5	1,008	(40)
Loss from continuing operations before income taxes	(13,176)	(2,342)	(30,603)	(15,413)
Income tax expense		148		43
Loss from continuing operations	(13,176)	(2,490)	(30,603)	(15,456)
Loss from discontinued operations, net of income taxes	(946)	(200)	(1,034)	(475)
Net loss	(14,122)	(2,690)	(31,637)	(15,931)
Loss per share:				
Basic and diluted:				
Loss from continuing operations	\$ (0.23)	\$ (0.05)	\$ (0.53)	\$ (0.27)
Loss from discontinued operations, net of income taxes	(0.01)		(0.01)	
Net loss	\$ (0.24)	\$ (0.05)	\$ (0.54)	\$ (0.27)
Basic weighted average shares outstanding	58,076,193	58,051,049	58,063,901	58,032,205
Diluted weighted average shares outstanding	58,076,193	58,051,049	58,063,901	58,032,205
Comprehensive income (loss)	\$ (7,126)	\$ 757	\$ (16,923)	\$ (17,204)

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		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Treasury stock		Non- controlling interest in subsidiary	Total
	Shares	Amount				Shares	Amount		
Balance at December 31, 2012	58,313,868	\$ 568	\$ 831,344	\$ (52,642)	\$ (1,610,917)	236,837	\$ (310)	\$ (2,202)	\$ (834,159)
Net loss					(31,637)				(31,637)
Gain on derivative instruments, net of income taxes of \$0				14,680					14,680
Net actuarial loss and prior service cost, net of income taxes of \$0				34					34
Disposal of non wholly owned subsidiary								2,202	2,202
Non-cash compensation expense			25						25
Balance at June 30, 2013	58,313,868	\$ 568	\$ 831,369	\$ (37,928)	\$ (1,642,554)	236,837	\$ (310)	\$	\$ (848,855)

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)**

	Six months ended June 30, 2013	Six months ended July 1, 2012
Cash flows from operating activities:		
Net loss	\$ (31,637)	\$ (15,931)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	19,693	20,678
Amortization of deferred financing costs	522	680
(Gain) loss on derivative instruments	9	(1,644)
Non-cash compensation expense	25	48
Loss on sale of assets	2,198	187
Pension and other postretirement benefit obligations	(428)	(244)
Impairment of long-lived assets		206
Goodwill impairment		216
Changes in assets and liabilities:		
Accounts receivable, net	4,912	6,857
Inventory	710	(417)
Prepaid expenses	518	9,991
Other assets	194	(1,295)
Accounts payable	(293)	1,469
Accrued expenses	2,549	(1,530)
Accrued interest	42	(65)
Deferred revenue	112	(558)
Other long-term liabilities	(215)	(422)
Net cash (used in) provided by operating activities	(1,089)	18,226
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(2,018)	(1,737)
Proceeds from sale of assets and insurance	740	442
Net cash used in investing activities	(1,278)	(1,295)
Cash flows from financing activities:		
Repayments under current portion of long-term debt	(6,648)	(4,600)
Net cash used in financing activities	(6,648)	(4,600)
Net (decrease) increase in cash and cash equivalents	(9,015)	12,331
Cash and cash equivalents at beginning of period	34,527	19,212
Cash and cash equivalents at end of period	\$ 25,512	\$ 31,543

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 (together, 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 applicable provisions 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 30, 2012, 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 as of 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.

The Company's operating segments (Large Community Newspapers, Small Community Newspapers and Directories) are aggregated into one reportable business segment.

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2013 are outlined below.

	Gain (loss) on derivative instruments	Net actuarial loss and prior service cost	Total
For the six months ended June 30, 2013:			
Balance at December 30, 2012	\$ (45,651)	\$ (6,991)	\$ (52,642)
Other comprehensive income before reclassifications	(396)		(396)
Amounts reclassified from accumulated other comprehensive loss	15,076	34	15,110
Net current period other comprehensive income, net of taxes	14,680	34	14,714
Balance at June 30, 2013	\$ (30,971)	\$ (6,957)	\$ (37,928)

The following table presents reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2013.

Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statements of
---	---

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Operations and Comprehensive Income (Loss)
Realized gain on interest rate swap agreements, designated as cash flow hedges	\$ 7,543	\$ 15,076	Interest expense
Amortization of prior service cost	(114)	(228)	(1)
Amortization of unrecognized loss	131	262	(1)
			Loss from continuing
Amounts reclassified from accumulated other comprehensive loss	7,560	15,110	operations before income taxes
Income tax expense			Income tax expense
Amounts reclassified from accumulated other comprehensive loss	\$ 7,560	\$ 15,110	Net loss

⁽¹⁾ This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost. See Note 10.

Table of Contents

Recent Developments

The newspaper industry and the Company have experienced declining same store revenue and profitability over the past several years. These trends have eliminated the availability to the Company of additional borrowings under its 2007 Credit Facility, see Note 6. As a result, the Company previously implemented and continues to implement plans to reduce costs and preserve cash flow. This includes the suspension of the payment of cash dividends, cost reduction and restructuring programs, and the sale of non-core assets. Additionally, the Company is exploring alternatives to improve its capital structure. The Company believes these initiatives will provide it with the financial resources necessary to invest in the business and provide sufficient cash flow to enable the Company to meet its commitments for the next year.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASC Update No. 2013-02 Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220), which amends ASC Topic 220. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition an entity is required to present either on the face of the Statement of Income or in the Notes to the Consolidated Financial Statements significant amounts reclassified out of AOCI and should be provided by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified in its entirety to net income in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about these amounts. The changes to the ASC as a result of this updated guidance became effective for annual and interim reporting periods beginning after December 15, 2012. The adoption of ASU No. 2013-02 did not have a material effect on the Company's Consolidated Financial Statements.

(2) Share-Based Compensation

The Company recognized compensation cost for share-based payments of \$1, \$23, \$25 and \$48 during the three and six months ended June 30, 2013 and July 1, 2012, respectively. As of June 30, 2013, all compensation cost for share-based payments have been recognized.

Restricted Share Grants (RSGs)

Under the GateHouse Media, Inc. Omnibus Stock Incentive Plan (the Plan), 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, 2008. An additional 100,000 RSGs were granted to Company management during the year ended December 31, 2009. 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 June 30, 2013 and July 1, 2012, there were 0 and 25,424 RSGs, respectively, issued and outstanding with a weighted average grant date fair value of \$0.00 and \$6.04, respectively. As of June 30, 2013, the aggregate intrinsic value of unvested RSGs was \$0. During the six months ended June 30, 2013, the aggregate fair value of vested RSGs was \$1.

RSG activity during the three months ended June 30, 2013 was as follows:

	Number of RSGs	Weighted-Average Grant Date Fair Value
Unvested at December 30, 2012	25,424	\$ 6.04
Vested	(25,424)	6.04

Unvested at June 30, 2013

\$

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.

Table of Contents

(3) Reclassifications

Certain amounts in the prior period unaudited condensed consolidated financial statements have been reclassified to conform to the 2013 presentation.

(4) Restructuring

Over the past several years, and in furtherance of the Company's cost reduction and cash flow 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 facilities and improve its operations. These initiatives impact all of the Company's geographic regions and are often influenced by the terms of union contracts within each 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 30, 2012 and the six months ended June 30, 2013 is outlined below.

	Severance and Related Costs	Other Costs ⁽¹⁾	Total
Balance at January 1, 2012	\$ 900	\$ 426	\$ 1,326
Restructuring provision included in integration and reorganization ⁽²⁾	3,610	800	4,410
Cash payments	(3,826)	(1,062)	(4,888)
Balance at December 30, 2012	\$ 684	\$ 164	\$ 848
Restructuring provision included in integration and reorganization	920	38	958
Cash payments	(942)	(79)	(1,021)
Balance at June 30, 2013	\$ 662	\$ 123	\$ 785

⁽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 affected operations ceased.

The restructuring reserve balance as of June 30, 2013, for all programs was \$785, which is expected to be paid out over the next twelve months.

The following table summarizes the costs incurred and cash paid in connection with these restructuring programs for the three and six months ended June 30, 2013 and July 1, 2012.

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Severance and related costs ⁽²⁾	\$ 726	\$ 547	\$ 920	\$ 1,362
Other costs ⁽¹⁾	15	200	38	515
Cash payments	(371)	(953)	(1,021)	(2,484)

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

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

- ⁽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 affected operations ceased.

(5) Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

		June 30, 2013	
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Noncompete agreements	\$ 4,970	\$ 4,893	\$ 77
Advertiser relationships	278,458	154,422	124,036
Customer relationships	8,940	3,922	5,018
Subscriber relationships	81,934	41,316	40,618
Trade name	5,493	3,479	2,014
Publication rights	345	145	200
 Total	 \$ 380,140	 \$ 208,177	 \$ 171,963
Nonamortized intangible assets:			
Goodwill	\$ 13,742		
Mastheads	35,245		
 Total	 \$ 48,987		

Table of Contents

	December 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Noncompete agreements	\$ 4,970	\$ 4,839	\$ 131
Advertiser relationships	278,543	145,878	132,665
Customer relationships	8,940	3,597	5,343
Subscriber relationships	82,280	39,226	43,054
Trade name	5,493	3,204	2,289
Publication rights	345	134	211
Total	\$ 380,571	\$ 196,878	\$ 183,693
Nonamortized intangible assets:			
Goodwill	\$ 13,742		
Mastheads	35,288		
Total	\$ 49,030		

The weighted average amortization periods for amortizable intangible assets are 4.4 years for noncompete agreements, 16.7 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.

Amortization expense for the three and six months ended June 30, 2013 and July 1, 2012 was \$5,823, \$5,893, \$11,668 and \$11,801, respectively. Estimated future amortization expense as of June 30, 2013 is as follows:

For the years ending the Sunday closest to December 31:	
2013	\$ 11,592
2014	23,277
2015	23,244
2016	21,316
2017	20,242
Thereafter	72,292
Total	\$ 171,963

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

During the first quarter of 2012, the Company reorganized its management structure to align with its publication types. The fair value of goodwill was allocated to each of the new reporting units: Small Community Newspapers, Large Daily Newspapers and Metro Newspapers. The Company determined that impairment indicators were present for the Metro Newspaper reporting unit, which had a goodwill balance of \$216. As of April 1, 2012 the Company performed a Step 1 analysis for this reporting unit and determined that its carrying value exceeded fair value. As a result of the Step 2 analysis, the entire \$216 of goodwill was impaired and this amount was subsequently reclassified to discontinued operations, see Note 19. The fair value of this reporting unit for impairment testing purposes was estimated using the expected present value of future cash flows, recent industry transaction multiples and using estimates, judgments and assumptions that management believed 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 recent transactions provided the best estimate of the fair value of this reporting unit. The Company performed further analysis of this reporting unit's intangible and long-lived assets and determined that impairments of these assets were not present.

Table of Contents

As of April 1, 2012, a review of impairment indicators was performed for the Company's other reporting units and it was determined that financial results and forecast had not changed materially since the June 26, 2011 impairment test and it was determined no indicators of impairment were present.

As part of the annual impairment assessment, as of July 1, 2012, the fair values of the Company's reporting units for goodwill impairment testing and 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 believed 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 recent transactions provided the best estimate of the fair value of its reporting units and no impairment indicators were identified. Additionally, the estimated fair value exceeded carrying value for all mastheads. The total Company's estimate of fair value was reconciled to its then market capitalization (based upon the market price of the Company's common stock and fair value of the Company's debt) plus an estimated control premium.

As of September 30, 2012, December 30, 2012 and March 31, 2013, a review of impairment indicators was performed with the Company noting that its financial results and forecast had not changed materially since the July 1, 2012 impairment test and its market capitalization exceeded its consolidated carrying value. It was determined no indicators of impairment were present.

As part of the annual impairment assessment, as of June 30, 2013, the fair values of the Company's reporting units for goodwill impairment testing and 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 believed 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 recent transactions provided the best estimate of the fair value of its reporting units and no impairment indicators were identified. Additionally, the estimated fair value exceeded carrying value for all mastheads. The total Company's estimate of fair value was reconciled to its then market capitalization (based upon the market price of the Company's common stock and fair value of the Company's debt) plus an estimated control premium.

The newspaper industry and the Company have experienced declining same store revenue and profitability over the past several years. Should general economic, market or business conditions decline, and have a negative impact on estimates of future cash flow and market transaction multiples, the Company may be required to record additional impairment charges in the future.

(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 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), are 2.00% and 1.00%, respectively. The applicable margin for revolving loans is adjusted quarterly based upon Holdco's Total Leverage (defined as the ratio of Holdco's Consolidated Indebtedness (as defined in the 2007 Credit Facility) on the last day of the preceding

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

quarter to Consolidated EBITDA (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

Table of Contents

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 0.50% 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 June 30, 2013 and, therefore, the Company was not required to be in compliance with the Total Leverage Ratio covenant at such time.

First Amendment to 2007 Credit Facility

On May 7, 2007, the Borrowers entered into the First Amendment to the 2007 Credit Facility (the First Amendment). 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 June 30, 2013, 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 the Second Amendment to the 2007 Credit Facility (the *Second Amendment*).

Among other things, the Second Amendment 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 1.00 and the current Incurrence Test (as defined in the Second Amendment) is satisfied.

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.

2007 Credit Facility Excess Cash Flow Payment and Outstanding Balance

As required by the 2007 Credit Facility, as amended, on March 26, 2013 and March 15, 2012, the Company made principal payments of \$6,648 and \$4,600, respectively, which represented 50% of the Excess Cash Flow related to the fiscal years ended December 30, 2012 and January 1, 2012, respectively. As of June 30, 2013, a total of \$1,167,450 was outstanding under the 2007 Credit Facility: \$654,554 was outstanding under the term loan facility, \$244,236 was outstanding under the delayed draw term loan facility, \$268,660 was outstanding under the incremental term loan facility and no amounts were outstanding under the revolving credit facility.

Compliance with Covenants

As of June 30, 2013 the Company 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 does not expect to be able to do so in the foreseeable future.

Fair Value

As of June 30, 2013, the fair value of the Company's total long-term debt, determined based on the average yield to maturity of publicly traded debt with similar ratings and consistent maturities and terms, Level 2 inputs (see Note 12), was approximately \$857,000. As of June 30, 2013, the average yield to maturity of such publicly traded debt used in valuing the Company's debt ranged from 8.4% to 41.8% with an average of 18.3%. The fair value is an estimate based on publicly available information and may not necessarily represent the fair market value in an arm's length transaction.

Payment Schedule

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

As of June 30, 2013, scheduled principal payments of outstanding debt are as follows:

2013	
2014	1,167,450
	\$ 1,167,450

Table of Contents**(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 and Comprehensive Income (Loss) 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

	June 30, 2013		Liability Derivatives		December 30, 2012	
	Balance				Balance	Fair
	Sheet		Fair		Sheet	
	Location	Value			Location	Value
Derivative designed as hedging instruments under ASC 815						
Interest rate swaps	Derivative Instruments	\$ 31,053		Derivative Instruments	\$ 45,724	
Total derivatives		\$ 31,053			\$ 45,724	

The Effect of Derivative Instruments on the Statement of Operations and Comprehensive Income (Loss)

for the Three Months Ended June 30, 2013 and July 1, 2012

Derivatives in ASC 815	Location of Gain or (Loss)	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2013	2012
Fair Value Hedging	Recognized in Income on		
Relationships	Derivative		
Interest rate swaps	Gain (loss) on derivative instruments	\$ (5)	\$ 809

Derivatives in ASC 815	Amount of Gain or (Loss) Recognized in Other Comprehensive Income (OCI)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2013	2012		2013	2012	2013	2012
Fair Value Hedging							
Relationships							

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

Interest rate swaps	\$6,979	\$3,991	Interest	\$7,543	\$6,785	Gain (loss)	\$(5)	\$3
			income/			on		
			(expense)			derivative		
						instruments		

Table of Contents**The Effect of Derivative Instruments on the Statement of Operations****for the Six Months Ended June 30, 2013 and July 1, 2012**

Derivatives in ASC 815		Location of Gain or (Loss)	Amount of Gain or (Loss) Recognized in Income on Derivative	
Fair Value Hedging		Recognized in Income on		
Relationships	Derivative	2013	2012	
Interest rate swaps	Gain (loss) on derivative instruments	\$(9)	\$1,644	

Derivatives in		Amount of Gain or (Loss) Recognized in 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 OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on 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)	
ASC 815		2013	2012		2013	2012		2013	2012
Fair Value Hedging									
Relationships									
Interest rate swaps		\$14,680	\$(34)	Interest income/ (expense)	\$15,076	\$13,441	Gain (loss) on derivative instruments	\$(9)	\$29

On June 23, 2005, the Company entered into and designated an interest rate swap based on a notional amount of \$300,000, which matured in 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 was reclassified into earnings over the remaining life of the item previously hedged. As of June 30, 2013, all amounts in accumulated other comprehensive income have been reclassified into earnings.

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, which matured in July 2011, as a cash flow hedge. Under the swap agreement, the Company received interest equivalent to one month LIBOR and paid 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 was reclassified into earnings over the remaining life of the item previously hedged. As of June 30, 2013, all amounts in accumulated other comprehensive income have been reclassified into earnings.

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 June 30, 2013, the fair value of the swap increased by \$1,142, of which \$0 was recognized through earnings and \$1,142 was recognized through accumulated other comprehensive

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

income. During the six months ended June 30, 2013, the fair value of the swap increased by \$2,401, of which \$0 was recognized through earnings and \$2,401 was recognized through accumulated other comprehensive income.

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 June 30, 2013, the fair value of the swap increased by \$2,754, of which \$0 was recognized through earnings and \$2,754 was recognized through accumulated other comprehensive income. During the six months ended June 30, 2013, the fair value of the swap increased by \$5,794, of which \$1 was recognized through earnings and \$5,793 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 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 June 30, 2013, the fair value of the swap increased by \$2,254, of which a decrease of \$5 was

Table of Contents

recognized through earnings and an increase of \$2,259 was recognized through accumulated other comprehensive income. During the six months ended June 30, 2013, the fair value of the swap increased by \$4,742, of which a decrease of \$10 was recognized through earnings and an increase of \$4,752 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 June 30, 2013, the fair value of the swap increased by \$824, of which \$0 was recognized through earnings and \$824 was recognized through accumulated other comprehensive income. During the six months ended June 30, 2013, the fair value of the swap increased by \$1,734, of which \$0 was recognized through earnings and \$1,734 was recognized through accumulated other comprehensive income.

The aggregate amount of unrealized loss related to derivative instruments recognized in other comprehensive loss as of June 30, 2013 and July 1, 2012 was \$30,971 and \$51,517, 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 (Fortress).

As of June 30, 2013, Fortress and its affiliates 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. The Company does not pay Mr. Edens a salary or any other form of compensation.

Affiliates of Fortress own \$639,233 of the \$1,167,450 outstanding under the 2007 Credit Facility, as amended, as of August 1, 2013, of which \$33,456 is still waiting to be settled. These amounts were purchased on arms length terms in secondary market transactions.

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 (a) 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; (b) between 25% and 50% of the voting power of the Company, three directors nominated by FIG Advisors; (c) between 10% and 25% of the voting power of the Company, two directors nominated by FIG Advisors; and (d) 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). FIF III is entitled to an aggregate of four demand registrations. The Company is not required to maintain the effectiveness of 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 half 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.

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

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

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.

Table of Contents

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 six months ended June 30, 2013, a net increase to the valuation allowance of \$6,221 would be necessary to offset additional deferred tax assets. Of this amount, an \$11,548 increase was recognized through the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss), a \$5,658 decrease was recognized through accumulated other comprehensive loss, and a \$331 increase was recognized through discontinued operations.

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 (loss) for the year, projections of the proportion of income (or loss), permanent and temporary differences, including 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 six months ended June 30, 2013, the expected federal tax benefit at 34% is \$10,405. The difference between the expected tax and the effective tax of \$0 is primarily attributable to the tax effect of the federal valuation allowance of \$10,032, the tax effect related to non-deductible expenses of \$280, and deferred tax benefits that expired of \$93.

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 2009 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 June 30, 2013 and December 30, 2012, the Company had unrecognized tax benefits of approximately \$4,677 and \$4,677, respectively. The Company did not record significant amounts of interest and penalties related to unrecognized tax benefits for the periods ending June 30, 2013 and December 30, 2012. The Company does not expect significant changes in unrecognized tax benefits within the next 12 months.

(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.

Table of Contents

The following provides information on the pension plan and postretirement medical and life insurance plans for the three and six months ended June 30, 2013 and July 1, 2012.

	Three Months Ended June 30, 2013		Three Months Ended July 1, 2012		Six Months Ended June 30, 2013		Six Months Ended July 1, 2012	
	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement
Components of net periodic benefit costs:								
Service cost	\$ 75	\$ 10	\$ 50	\$ 9	\$ 150	\$ 20	\$ 100	\$ 19
Interest cost	271	57	296	68	542	115	592	136
Expected return on plan assets	(340)		(310)		(680)		(620)	
Amortization of prior service cost		(114)		(114)		(228)		(228)
Amortization of unrecognized loss	131		92		262		184	
Total	\$ 137	\$ (47)	\$ 128	\$ (37)	\$ 274	\$ (93)	\$ 256	\$ (73)

During the three and six months ended June 30, 2013 and July 1, 2012, the Company recognized a total of \$90, \$91, \$181 and \$183 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	4.10%	3.62%
Rate of increase in future compensation levels		
Expected return on assets	7.5%	
Current year trend		7.7%
Ultimate year trend		4.8%
Year of ultimate trend		2022

(11) Assets Held for Sale

As of June 30, 2013 and December 30, 2012, 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 June 30, 2013 and December 30, 2012:

	June 30, 2013	December 30, 2012
Long-term assets held for sale:		
Property, plant and equipment, net	\$ 474	\$ 474
Total long-term assets held for sale	\$ 474	\$ 474

During the twelve months ended December 30, 2012 the Company recorded an impairment charge in the amount of \$2,128 related to property, plant and equipment and certain intangible assets which were classified as held for sale, refer to Note 12 for fair value measurement discussion. No such impairment charges were recorded during the six months ended June 30, 2013.

(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.
- 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.

Table of Contents

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 table presents financial assets and liabilities measured or disclosed at fair value on a recurring basis for the periods presented:

Fair Value Measurements at Reporting Date Using					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements	Valuation Technique
As of December 30, 2012					
Assets					
Cash and cash equivalents	\$ 34,527	\$	\$	\$ 34,527	Income
Restricted cash	6,467			6,467	Income
Liabilities					
Derivatives ⁽¹⁾	\$	\$	\$ 45,724	\$ 45,724	Income
As of June 30, 2013					
Assets					
Cash and cash equivalents	\$ 25,512	\$	\$	\$ 25,512	Income
Restricted cash	6,467			6,467	Income
Liabilities					
Derivatives ⁽¹⁾	\$	\$	\$ 31,053	\$ 31,053	Income

- (1) Derivative assets and liabilities consist of 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 table reflects the activity of our derivative liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended June 30, 2013:

Derivative
Liabilities

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

Balance as of December 30, 2012	\$ 45,724
Total (gains) losses, net:	
Included in earnings	9
Included in other comprehensive income	(14,680)
Balance as of June 30, 2013	\$ 31,053

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). During the quarter ended April 1, 2012, goodwill was written down to implied fair value using Level 3 inputs. The valuation techniques utilized to measure fair value are discussed in Note 5.

Refer to Note 6 for the discussion on the fair value of the Company's total long-term debt.

During the twelve months ended December 30, 2012, the Company recorded an impairment charge in the amount of \$2,128 related to property, plant and equipment and certain intangible assets which were classified as held for sale. The Company used assessed values and current market data, Level 2 inputs, to determine the fair value.

Table of Contents

(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.

Restricted cash at June 30, 2013 and December 30, 2012, in the aggregate amount of \$6,467 for both periods, is used to collateralize standby letters of credit in the name of the Company's insurers in accordance with certain insurance policies and as cash collateral for certain business operations.

(14) Discontinued Operations

In May 2013, the Company disposed of a non wholly owned subsidiary in Chicago, Illinois. As a result, the asset, liability and noncontrolling interest carrying amounts of this subsidiary were derecognized. A loss of \$1,146 was recognized in discontinued operations and no noncontrolling interest amounts remain after this disposal.

The net revenue during the six months ended June 30, 2013 and July 1, 2012 for the aforementioned discontinued operation and previously discontinued operations was \$394 and \$5,598, respectively. Loss, net of income taxes of \$0, during the six months ended June 30, 2013 and July 1, 2012 for the aforementioned discontinued operation and previously discontinued operations was \$1,034 and \$475, respectively. The loss from discontinued operations attributable to noncontrolling interest during the six months ended June 30, 2013 and July 1, 2012 was \$55 and \$304, respectively.

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 and elsewhere in our Annual Report on Form 10-K for the year ended December 30, 2012. 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 403 community publications, 343 related websites, 313 mobile sites and six yellow page directories, serves over 128,000 business advertising accounts and reaches approximately 10 million people on a weekly basis.

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

Our core products include:

77 daily newspapers with total paid circulation of approximately 547,000;

235 weekly newspapers (published up to three times per week) with total paid circulation of approximately 282,000 and total free circulation of approximately 706,000;

Table of Contents

91 shoppers (generally advertising-only publications) with total circulation of approximately 1.5 million;

343 locally focused websites and 313 mobile sites, which extend our franchises onto the internet and mobile devices with approximately 97 million page views per month; and

six yellow page directories, with a distribution of approximately 488,000, 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.

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, which is 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 on-going declines in print 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 print advertising revenue that we have experienced are typical in a soft economy. 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. We also believe some of the declines are due to a secular shift from print media to digital media. We are making investments in digital platforms, such as online, mobile and applications, to support our print publications in order to capture this shift as witnessed by our digital advertising revenue growth.

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 at that time. As of June 30, 2013, Fortress beneficially owned approximately 39.6% of our outstanding common stock.

Recent Developments

The newspaper industry and our Company have experienced declining same store revenue and profitability over the past several years. These trends have 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 and restructuring 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.

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

General economic conditions, including declines in consumer confidence, continued high unemployment levels, declines in real estate values, and other trends, have also impacted the markets in which we operate. Additionally, media companies continue to be impacted by the migration of consumers and businesses to an internet and mobile-based, digital medium. These conditions may continue to negatively impact print advertising and other revenue sources as well as increase operating costs in the future, even after an economic recovery. 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. Based on the terms of our 2007 Credit Facility, all of our long-term debt will be classified as a current liability during the third quarter of 2013.

Table of Contents

We periodically perform testing for impairment of goodwill and newspaper mastheads in which 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. 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 than our existing debt arrangements. Additional downgrades 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.

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. We are highly focused on our business transformational strategy which includes: i) driving permanent cost reduction and cost realignment towards growth opportunities, ii) accelerating digital growth in terms of both revenue and audience, iii) growing consumer revenues, including circulation, in both print and digital, largely through new products, services, and pricing initiatives, iv) preserving the power of print by improving the quality of our content and stabilize our advertising revenues, and v) developing and grow new businesses through GateHouse Ventures by leveraging our core strengths and assets and expanding beyond our existing geographical footprints.

The Company's operating segments (Large Community Newspapers, Small Community Newspapers and Directories) are aggregated into one reportable business segment.

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 30, 2012, 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 30, 2012.

Table of Contents**Results of Operations**

The following table summarizes our historical results of operations for the three and six months ended June 30, 2013 and July 1, 2012.

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

(In thousands, except share and per share data)

	Three months ended June 30, 2013	Three months ended July 1, 2012	Six months ended June 30, 2013	Six months ended July 1, 2012
Revenues:				
Advertising	\$ 79,220	\$ 86,952	\$ 150,559	\$ 165,870
Circulation	33,047	32,744	65,513	65,114
Commercial printing and other	7,331	6,275	14,107	12,197
Total revenues	119,598	125,971	230,179	243,181
Operating costs and expenses:				
Operating costs	64,978	68,324	129,998	136,328
Selling, general, and administrative	41,156	35,215	78,722	72,054
Depreciation and amortization	9,791	9,893	19,636	20,204
Integration and reorganization costs	741	738	958	1,860
Loss on sale of assets	649	158	1,043	155
Operating income (loss)	2,283	11,643	(178)	12,580
Interest expense	14,456	14,449	28,886	28,997
Amortization of deferred financing costs	261	340	522	680
(Gain) loss on derivative instruments	5	(809)	9	(1,644)
Other (income) expense	737	5	1,008	(40)
Loss from continuing operations before income taxes	(13,176)	(2,342)	(30,603)	(15,413)
Income tax expense		148		43
Loss from continuing operations	(13,176)	(2,490)	(30,603)	(15,456)

Three Months Ended June 30, 2013 Compared To Three Months Ended July 1, 2012

Revenue. Total revenue for the three months ended June 30, 2013 decreased by \$6.4 million, or 5.1%, to \$119.6 million from \$126.0 million for the three months ended July 1, 2012. 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 \$7.7 million, or 8.9%, decrease in advertising revenue which was offset by a \$0.3 million, or 0.9%, increase in circulation revenue and a \$1.0 million, or 16.8%, increase 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 digital advertising. The local retail print declines reflect both secular pressures and a continuing uncertain and weak economic environment. These secular trends and economic conditions have also led to a decline in our print circulation volumes which have been slightly offset by price increases in certain locations. Our circulation revenue was also impacted by approximately \$0.5 million for a net to gross accounting change at two of our larger locations. The \$1.0 million increase in commercial printing and other revenue is primarily the result of the launch of our small business marketing services within GateHouse Ventures during 2012.

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

Operating Costs. Operating costs for the three months ended June 30, 2013 decreased by \$3.3 million, or 4.9%, to \$65.0 million from \$68.3 million for the three months ended July 1, 2012. The decrease in operating costs was primarily due to a decrease in compensation expenses, professional and consulting fees, newsprint expenses, and supplies of \$1.9 million, \$1.2 million, \$1.1 million, and \$0.3 million, respectively, which were partially offset by an increase in outside services of \$1.5 million. These decreases are the result of permanent cost reductions as we continue to work to consolidate operations and improve the productivity of our labor force.

Selling, General and Administrative. Selling, general and administrative expenses for the three months ended June 30, 2013 increased by \$5.9 million, or 16.9%, to \$41.1 million from \$35.2 million for the three months ended July 1, 2012. The increase in selling, general and administrative expenses was primarily due to an increase in outside services and compensation expenses of \$5.0 million and \$0.5 million. The increase in outside services is primarily from legal expenses related to the exploration of alternatives to improve our capital structure.

Table of Contents

Depreciation and Amortization. Depreciation and amortization expense for the three months ended June 30, 2013 decreased by \$0.1 million to \$9.8 million from \$9.9 million for the three months ended July 1, 2012. The decrease in depreciation and amortization expense was primarily due to the sale and disposal of assets, which reduced depreciation expense.

Integration and Reorganization Costs. During the three months ended June 30, 2013 and July 1, 2012, we recorded integration and reorganization costs of \$0.7 million and \$0.7 million, respectively, primarily resulting from severance costs related to the continued consolidation of our operations resulting from our ongoing implementation of our plans to reduce costs and preserve cash flow.

(Gain) Loss on Derivative Instruments. During the three months ended July 1, 2012, we recorded a net gain on derivative instruments of \$0.8 million, which was comprised of reclassifications of accumulated other comprehensive income amortization related to swaps terminated in 2008 that were partially offset by the impact of the ineffectiveness of our remaining swap agreements. The accumulated other comprehensive income reclassification for swaps terminated in 2008 was fully amortized in 2012 and the 2013 loss on derivative instruments relates only to the ineffectiveness of our remaining swaps.

Income Tax Expense. During the three months ended July 1, 2012, we recorded an income tax expense of \$0.1 million due to the elimination of the tax effect related to the expiration of a previously terminated swap that could be fully recognized for tax purposes in the current year.

Net Loss from Continuing Operations. Net loss from continuing operations for the three months ended June 30, 2013 and July 1, 2012 was \$13.2 million and \$2.5 million, respectively. Our net loss from continuing operations increased due to the factors noted above.

Six Months Ended June 30, 2013 Compared To Six Months Ended July 1, 2012

Revenue. Total revenue for the six months ended June 30, 2013 decreased by \$13.0 million, or 5.3%, to \$230.2 million from \$243.2 million for the six months ended July 1, 2012. The difference between same store revenue and GAAP revenue for the six month periods ended June 30, 2013 and July 1, 2012 is immaterial, therefore, further revenue discussions will be limited to GAAP results. The decrease in total revenue was comprised of a \$15.3 million, or 9.2%, decrease in advertising revenue which was offset by a \$0.4 million, or 0.6%, increase in circulation revenue and a \$1.9 million, or 15.7%, increase 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 digital advertising. The local retail print declines reflect both secular pressures and a continuing uncertain and weak economic environment. These secular trends and economic conditions have also led to a decline in our print circulation volumes which have been slightly offset by price increases in certain locations. Our circulation revenue was also impacted by approximately \$1.0 million for a net to gross accounting change at two of our larger locations. The \$1.9 million increase in commercial printing and other revenue is primarily the result of the launch of our small business marketing services within GateHouse Ventures during 2012.

Operating Costs. Operating costs for the six months ended June 30, 2013 decreased by \$6.3 million, or 4.6%, to \$130.0 million from \$136.3 million for the six months ended July 1, 2012. The decrease in operating costs was primarily due to a decrease in compensation expenses, professional and consulting fees, newsprint expenses, and supplies of \$4.1 million, \$2.2 million, \$2.2 million, and \$0.6 million, respectively, which were partially offset by an increase in outside services of \$3.4 million. These decreases are the result of permanent cost reductions as we continue to work to consolidate operations and improve the productivity of our labor force.

Selling, General and Administrative. Selling, general and administrative expenses for the six months ended June 30, 2013 increased by \$6.7 million, or 9.3%, to \$78.7 million from \$72.0 million for the six months ended July 1, 2012. The increase in selling, general and administrative expenses was primarily due to an increase in outside services and compensation expenses of \$5.7 million and \$0.5 million. The increase in outside services is primarily from legal expenses related to the exploration of alternatives to improve our capital structure.

Depreciation and Amortization. Depreciation and amortization expense for the six months ended June 30, 2013 decreased by \$0.6 million to \$19.6 million from \$20.2 million for the six months ended July 1, 2012. The decrease in depreciation and amortization expense was primarily due to the sale and disposal of assets, which reduced depreciation expense.

Integration and Reorganization Costs. During the six months ended June 30, 2013 and July 1, 2012, we recorded integration and reorganization costs of \$1.0 million and \$1.9 million, respectively, primarily resulting from severance costs related to the continued consolidation of our operations resulting from our ongoing implementation of our plans to reduce costs and preserve cash flow.

(Gain) Loss on Derivative Instruments. During the six months ended July 1, 2012, we recorded a net gain on derivative instruments of \$1.6 million, which was comprised of reclassifications of accumulated other comprehensive income amortization related to swaps terminated in 2008 that were partially offset by the impact of the ineffectiveness of our remaining swap agreements. The accumulated other comprehensive income

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

reclassification for swaps terminated in 2008 was fully amortized in 2012 and the 2013 loss on derivative instruments relates only to the ineffectiveness of our remaining swaps.

Table of Contents

Net Loss from Continuing Operations. Net loss from continuing operations for the six months ended June 30, 2013 and July 1, 2012 was \$30.6 million and \$15.5 million, respectively. Our net loss from continuing operations increased 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 are expected to continue to be, cash provided by operating activities.

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.

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, which as amended we refer 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.

On May 7, 2007, we amended the 2007 Credit Facility and increased our borrowing by \$275.0 million (the First Amendment). 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 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 26, 2013 and March 15, 2012, we made a principal payment of \$6.6 million and \$4.6 million, respectively, which represented 50% of our Excess Cash Flow (as defined under the 2007 Credit Facility) related to the fiscal years ended December 30, 2012 and January 1, 2012, 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 June 30, 2013 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 30, 2012. 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 restricts 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.

Table of Contents**Cash Flows**

The following table summarizes our historical cash flows.

	Six months ended June 30, 2013	Six months ended July 1, 2012
Cash (used in) provided by operating activities	\$ (1,089)	\$ 18,226
Cash used in investing activities	(1,278)	(1,295)
Cash used in financing activities	(6,648)	(4,600)

The discussion of our cash flows that follows is based on our historical cash flows for the six months ended June 30, 2013 and July 1, 2012.

Cash Flows from Operating Activities. Net cash used in operating activities for the six months ended June 30, 2013 was \$1.1 million, a decrease of \$19.3 million when compared to \$18.2 million of cash provided by operating activities for the six months ended July 1, 2012. This \$19.3 million decrease was the result of an increase in net loss of \$15.7 million and a decrease in cash provided by working capital of \$5.5 million, which was offset by an increase in non-cash charges of \$1.9 million.

The \$5.5 million decrease in cash provided by working capital for the six months ended June 30, 2013 when compared to the six months ended July 1, 2012 is primarily attributable to an increase in prepaid expenses partially offset by an increase in accrued expenses.

The \$1.9 million increase in non-cash charges primarily consisted of an increase in loss on sale of assets of \$2.0 million and an increase in loss on derivative instruments of \$1.7 million. These increases were partially offset by a decrease in depreciation and amortization of \$1.0 million, a decrease in goodwill impairment included in discontinued operations of \$0.2 million, a decrease in pension and other postretirement benefit obligations of \$0.2 million, a decrease in impairment of long-lived assets included in discontinued operations of \$0.2 million, and a decrease in amortization of deferred financing costs of \$0.2 million.

Cash Flows from Investing Activities. Net cash used in investing activities for the six months ended June 30, 2013 was \$1.3 million. During the six months ended June 30, 2013, we used \$2.0 million for capital expenditures, which was offset by \$0.7 million we received from the sale of publications and other assets.

Net cash used in investing activities for the six months ended July 1, 2012 was \$1.3 million. During the six months ended July 1, 2012, we used \$1.7 million for capital expenditures, which was offset by \$0.4 million we received from the sale of real property and insurance proceeds.

Cash Flows from Financing Activities. Net cash used in financing activities for the six months ended June 30, 2013 was \$6.6 million due to a repayment under the 2007 Credit Facility, as amended.

Net cash used in financing activities for the six months ended July 1, 2012 was \$4.6 million due to a repayment under the 2007 Credit Facility, as amended.

Changes in Financial Position

The discussion that follows highlights significant changes in our financial position and working capital from December 30, 2012 to June 30, 2013.

Accounts Receivable. Accounts receivable decreased \$5.3 million from December 30, 2012 to June 30, 2013, which relates to the timing of cash collections and lower revenue recognized in the 2013 six month period compared to 2012.

Property, Plant, and Equipment. Property, plant, and equipment decreased \$7.8 million during the period from December 30, 2012 to June 30, 2013, of which \$8.0 million relates to depreciation and \$1.7 million relates to assets sold and discontinued operations, which was partially offset by \$2.0 million that was used for capital expenditures.

Intangible Assets. Intangible assets decreased \$11.8 million from December 30, 2012 to June 30, 2013, which primarily relates to amortization.

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

Current Portion of Long-term Debt. Current portion of long-term debt decreased \$6.6 million from December 30, 2012 to June 30, 2013, due to a principal payment as required by the 2007 Credit Facility, as amended, which represented 50% of the Excess Cash Flow related to the fiscal year ended December 30, 2012.

Accounts Payable. Accounts payable decreased \$1.0 million from December 30, 2012 to June 30, 2013, which primarily relates to the disposal of a of a non wholly owned subsidiary in Chicago, Illinois.

Table of Contents

Derivative Instruments. Derivative instrument liability decreased \$14.7 million from December 30, 2012 to June 30, 2013, due to changes in the fair value measurement of our interest rate swaps.

Accumulated Other Comprehensive Loss. Accumulated other comprehensive loss decreased \$14.7 million from December 30, 2012 to June 30, 2013, which resulted from the change in fair value of the interest rate swaps of \$14.7 million.

Accumulated Deficit. Accumulated deficit increased \$29.4 million from December 30, 2012 to June 30, 2013, due to a net loss of \$31.6 million.

Contractual Commitments

No material changes were made to our contractual commitments during the period from December 30, 2012 to June 30, 2013.

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

Table of Contents

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.

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 June 30, 2013	Three months ended July 1, 2012	Six months ended June 30, 2013	Six months ended July 1, 2012
	(in thousands)			
Loss from continuing operations	\$ (13,176)	\$ (2,490)	\$ (30,603)	\$ (15,456)
Income tax expense		148		43
(Gain) loss on derivative instruments	5	(809)	9	(1,644)
Amortization of deferred financing costs	261	340	522	680
Interest expense	14,456	14,449	28,886	28,997
Depreciation and amortization	9,791	9,893	19,636	20,204
Adjusted EBITDA from continuing operations	\$ 11,337 ^(a)	\$ 21,531 ^(b)	\$ 18,450 ^(c)	\$ 32,824 ^(d)

- (a) Adjusted EBITDA for the three months ended June 30, 2013 included net expenses of \$6,066, which are one-time in nature or non-cash compensation. Included in these net expenses of \$6,066 is non-cash compensation and other expense of \$4,889, non-cash portion of postretirement benefits expense of \$(213), integration and reorganization costs of \$741 and a \$649 loss on the sale of assets.

Adjusted EBITDA also does not include \$275 from our discontinued operations.

- (b) Adjusted EBITDA for the three months ended July 1, 2012 included net expenses of \$2,638, which are one-time in nature or non-cash compensation. Included in these net expenses of \$2,638 is non-cash compensation and other expense of \$1,890, non-cash portion of postretirement benefits expense of \$(148), integration and reorganization costs of \$738 and a \$158 loss on the sale of assets.

Adjusted EBITDA also does not include \$109 from our discontinued operations.

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

- (c) Adjusted EBITDA for the three months ended June 30, 2013 included net expenses of \$7,521, which are one-time in nature or non-cash compensation. Included in these net expenses of \$7,521 is non-cash compensation and other expense of \$5,948, non-cash portion of postretirement benefits expense of \$(428), integration and reorganization costs of \$958 and a \$1,043 loss on the sale of assets.

Adjusted EBITDA also does not include \$123 from our discontinued operations.

- (d) Adjusted EBITDA for the six months ended July 1, 2012 included net expenses of \$4,478, which are one-time in nature or non-cash compensation. Included in these net expenses of \$4,478 is non-cash compensation and other expense of \$2,707, non-cash portion of postretirement benefits expense of \$(244), integration and reorganization costs of \$1,860 and a \$155 loss on the sale of assets.

Adjusted EBITDA also does not include \$165 from our discontinued operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the six month period ended June 30, 2013, 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 30, 2012.

Table of Contents

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.

Part II. OTHER INFORMATION

Item 6. Exhibits

See Index to Exhibits on page 31 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.

GATEHOUSE MEDIA, INC.

Date: August 1, 2013

/s/ Melinda A. Janik

Melinda A. Janik
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Table of Contents

Index to Exhibits

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein		
			Form	Exhibit	Filing Date
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			
* 101.INS	XBRL Instance Document				
* 101.SCH	XBRL Taxonomy Extension Schema				
* 101.CAL	XBRL Taxonomy Extension Calculation Linkbase				
* 101.DEF	XBRL Taxonomy Extension Definition Linkbase				
* 101.LAB	XBRL Taxonomy Extension Label Linkbase				
* 101.PRE	XBRL Taxonomy Extension Presentation Linkbase				

* Pursuant to Rule 406T of Regulation S-T, the information in this exhibit shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement, prospectus or other document filed under the Securities Act of 1933, or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filings.