

GateHouse Media, Inc.  
Form 10-Q  
November 01, 2012  
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**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 September 30, 2012

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)

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<u>Delaware</u> (State or other jurisdiction of  incorporation or organization)	<u>36-4197635</u> (I.R.S. Employer  Identification No.)
<b>350 Willow Brook Office Park, <u>Fairport, NY</u></b>  (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 October 29, 2012, 58,077,031 shares of the registrant's common stock were outstanding.

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

	September 30, 2012 (unaudited)	January 1, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,820	\$ 19,212
Restricted cash	6,167	6,167
Accounts receivable, net of allowance for doubtful accounts of \$2,789 and \$2,976 at September 30, 2012 and January 1, 2012, respectively	51,023	59,236
Inventory	6,104	6,017
Prepaid expenses	5,798	15,483
Other current assets	8,280	7,347
Current assets held for sale	1,433	
Total current assets	115,625	113,462
Property, plant, and equipment, net of accumulated depreciation of \$124,625 and \$116,780 at September 30, 2012 and January 1, 2012, respectively	119,785	130,937
Goodwill	13,742	13,958
Intangible assets, net of accumulated amortization of \$190,981 and \$179,327 at September 30, 2012 and January 1, 2012, respectively	224,873	246,661
Deferred financing costs, net	1,980	2,974
Other assets	2,118	1,876
Long-term assets held for sale	2,315	934
Total assets	\$ 480,438	\$ 510,802
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current portion of long-term liabilities	\$ 889	\$ 1,039
Current portion of long-term debt		4,600
Accounts payable	9,933	8,216
Accrued expenses	29,531	27,625
Accrued interest	2,479	2,876
Deferred revenue	25,865	27,171
Current liabilities held for sale	597	
Total current liabilities	69,294	71,527
Long-term liabilities:		
Long-term debt	1,176,638	1,176,638
Long-term liabilities, less current portion	2,422	2,935
Derivative instruments	48,317	51,576
Pension and other postretirement benefit obligations	12,873	13,758
Total liabilities	1,309,544	1,316,434
Stockholders' deficit:		
Common stock, \$0.01 par value, 150,000,000 shares authorized at September 30, 2012 and January 1, 2012; 58,313,868 issued and 58,077,031 outstanding at September 30, 2012 and January 1, 2012	568	568

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Additional paid-in capital	831,320	831,249
Accumulated other comprehensive loss	(52,250)	(54,359)
Accumulated deficit	(1,606,358)	(1,581,114)
Treasury stock, at cost, 236,837 shares at September 30, 2012 and January 1, 2012	(310)	(310)
Total GateHouse Media stockholders' deficit	(827,030)	(803,966)
Noncontrolling interest	(2,076)	(1,666)
Total stockholders' deficit	(829,106)	(805,632)
Total liabilities and stockholders' deficit	\$ 480,438	\$ 510,802

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 September 30, 2012	Three months ended September 25, 2011	Nine months ended September 30, 2012	Nine months ended September 25, 2011
Revenues:				
Advertising	\$ 80,262	\$ 85,901	\$ 246,365	\$ 258,808
Circulation	33,837	32,750	100,076	97,390
Commercial printing and other	6,698	6,373	18,955	18,761
Total revenues	120,797	125,024	365,396	374,959
Operating costs and expenses:				
Operating costs	67,098	69,045	204,968	211,314
Selling, general, and administrative	35,223	35,421	107,812	110,977
Depreciation and amortization	9,836	10,285	30,116	31,694
Integration and reorganization costs	1,597	1,274	3,467	3,317
Impairment of long-lived assets		37		1,733
Loss on sale of assets	379	157	534	556
Operating income	6,664	8,805	18,499	15,368
Interest expense	14,500	14,441	43,497	42,690
Amortization of deferred financing costs	314	340	994	1,020
(Gain) loss on derivative instruments	5	(694)	(1,639)	(274)
Other expense	7	94	4	94
Loss from continuing operations before income taxes	(8,162)	(5,376)	(24,357)	(28,162)
Income tax expense (benefit)	(250)	22	(207)	90
Loss from continuing operations	(7,912)	(5,398)	(24,150)	(28,252)
Income (loss) from discontinued operations, net of income taxes	(1,506)	236	(1,504)	(169)
Net loss	(9,418)	(5,162)	(25,654)	(28,421)
Net loss attributable to noncontrolling interest	105	185	410	600
Net loss attributable to GateHouse Media	\$ (9,313)	\$ (4,977)	\$ (25,244)	\$ (27,821)
Loss per share:				
Basic and diluted:				
Loss from continuing operations attributable to GateHouse Media	\$ (0.13)	\$ (0.09)	\$ (0.41)	\$ (0.48)
Loss from discontinued operations, attributable to GateHouse Media, net of income taxes	(0.03)		(0.03)	
Net loss attributable to GateHouse Media	\$ (0.16)	\$ (0.09)	\$ (0.44)	\$ (0.48)
Basic weighted average shares outstanding	58,051,607	57,976,184	58,038,673	57,935,943
Diluted weighted average shares outstanding	58,051,607	57,976,184	58,038,673	57,935,943

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Comprehensive income (loss)	\$	(6,036)	\$	1,416	\$	(23,545)	\$	(19,590)
Comprehensive loss attributable to noncontrolling interest		(105)		(185)		(410)		(600)
Comprehensive income (loss) attributable to GateHouse Media	\$	(5,931)	\$	1,601	\$	(23,135)	\$	(18,990)

See accompanying notes to unaudited condensed consolidated financial statements.

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## 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 January 2, 2012	58,313,868	\$ 568	\$ 831,249	\$ (54,359)	\$ (1,581,114)	236,837	\$ (310)	\$ (1,666)	\$ (805,632)
Net loss					(25,244)			(410)	(25,654)
Gain on derivative instruments, net of income taxes of \$0				1,767					1,767
Net actuarial loss and prior service cost, net of income taxes of \$0				342					342
Non-cash compensation expense			71						71
Balance at September 30, 2012	58,313,868	\$ 568	\$ 831,320	\$ (52,250)	\$ (1,606,358)	236,837	\$ (310)	\$ (2,076)	\$ (829,106)

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)**

	<b>Nine months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2012</b>	<b>September 25, 2011</b>
Cash flows from operating activities:		
Net loss	\$ (25,654)	\$ (28,421)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	30,710	32,315
Amortization of deferred financing costs	994	1,020
Gain on derivative instruments	(1,639)	(274)
Non-cash compensation expense	71	422
Loss on sale of assets	566	905
Pension and other postretirement benefit obligations	(432)	(680)
Impairment of long-lived assets	2,344	2,051
Changes in assets and liabilities:		
Accounts receivable, net	6,889	6,801
Inventory	(87)	1,133
Prepaid expenses	9,622	6,156
Other assets	(1,181)	(557)
Accounts payable	1,859	3,272
Accrued expenses	2,019	2,457
Accrued interest	(397)	1,328
Deferred revenue	(949)	(659)
Other long-term liabilities	(513)	(577)
<b>Net cash provided by operating activities</b>	<b>24,222</b>	<b>26,692</b>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(2,854)	(2,431)
Proceeds from sale of assets and insurance	840	2,389
<b>Net cash used in investing activities</b>	<b>(2,014)</b>	<b>(42)</b>
Cash flows from financing activities:		
Repayments under current portion of long-term debt	(4,600)	(11,249)
<b>Net cash used in financing activities</b>	<b>(4,600)</b>	<b>(11,249)</b>
<b>Net increase in cash and cash equivalents</b>	<b>17,608</b>	<b>15,401</b>
Cash and cash equivalents at beginning of period	19,212	8,753
<b>Cash and cash equivalents at end of period</b>	<b>\$ 36,820</b>	<b>\$ 24,154</b>

See accompanying notes to unaudited condensed consolidated financial statements.



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**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 January 1, 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior to 2011, the Company's fiscal year ended on December 31. Effective January 1, 2011, the Company's fiscal year changed to a 52 week operating year ending on the Sunday closest to December 31. For the first nine months of 2012 a portion of the business had 273 days of operations compared to only 268 days in the first nine months of 2011.

During the first quarter of 2012, the Company reorganized its management structure to align with its publication types. The resulting operating segments are Large Community Newspapers, Small Community Newspapers and Directories. These operating segments are aggregated into one reportable business segment.

***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 programs, and the sale of non-core assets. 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 July 2012, the Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2012-02, Intangibles- Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this update allow companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. The changes to the ASC as a result of this update are effective for annual and interim impairment test performed for fiscal years beginning after September 15, 2012. The adoption of ASU No. 2012-02 will not have a material effect on the Company's Consolidated Financial Statements.

**(2) Share-Based Compensation**

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The Company recognized compensation cost for share-based payments of \$23, \$80, \$71 and \$422 during the three and nine months ended September 30, 2012 and September 25, 2011, respectively. The total compensation cost not yet recognized related to non-vested awards as of September 30, 2012 was \$46, which is expected to be recognized over a weighted average period of 0.5 years through April 2013.

### ***Restricted Share Grants ( RSGs )***

Prior to the Company's IPO in 2006, the Company had issued 792,500 RSGs to certain management investors pursuant to each individual management stockholder agreement (each, a Management Stockholder Agreement). Under the Management Stockholder Agreements, RSGs vest by one-third on each of the third, fourth and fifth anniversaries from the grant date. Following the adoption of

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the GateHouse Media, Inc. Omnibus Stock Incentive Plan (the Plan) in October 2006, an additional 268,680 RSGs were granted during the year ended December 31, 2006 to Company directors, management, and employees. During the year ended December 31, 2007 an additional 198,846 RSGs were granted to Company directors, management and employees, 105,453 of which were both granted and forfeited. During the year ended December 31, 2008 an additional 266,795 RSGs were granted to Company directors, management and employees, 42,535 of which were both granted and forfeited. During the year ended December 31, 2009 an additional 100,000 RSGs were granted to Company management. The majority of the RSGs issued under the Plan vest in increments of one-third on each of the first, second and third anniversaries of the grant date. In the event a grantee of an RSG is terminated by the Company without cause, a number of unvested RSGs immediately vest that would have vested under the normal vesting period on the next succeeding anniversary date following such termination. In the event an RSG grantee's employment with the Company is terminated without cause within twelve months after a change in control as defined in the applicable award agreement, all unvested RSGs become immediately vested at the termination date. During the period prior to the lapse and removal of the vesting restrictions, a grantee of an RSG will have all of the rights of a stockholder, including without limitation, the right to vote and the right to receive all dividends or other distributions. As a result, the RSGs are reflected as outstanding common stock and the unvested RSGs have been excluded from the calculation of basic earnings per share. With respect to Company employees, the value of the RSGs on the date of issuance is recognized as employee compensation expense over the vesting period or through the grantee's eligible retirement date, if shorter, with an increase to additional paid-in-capital.

As of September 30, 2012 and September 25, 2011, there were 25,424 and 100,847 RSGs, respectively, issued and outstanding with a weighted average grant date fair value of \$6.04 and \$6.56, respectively. As of September 30, 2012, the aggregate intrinsic value of unvested RSGs was \$2. During the nine months ended September 30, 2012, the aggregate fair value of vested RSGs was \$5

RSG activity during the nine months ended September 30, 2012 was as follows:

	Number of RSGs	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2012	84,181	\$ 3.67
Vested	(58,757)	2.65
Unvested at September 30, 2012	25,424	\$ 6.04

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

**(3) Reclassifications**

Certain amounts in the prior period unaudited condensed consolidated financial statements have been reclassified to conform to the 2012 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 January 1, 2012 and the nine months ended September 30, 2012 is outlined below.

**Total**

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	Severance and Related Costs	Other Costs <sup>(1)</sup>	
Balance at December 31, 2010	\$ 253	\$ 1	\$ 254
Restructuring provision included in Integration and Reorganization	3,724	2,226	5,950
Cash payments	(3,077)	(1,801)	(4,878)
Balance at January 1, 2012	\$ 900	\$ 426	\$ 1,326
Restructuring provision included in integration and reorganization <sup>(2)</sup>	2,890	584	3,474
Cash payments	(2,498)	(850)	(3,348)
Balance at September 30, 2012	\$ 1,292	\$ 160	\$ 1,452

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<sup>(1)</sup> Other costs primarily included costs to consolidate operations.

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

The restructuring reserve balance as of September 30, 2012, for all programs was \$1,452, 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 nine months ended September 30, 2012 and September 25, 2011.

	Three Months Ended		Nine months Ended	
	September 30, 2012	September 25, 2011	September 30, 2012	September 25, 2011
Severance and related costs <sup>(2)</sup>	\$ 1,528	\$ 717	\$ 2,890	\$ 2,600
Reversals of prior accruals		(36)		(36)
Other costs <sup>(1)</sup>	69	302	584	498
Cash payments	(865)	(1,083)	(3,348)	(2,694)

<sup>(1)</sup> Other costs primarily included costs to consolidate operations.

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

Additionally, during the three months ended June 26, 2011, the Company recognized an impairment charge of \$1,696 related to the consolidation of its print operations. Refer to Note 12 for fair value measurement discussion.

## (5) Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

	Gross carrying amount	September 30, 2012 Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Noncompete agreements	\$ 4,970	\$ 4,756	\$ 214
Advertiser relationships	278,539	141,582	136,957
Customer relationships	8,940	3,434	5,506
Subscriber relationships	82,279	38,013	44,266
Trade name	5,493	3,067	2,426
Publication rights	345	129	216
Total	\$ 380,566	\$ 190,981	\$ 189,585
Nonamortized intangible assets:			
Goodwill	\$ 13,742		
Mastheads	35,288		
Total	\$ 49,030		

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		January 1, 2012	
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Noncompete agreements	\$ 4,970	\$ 4,479	\$ 491
Advertiser relationships	286,478	134,228	152,250
Customer relationships	8,940	2,946	5,994
Subscriber relationships	83,158	34,908	48,250
Trade name	5,493	2,655	2,838
Publication rights	345	111	234
Total	\$ 389,384	\$ 179,327	\$ 210,057
Nonamortized intangible assets:			
Goodwill	\$ 13,958		
Mastheads	36,604		
Total	\$ 50,562		



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The weighted average amortization periods for amortizable intangible assets are 4.4 years for noncompete agreements, 16.8 years for advertiser relationships, 13.8 years for customer relationships, 17.0 years for subscriber relationships, 10.0 years for trade names and 15.0 years for publication rights.

Amortization expense for the three and nine months ended September 30, 2012 and September 25, 2011 was \$5,894, \$5,965, \$17,706 and \$17,949, respectively. Estimated future amortization expense as of September 30, 2012 is as follows:

For the years ending the Sunday closest to December 31:	
2012	3,614
2013	23,809
2014	23,809
2015	23,764
2016	21,803
Thereafter	92,786
Total	\$ 189,585

The changes in the carrying amount of goodwill for the period from January 2, 2012 to September 30, 2012 are as follows:

Balance at January 2, 2012	\$ 13,958
Goodwill impairment <sup>(1)</sup>	(216)
Balance at September 30, 2012	\$ 13,742

<sup>(1)</sup> Goodwill impairment was initially recognized in continuing operations and was subsequently reclassified to discontinued operations expense at the time the operations were classified as discontinued.

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

As part of the annual impairment assessment, as of June 26, 2011, 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. Given the stabilization of operating results for the only remaining reporting unit having a goodwill balance as of the annual impairment assessment date, 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 stock market price and fair value of debt) plus an estimated control premium.

As of September 25, 2011, a review of impairment indicators was performed with the Company noting that its financial results and forecast had not changed materially since the June 26, 2011 impairment test and its market capitalization exceeded its consolidated carrying value. It was determined that an impairment analysis was not required.

Due to an operational management change in the fourth quarter of 2011, certain properties having a goodwill balance of \$385 were transferred to a reporting unit that previously did not have a goodwill balance. 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 \$385 of goodwill was impaired. 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 believes were appropriate in the circumstances. The estimates and judgments used in the assessment included multiples for revenue and EBITDA, the weighted average cost of capital and the terminal growth rate. Given the then existing market conditions, the Company determined that recent transactions provided the best estimate of

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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 additional impairments were not present as of year-end.

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As of January 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 that further impairment analysis was not required.

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. 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 believes were appropriate in the circumstances. The estimates and judgments used in the assessment included multiples for revenue and EBITDA, the weighted average cost of capital and the terminal growth rate. Given the current market conditions, the Company determined that 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 additional impairments were not present.

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 that further impairment analysis was not required.

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. Given the stabilization of operating results for the two reporting units that had a goodwill balance as of the annual impairment assessment date, 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 stock market price and fair value of debt) plus an estimated control premium.

As of September 30, 2012, 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 that an impairment analysis was not required.

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

## **(6) Indebtedness**

### ***2007 Credit Facility***

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

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



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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 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 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 September 30, 2012 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 September 30, 2012, or (b) the greater of the prime rate set by



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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.

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.

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

### ***Agency Amendment to 2007 Credit Facility***

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

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

### ***2007 Credit Facility Excess Cash Flow Payment and Outstanding Balance***

As required by the 2007 Credit Facility, as amended, on March 15, 2012 and March 2, 2011, the Company made principal payments of \$4,600 and \$11,249, respectively, which represented 50% of the Excess Cash Flow related to the fiscal years ended January 1, 2012 and December 31, 2010, respectively. As of September 30, 2012, a total of \$1,176,638 was outstanding under the 2007 Credit Facility: \$659,705 was outstanding under the term loan facility, \$246,159 was outstanding under the delayed draw term loan facility, \$270,774 was outstanding under the incremental term loan facility and no amounts were outstanding under the revolving credit facility.

### ***Compliance with Covenants***

As of September 30, 2012 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***

The fair value of the Company's total long-term debt, determined based on estimated market prices for similar issues of debt with consistent remaining maturities and terms, total approximately \$716,000, Level 2 inputs (see Note 12).



**Table of Contents****Payment Schedule**

As of September 30, 2012, scheduled principal payments of outstanding debt are as follows:

2012	
2013	
2014	1,176,638
	\$ 1,176,638

**(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**

	Liability Derivatives			
	September 30, 2012		January 1, 2012	
	Balance		Balance	
	Sheet Location	Fair Value	Sheet Location	Fair Value
<b>Derivative designed as hedging instruments under ASC 815</b>				
Interest rate swaps	Derivative Instruments	\$ 48,317	Derivative Instruments	\$ 51,576
<b>Total derivatives</b>		<b>\$ 48,317</b>		<b>\$ 51,576</b>

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

for the Three Months Ended September 30, 2012 and September 25, 2011

Derivatives in ASC 815	Location of Gain or (Loss)	Amount of Gain or (Loss)
Fair Value Hedging	Recognized in Income on	Recognized in Income on
Relationships	Derivative	Derivative

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				2012		2011		
Interest rate swaps		Gain (loss) on derivative instruments		\$(5)		\$694		
		Amount of Gain or (Loss)		Amount of Gain or (Loss)		Location of	Amount of Gain or (Loss)	
		Recognized in Other		Reclassified from		Gain or (Loss)	Recognized in Income on	
		Comprehensive		Accumulated		Recognized in	Derivative (Ineffective	
Derivatives in		Income ( OCI )		OCI into Income		Income on	Portion and Amount	
ASC 815		on Derivative		(Effective Portion)		(Ineffective Portion	Excluded	
Fair Value Hedging		(Effective Portion)				and Amount	from	
				into Income		Excluded from	Effectiveness Testing)	
Relationships		2012	2011	(Effective Portion)	2012 2011	Testing)	2012	2011
Interest rate swaps		\$3,268	\$7,128	Interest	\$(7,560) \$(7,245)	Other income/	\$(5)	\$31
				income/		(expense)		
				(expense)				

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

for the Nine Months Ended September 30, 2012 and September 25, 2011

		Location of Gain or (Loss)		Amount of Gain or (Loss)	
Derivatives in ASC 815				Recognized in Income on	
Fair Value Hedging		Recognized in Income on		Derivative	
Relationships	Derivative	2012	2011		
Interest rate swaps	Gain (loss) on derivative instruments	\$1,639	\$274		

  

		Location of		Amount of Gain or		Amount of Gain or	
		Gain or (Loss)		Recognized in		Recognized in Income on	
		Income on		Derivative		Derivative (Ineffective	
		Portion and Amount		Excluded from		Effectiveness	
		Testing)		2012		2011	
Derivatives in	Amount of Gain or (Loss)	Location of		Amount of Gain or		Amount of Gain or	
ASC 815	Recognized in OCI on	Gain or (Loss)		Reclassified from		Reclassified from	
Fair Value Hedging	Derivative	Reclassified from		Accumulated		Accumulated	
Relationships	(Effective Portion)	Accumulated OCI		OCI into Income		OCI into Income	
2012	2011	into Income		2012		2011	
Interest rate swaps	\$3,234	\$8,695	Interest	\$(21,000)	\$(22,604)	Other income/	\$25
			income/			(expense)	\$68
			(expense)				

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. During the nine months ended September 30, 2012, (\$1,615) was amortized and recognized through earnings relating to balances in accumulated other comprehensive income and the associated deferred income taxes of \$148 were recognized in income tax expense. As of September 30, 2012, 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 September 30, 2012, 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

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LIBOR and pays a fixed rate of 5.14%, with settlements occurring monthly. During the three months ended September 30, 2012, the fair value of the swap increased by \$541, of which \$0 was recognized through earnings and \$541 was recognized through accumulated other comprehensive income. During the nine months ended September 30, 2012, the fair value of the swap increased by \$542, of which \$0 was recognized through earnings and \$542 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 September 30, 2012, the fair value of the swap increased by \$1,287, of which \$1 was recognized through earnings and \$1,286 was recognized through accumulated other comprehensive income. During the nine months ended September 30, 2012, the fair value of the swap increased by \$1,260, of which \$2 was recognized through earnings and \$1,258 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.

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During the three months ended September 30, 2012, the fair value of the swap increased by \$1,062, of which a decrease of \$6 was recognized through earnings and an increase of \$1,068 was recognized through accumulated other comprehensive income. During the nine months ended September 30, 2012, the fair value of the swap increased by \$1,057 of which a decrease of \$14 was recognized through earnings and an increase of \$1,071 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 September 30, 2012, the fair value of the swap increased by \$373, of which \$0 was recognized through earnings and \$373 was recognized through accumulated other comprehensive income. During the nine months ended September 30, 2012, the fair value of the swap increased by \$400, of which \$37 was recognized through earnings and \$363 was recognized through accumulated other comprehensive income.

The aggregate amount of unrealized loss related to derivative instruments recognized in other comprehensive loss as of September 30, 2012 and September 25, 2011 was \$48,249 and \$52,580, 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 September 30, 2012, 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 \$124,034 of the \$1,176,638 outstanding under the 2007 Credit Facility, as amended as of September 30, 2012. 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.

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

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

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

### **(9) Income Taxes**

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

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company concluded that during the first nine months of 2012, a net increase to the valuation allowance of \$10,650 would be necessary to offset additional deferred tax assets. Of this amount, a \$11,113 increase was recognized through the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss), a \$974 decrease was recognized through accumulated other comprehensive loss, and a \$511 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 nine months ended September 30, 2012, the expected federal tax benefit at 34% is \$7,770. The difference between the expected tax and the effective tax of \$207 is primarily attributable to the tax effect of the federal valuation allowance of \$6,368, the tax effect related to non-deductible expenses of \$540, impairment of non-deductible goodwill for tax purposes of \$49, and deferred tax benefits that expired of \$184, non-consolidated entity of \$242, provision to return adjustment of \$501, uncertain tax positions of \$(356), and other items of \$35.

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. The Company is currently under audit from the Internal Revenue Service and does not anticipate any material adverse effects from the audit.

In accordance with ASC 740, the Company recognizes penalties and interest relating to uncertain tax positions in the provision for income taxes. As of September 30, 2012, and January 1, 2012, the Company had unrecognized tax benefits of approximately \$4,677 and \$5,033, respectively. The Company did not record significant amounts of interest and penalties related to unrecognized tax benefits for the periods ending September 30, 2012 and January 1, 2012. The Company does not expect significant changes in unrecognized tax benefits within the next 12 months.

### **(10) Pension and Postretirement Benefits**

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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.



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The following provides information on the pension plan and postretirement medical and life insurance plans for the three months ended September 30, 2012 and September 25, 2011.

	Three Months Ended September 30, 2012		Three Months Ended September 25, 2011		Nine months Ended September 30, 2012		Nine months Ended September 25, 2011	
	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement
Components of net periodic benefit costs:								
Service cost	\$ 50	\$ 9	\$ 50	\$ 11	\$ 150	\$ 28	\$ 150	\$ 32
Interest cost	296	68	310	76	888	205	930	229
Expected return on plan assets	(310)		(320)		(930)		(960)	
Amortization of prior service cost		(114)		(114)		(342)		(342)
Amortization of unrecognized gain	92		85		276		255	
Total	\$ 128	\$ (37)	\$ 125	\$ (27)	\$ 384	\$ (109)	\$ 375	\$ (81)

During the three and nine months ended September 30, 2012 and September 25, 2011, the Company recognized a total of \$205, \$212, \$617 and \$636 in pension and postretirement benefit expense, respectively.

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

	Pension	Postretirement
Weighted average discount rate	5.10%	4.44%
Rate of increase in future compensation levels		
Expected return on assets	7.5%	
Current year trend		8.1%
Ultimate year trend		4.8%
Year of ultimate trend		2021

**(11) Assets Held for Sale**

As of September 30, 2012 and January 1, 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 September 30, 2012 and January 1, 2012:

	September 30, 2012	January 1, 2012
Current assets held for sale:		
Accounts receivable, net	\$ 1,364	\$
Prepaid expenses and other current assets	69	
Total current assets held for sale	\$ 1,433	\$
Long-term assets held for sale:		
Property, plant and equipment, net	\$ 497	\$ 934
Intangible assets	1,818	

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Total long-term assets held for sale	\$	2,315	\$	934
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Liabilities held for sale	\$	597	\$
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During the nine months ended September 30, 2012 and twelve months ended January 1, 2012 the Company recorded an impairment charge in the amount of \$2,128 and \$355, respectively, 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.

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:

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

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

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**As of September 30, 2012**

Assets					
Cash and cash equivalents	\$ 36,820	\$	\$	\$ 36,820	Income
Restricted cash	6,167			6,167	Income
Liabilities					
Derivatives <sup>(1)</sup>	\$	\$	\$ 48,317	\$ 48,317	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 reflect the activity of our derivative liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended September 30, 2012:

	<b>Derivative Liabilities</b>
Balance as of January 1, 2012	\$ 51,576
Total (gains) losses, net:	
Included in earnings	(25)
Included in other comprehensive income	(3,234)
Balance as of September 30, 2012	\$ 48,317

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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 January 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 nine months ended September 30, 2012 and twelve months ended January 1, 2012, the Company recorded an impairment charge in the amount of \$2,128 and \$355, respectively, 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. Additionally, during the three months ended June 26, 2011, the Company wrote-off presses having a net book value of \$1,696 related to the consolidation of its print operations, utilizing recent sale activity, Level 2 inputs.

### **(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 September 30, 2012 and January 1, 2012, in the aggregate amount of \$6,167, 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**

During the nine months ended September 30, 2012, the Company entered into an agreement to sell 22 publications in Suburban Chicago, Illinois for an aggregate purchase price of approximately \$2,800. As a result, an impairment loss of \$1,922 is included in loss from discontinued operations on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for this period. Additionally, an impairment loss of \$206 is included in loss from discontinued operations net of income taxes on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for this period related to previously discontinued operations. The net revenue during the nine months ended September 30, 2012 and September 25, 2011 for the aforementioned discontinued operation was \$6,326 and \$6,396, respectively. Loss, net of income taxes of \$0, during the nine months ended September 30, 2012 and September 25, 2011 for the aforementioned discontinued operations and previously discontinued operations was \$1,504 and \$169, respectively. The financial position and results of operations of the publications in Suburban Chicago, Illinois are reflected as discontinued operations for all periods presented.

### **(15) Subsequent Events**

On October 1, 2012 the Company closed on the sale of its publications in Suburban Chicago, Illinois and received cash proceeds of \$2,574, which were used to pay down the long-term debt balance.

## **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.



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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 January 1, 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 431 community publications, 410 related websites, 404 mobile sites and six yellow page directories, serves over 186,000 business advertising accounts and reaches approximately 10 million people on a weekly basis.

Our core products include:

78 daily newspapers with total paid circulation of approximately 615,000;

261 weekly newspapers (published up to three times per week) with total paid circulation of approximately 352,000 and total free circulation of approximately 794,000;

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

410 locally focused websites and 404 mobile sites, which extend our franchises onto the internet and mobile devices with approximately 98 million page views per month; and

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

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

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

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.

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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.



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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 September 30, 2012, 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 programs, and the sale of non-core assets. We believe these initiatives will provide the financial resources necessary to invest in the business and ensure our future success and provide sufficient cash flow to enable us to meet our commitments for the next year.

General economic conditions, including declines in consumer confidence, continued high unemployment levels, 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.

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

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; a) driving permanent cost reduction and cost realignment towards growth opportunities, b) accelerate digital growth in terms of both revenue and audience, c) grow consumer revenues, including circulation, in both print and digital, largely through new products, services, and pricing initiatives, d) preserve the power of print by improving the quality of our content and stabilize our advertising revenues, e) develop and grow new businesses through GateHouse Ventures by leveraging our core strengths and assets and expanding beyond our existing geographical footprints.

During the first quarter of 2012, we reorganized our management structure to align with our publication types. The resulting operating segments are: Large Community Newspapers; Small Community Newspapers; and Directories. These operating segments 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 January 1, 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 January 1, 2012.



**Table of Contents****Results of Operations**

The following table summarizes our historical results of operations for the three months ended September 30, 2012 and September 25, 2011.

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

(In thousands, except share and per share data)

	Three months ended September 30, 2012	Three months ended September 25, 2011	Nine months ended September 30, 2012	Nine months ended September 25, 2011
Revenues:				
Advertising	\$ 80,262	\$ 85,901	\$ 246,365	\$ 258,808
Circulation	33,837	32,750	100,076	97,390
Commercial printing and other	6,698	6,373	18,955	18,761
Total revenues	120,797	125,024	365,396	374,959
Operating costs and expenses:				
Operating costs	67,098	69,045	204,968	211,314
Selling, general, and administrative	35,223	35,421	107,812	110,977
Depreciation and amortization	9,836	10,285	30,116	31,694
Integration and reorganization costs	1,597	1,274	3,467	3,317
Impairment of long-lived assets		37		1,733
Loss on sale of assets	379	157	534	556
Operating income	6,664	8,805	18,499	15,368
Interest expense	14,500	14,441	43,497	42,690
Amortization of deferred financing costs	314	340	994	1,020
(Gain) loss on derivative instruments	5	(694)	(1,639)	(274)
Other expense	7	94	4	94
Loss from continuing operations before income taxes	(8,162)	(5,376)	(24,357)	(28,162)
Income tax expense (benefit)	(250)	22	(207)	90
Loss from continuing operations	(7,912)	(5,398)	(24,150)	(28,252)

**Three Months Ended September 30, 2012 Compared To Three Months Ended September 25, 2011**

**Revenue.** Total revenue for the three months ended September 30, 2012 decreased by \$4.2 million, or 3.4%, to \$120.8 million from \$125.0 million for the three months ended September 25, 2011. 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 \$5.6 million, or 6.6%, decrease in advertising revenue, partially offset by a \$1.1 million, or 3.3%, increase in circulation revenue and a \$0.3 million, or 5.1%, 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 trends and an uncertain economic environment. These secular trends and economic conditions have also led to a decline in our print circulation volumes which have been offset by price increases in select locations. Our circulation revenue was also impacted by approximately \$0.5 million for a net to gross accounting change due to a change from a carrier to a distributor model at one of our largest locations. The \$0.3 million increase in commercial printing and other revenue is primarily the result of the launch of our small business marketing services during 2012.

**Operating Costs.** Operating costs for the three months ended September 30, 2012 decreased by \$1.9 million, or 2.8%, to \$67.1 million from \$69.0 million for the three months ended September 25, 2011. The decrease in operating costs was primarily due to a decrease in compensation

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expenses and newsprint expenses of \$2.4 million and \$1.2 million, respectively, which were partially offset by an increase in outside services of \$2.1 million. This decrease is 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 September 30, 2012 decreased by \$0.2 million, or 0.6%, to \$35.2 million from \$35.4 million for the three months ended September 25, 2011. The decrease in selling, general and administrative expenses was primarily due to a decrease in compensation of \$0.5 million. We expect that the majority of these reductions will be permanent in nature.

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**Depreciation and Amortization.** Depreciation and amortization expense for the three months ended September 30, 2012 decreased by \$0.4 million to \$9.8 million from \$10.2 million for the three months ended September 25, 2011. The decrease in depreciation and amortization expense was primarily due to the sale and disposal of assets in 2011, which reduced depreciation expense.

**Integration and Reorganization Costs.** During the three months ended September 30, 2012 and September 25, 2011, we recorded integration and reorganization costs of \$1.6 million and \$1.3 million, respectively, primarily resulting from severance costs related to the consolidation of certain print and other operations.

**(Gain) Loss on Derivative Instruments.** During the three months ended September 25, 2011, we recorded a net gain of \$0.7 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.

**Net Loss from Continuing Operations.** Net loss from continuing operations for the three months ended September 30, 2012 and September 25, 2011 was \$7.9 million and \$5.4 million, respectively. Our net loss from continuing operations increased due to the factors noted above.

### ***Nine months Ended September 30, 2012 Compared To Nine months Ended September 25, 2011***

We moved to a consistent 52 week reporting cycle for all locations during the first quarter of 2011. As a result, the first nine months of 2012 had 273 days compared to 268 days in the first nine months of 2011 for approximately 40% of the business. The associated impact was approximately \$2.3 million on revenue and \$2.1 million on expenses. Comparisons below have not been adjusted for this calendar change.

**Revenue.** Total revenue for the nine months ended September 30, 2012 decreased by \$9.6 million, or 2.6%, to \$365.4 million from \$375.0 million for the nine months ended September 25, 2011. 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 \$12.4 million, or 4.8%, decrease in advertising revenue, partially offset by a \$2.7 million, or 2.8%, increase in circulation revenue and a \$0.2 million, or 1.0%, 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 trends and an uncertain economic environment. These secular trends and economic conditions have also led to a decline in our print circulation volumes which have been offset by price increases in select locations. Our circulation revenue was also impacted by approximately \$1.5 million for a net to gross accounting change due to a change from a carrier to a distributor model at one of our largest locations. The commercial printing and other revenue increase of \$0.2 million resulted primarily from the launch of our small business marketing services during 2012, while commercial printing declined \$0.4 million as trends stabilize in this area.

**Operating Costs.** Operating costs for the nine months ended September 30, 2012 decreased by \$6.3 million, or 3.0%, to \$205.0 million from \$211.3 million for the nine months ended September 25, 2011. The decrease in operating costs was primarily due to a decrease in compensation expenses and newsprint expenses of \$8.0 million and \$4.8 million, respectively, which were partially offset by an increase in outside services of \$6.8 million. This decrease is 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 nine months ended September 30, 2012 decreased by \$3.2 million, or 2.9%, to \$107.8 million from \$111.0 million for the nine months ended September 25, 2011. The decrease in selling, general and administrative expenses was primarily due to a decrease in compensation of \$3.7 million. We expect that the majority of these reductions will be permanent in nature.

**Depreciation and Amortization.** Depreciation and amortization expense for the nine months ended September 30, 2012 decreased by \$1.6 million to \$30.1 million from \$31.7 million for the nine months ended September 25, 2011. The decrease in depreciation and amortization expense was primarily due to the sale and disposal of assets in 2011, which reduced depreciation expense.

**Integration and Reorganization Costs.** During the nine months ended September 30, 2012 and September 25, 2011, we recorded integration and reorganization costs of \$3.5 million and \$3.3 million, respectively, primarily resulting from severance costs related to the consolidation of certain print and other operations.

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**Impairment of Long-Lived Assets.** During the nine months ended September 25, 2011 we incurred an impairment charge of \$1.7 million related to the consolidation of our print operations and property, plant and equipment which were classified as held for sale. There were no such charges during the nine months ended September 30, 2012.

**Interest Expense.** Total interest expense for the nine months ended September 30, 2012 increased by \$0.8 million, or 1.9%, to \$43.5 million from \$42.7 million for the nine months ended September 25, 2011. The increase was primarily due to our calendar change resulting in five additional days in the first quarter of 2012 as compared to the prior year's quarter.

**(Gain) Loss on Derivative Instruments.** During the nine months ended September 30, 2012 and September 25, 2011, we recorded a net gain of \$1.6 million and \$0.3 million, respectively, 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.

**Net Loss from Continuing Operations.** Net loss from continuing operations for the nine months ended September 30, 2012 and September 25, 2011 was \$24.2 million and \$28.3 million, respectively. Our net loss from continuing operations decreased due to the factors noted above.

## **Liquidity and Capital Resources**

Our primary cash requirements are for working capital, debt obligations and capital expenditures. We have no material outstanding commitments for capital expenditures. Our principal sources of funds have historically been, and 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 15, 2012 and March 2, 2011, we made a principal payment of \$4.6 million and \$11.2 million, respectively, which represented 50% of our Excess Cash Flow (as defined under the 2007 Credit Facility) related to the fiscal years ended January 1, 2012 and December 31, 2010, 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 September 30, 2012 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.

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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 January 1, 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.

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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.

**Cash Flows**

The following table summarizes our historical cash flows.

	Nine months ended	Nine months ended
	September 30, 2012	September 25, 2011
Cash provided by operating activities	\$ 24,222	\$ 26,692
Cash used in investing activities	(2,014)	(42)
Cash used in financing activities	(4,600)	(11,249)

The discussion of our cash flows that follows is based on our historical cash flows for the nine months ended September 30, 2012 and September 25, 2011.

**Cash Flows from Operating Activities.** Net cash provided by operating activities for the nine months ended September 30, 2012 was \$24.2 million, a decrease of \$2.5 million when compared to \$26.7 million of cash provided by operating activities for the nine months ended September 25, 2011. This \$2.5 million decrease was the result of a decrease in cash provided by working capital of \$2.1 million and a decrease in non-cash charges of \$3.2 million, which was offset by a decrease in net loss of \$2.8 million.

The \$2.1 million decrease in cash provided by working capital for the nine months ended September 30, 2012 when compared to the nine months ended September 25, 2011 is primarily attributable to an increase in inventory and a decrease in accounts payable and accrued interest.

The \$3.2 million decrease in non-cash charges primarily consisted of a decrease in depreciation and amortization of \$1.6 million, an increase in gain on derivative instruments of \$1.4 million, a decrease in non-cash compensation expense of \$0.4 million, and a decrease in loss on sale of assets of \$0.3 million. These decreases were offset by an increase in impairment of long-lived assets included in continuing operations and discontinued operations of \$0.3 million and an increase in pension and other postretirement benefit obligations of \$0.2 million.

**Cash Flows from Investing Activities.** Net cash used in investing activities for the nine months ended September 30, 2012 was \$2.0 million. During the nine months ended September 30, 2012, we used \$2.8 million for capital expenditures, which was offset by \$0.8 million we received from the sale of publications and other assets and insurance proceeds.

Net cash used in investing activities for the nine months ended September 25, 2011 was \$0.0 million. During the nine months ended September 25, 2011, we used \$2.4 million for capital expenditures, which was offset by \$2.4 million we received from the sale of real property.

**Cash Flows from Financing Activities.** Net cash used in financing activities for the nine months ended September 30, 2012 was \$4.6 million due to a repayment under the 2007 Credit Facility.

Net cash used in financing activities for the nine months ended September 25, 2011 was \$11.2 million due to a repayment under the 2007 Credit Facility.



***Changes in Financial Position***

The discussion that follows highlights significant changes in our financial position and working capital from January 1, 2012 to September 30, 2012.

***Accounts Receivable.*** Accounts receivable decreased \$8.2 million from January 1, 2012 to September 30, 2012, which relates to the timing of cash collections and lower revenue recognized in 2012 compared to 2011 and \$1.4 million which was classified as held for sale.

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**Prepaid Expenses.** Prepaid expenses decreased \$9.7 million from January 1, 2012 to September 30, 2012, which primarily relates to the receipt of newsprint during the first half of 2012 that was prepaid at January 1, 2012 under a newsprint pricing agreement.

**Current Assets Held for Sale.** Current assets held for sale increased \$1.4 million from January 1, 2012 to September 30, 2012, due to assets classified as held for sale during the first nine months of 2012. Assets held for sale as of September 30, 2012 consist primarily of publications in Suburban Chicago, IL and real estate in Winter Haven, FL.

**Property, Plant, and Equipment.** Property, plant, and equipment decreased \$11.2 million during the period from January 1, 2012 to September 30, 2012, of which \$12.6 million relates to depreciation and \$1.4 million relates to assets sold and held for sale, which was partially offset by \$2.8 million that was used for capital expenditures.

**Goodwill.** Goodwill decreased \$0.2 million from January 1, 2012 to September 30, 2012, due to an impairment charge included in income (loss) from discontinued operations.

**Intangible Assets.** Intangible assets decreased \$21.8 million from January 1, 2012 to September 30, 2012, due to amortization of \$18.1 million, \$1.9 million due to an impairment of assets classified as held for sale and \$1.8 million which was classified as held for sale during the current year.

**Long-term Assets Held for Sale.** Long-term assets held for sale increased \$1.4 million from January 1, 2012 to September 30, 2012, of which \$1.8 million which was classified as held for sale during the current year, which was offset by proceeds of \$0.2 million from assets sold during the current year and \$0.2 due to an impairment of assets already classified as held for sale. Assets held for sale as of September 30, 2012 consist primarily of publications in Suburban Chicago, IL and real estate in Winter Haven, FL.

**Current Portion of Long-term Debt.** Current portion of long-term debt decreased \$4.6 million from January 1, 2012 to September 30, 2012, due to a principal payment as required by the 2007 Credit Facility, which represented 50% of the Excess Cash Flow related to the fiscal year ended January 1, 2012.

**Accounts Payable.** Accounts payable increased \$1.7 million from January 1, 2012 to September 30, 2012, which was primarily attributable to the timing of vendor payments.

**Accumulated Other Comprehensive Loss.** Accumulated other comprehensive loss decreased \$2.1 million from January 1, 2012 to September 30, 2012, which resulted from the change in fair value of the interest rate swaps of \$3.3 million, a \$0.3 million charge related to the Company's pension and post retirement plans, and a \$0.1 million reclassification of income tax expense from accumulated other comprehensive loss, which was offset by a gain on derivative instruments due to amortization of \$1.6 million.

**Accumulated Deficit.** Accumulated deficit increased \$25.7 million from January 1, 2012 to September 30, 2012, due to a net loss of \$25.7 million.

### ***Contractual Commitments***

No material changes were made to our contractual commitments during the period from January 1, 2012 to September 30, 2012.

### **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.

**Table of Contents****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**

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

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

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

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 September 30, 2012	Three months ended September 25, 2011	Nine months ended September 30, 2012	Nine months ended September 25, 2011
	(in thousands)			
Loss from continuing operations	\$ (7,912)	\$ (5,398)	\$ (24,150)	\$ (28,252)

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Income tax expense (benefit)	(250)	22	(207)	90
(Gain) loss on derivative instruments	5	(694)	(1,639)	(274)
Amortization of deferred financing costs	314	340	994	1,020
Interest expense	14,500	14,441	43,497	42,690
Impairment of long-lived assets		37		1,733
Depreciation and amortization	9,836	10,285	30,116	31,694
Adjusted EBITDA from continuing operations	\$ 16,493 <sup>(a)</sup>	\$ 19,033 <sup>(b)</sup>	\$ 48,611 <sup>(c)</sup>	\$ 48,701 <sup>(d)</sup>

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- (a) Adjusted EBITDA for the three months ended September 30, 2012 included net expenses of \$3,205, which are one-time in nature or non-cash compensation. Included in these net expenses of \$3,205 is non-cash compensation and other expense of \$1,417, non-cash portion of postretirement benefits expense of \$(188), integration and reorganization costs of \$1,597 and a \$379 loss on the sale of assets.

Adjusted EBITDA also does not include \$612 from our discontinued operations.

- (b) Adjusted EBITDA for the three months ended September 25, 2011 included net expenses of \$2,539, which are one-time in nature or non-cash compensation. Included in these net expenses of \$2,539 is non-cash compensation and other expense of \$1,215, non-cash portion of postretirement benefits expense of \$(107), integration and reorganization costs of \$1,274 and a \$157 loss on the sale of assets.

Adjusted EBITDA also does not include \$467 from our discontinued operations.

- (c) Adjusted EBITDA for the nine months ended September 30, 2012 included net expenses of \$7,694, which are one-time in nature or non-cash compensation. Included in these net expenses of \$7,694 is non-cash compensation and other expense of \$4,125, non-cash portion of postretirement benefits expense of \$(432), integration and reorganization costs of \$3,467 and a \$534 loss on the sale of assets.

Adjusted EBITDA also does not include \$1,472 from our discontinued operations.

- (d) Adjusted EBITDA for the nine months ended September 25, 2011 included net expenses of \$7,662 which are one-time in nature or non-cash compensation. Included in these net expenses of \$7,662 is non-cash compensation and other expense of \$4,018, non-cash portion of postretirement benefits expense of \$(229), integration and reorganization costs of \$3,317 and a \$556 loss on the sale of assets.

Adjusted EBITDA also does not include \$1,184 from our discontinued operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

During the nine month period ended September 30, 2012, 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 January 1, 2012.

**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 1. Legal Proceedings**

Not applicable

**Item 1A. Risk Factors**

Not applicable

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

Not applicable

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

See Index to Exhibits on page 31 of this Quarterly Report on Form 10-Q.



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**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: November 1, 2012

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

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**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.