GateHouse Media, Inc.
Form 10-Q
August 14, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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)

Delaware	**36-4197635**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

350 WillowBrook Office Park, Fairport, New York 14450

(Address of principal executive offices)

Telephone: (585) 598-0030

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and larger accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

As of August 10, 2007, 57,874,112 shares of the registrant s common stock were outstanding.

Table of Contents

Table of Contents

Item 1. Financial Statements

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2007	December 31, 2006
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 18,038	$ 90,302
Accounts receivable, net of allowance for doubtful accounts of $4,117 and $2,332 at June 30, 2007 and December 31, 2006, respectively	84,108	42,990
Inventory	8,811	4,664
Prepaid expenses	4,645	3,372
Deferred income taxes	3,643	2,896
Other current assets	3,738	380
Assets held for sale	3,763	
Total current assets	126,746	144,604
Property, plant, and equipment, net of accumulated depreciation of $19,508 and $11,224 at June 30, 2007 and December 31, 2006, respectively	208,822	98,371
Goodwill	922,621	516,656
Intangible assets, net of accumulated amortization of $36,112 and $20,246 at June 30, 2007 and December 31, 2006, respectively	791,153	391,096
Deferred financing costs, net	11,602	5,297
Derivative instruments	28,170	7,972
Other assets	2,532	1,404
Long-term assets held for sale	79,376	2,323
Total assets	$ 2,171,022	$ 1,167,723
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term liabilities	$ 813	$ 487
Accounts payable	8,960	5,655
Accrued expenses	36,351	18,167
Accrued interest	13,538	2,358
Deferred revenue	25,419	14,554
Dividend payable	15,668	9,394
Liabilities held for sale	871	
Total current liabilities	101,620	50,615
Long-term liabilities:		
Long-term debt	1,498,000	558,000
Long-term liabilities, less current portion	4,324	1,324
Deferred income taxes	103,930	70,935
Pension and other postretirement benefit obligations	14,051	13,765
Total liabilities	1,721,925	694,639
Stockholders equity:		

Preferred stock, $0.01 par value, 50,000,000 shares authorized at June 30, 2007; none issued and outstanding at June 30, 2007 and December 31, 2006		
Common stock, $0.01 par value, 150,000,000 shares authorized at June 30, 2007; 39,208,510 and 39,147,263 shares issued, and 39,169,840 and 39,141,263 outstanding at June 30, 2007 and December 31, 2006, respectively	381	381
Additional paid-in capital	487,990	486,011
Accumulated other comprehensive income (loss)	9,590	(2,644)
Accumulated deficit	(48,804)	(10,604)
Treasury stock, at cost, 38,670 and 6,000 shares at June 30, 2007 and December 31, 2006, respectively	(60)	(60)
Total stockholders equity	449,097	473,084
Total liabilities and stockholders equity	$ 2,171,022	$ 1,167,723

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except share and per share data)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenues:				
Advertising	$ 118,141	$ 52,725	$ 189,389	$ 89,184
Circulation	32,044	10,908	49,301	19,403
Commercial printing and other	8,448	5,854	14,927	10,875
Total revenues	158,633	69,487	253,617	119,462
Operating costs and expenses:				
Operating costs	82,102	34,282	134,575	60,253
Selling, general and administrative	40,955	19,908	71,641	34,788
Depreciation and amortization	15,427	4,845	24,229	8,444
Integration and reorganization costs	1,615	386	2,453	2,096
Impairment of long-lived assets	82		201	
Loss on sale of assets	9	151	22	592
Operating income	18,443	9,915	20,496	13,289
Interest expense	22,379	7,260	32,596	12,436
Amortization of deferred financing costs	980	85	1,203	115
Loss on early extinguishment of debt		702		702
Unrealized gain on derivative instrument	(758)		(375)	(2,605)
Other income	(3)		(208)	
Income (loss) from continuing operations before income taxes	(4,155)	1,868	(12,720)	2,641
Income tax expense (benefit)	(1,535)	764	(4,021)	1,132
Income (loss) from continuing operations	(2,620)	1,104	(8,699)	1,509
Income from discontinued operations, net of income taxes	656		656	
Net income (loss)	$ (1,964)	$ 1,104	$ (8,043)	$ 1,509
Earnings (loss) per share:				
Basic and diluted:				
Income (loss) from continuing operations	$ (0.07)	$ 0.05	$ (0.23)	$ 0.07
Income from discontinued operations, net of income taxes	0.02		0.02	
Net income (loss)	$ (0.05)	$ 0.05	$ (0.21)	$ 0.07
Dividends declared per share	$ 0.40	$	$ 0.77	$
Basic weighted average shares outstanding	38,099,500	22,223,456	38,098,340	22,218,976
Diluted weighted average shares outstanding	38,099,500	22,459,230	38,098,340	22,534,701

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Stockholders Equity

(In thousands, except share data)

	Common stock			Accumulated other comprehensive		Treasury Stock		
	Shares	Amount	Additional paid-in capital	income (loss)	Accumulated deficit	Shares	Amount	Total
Balance at December 31, 2006	39,147,263	$ 381	$ 486,011	$ (2,644)	$ (10,604)	6,000	$ (60)	$ 473,084
Comprehensive loss:								
Net loss					(8,043)			(8,043)
Unrealized gain on derivative instruments, net of income taxes of $7,761				12,062				12,062
Minimum pension liability adjustment, net of income taxes of $111				172				172
Comprehensive income								4,191
Restricted share grants	54,830							
Non-cash compensation expense			2,017					2,017
Restricted share forfeitures	6,417					32,670		
Deferred offering costs from initial public offering			(38)					(38)
Common stock cash dividends					(30,157)			(30,157)
Balance at June 30, 2007	39,208,510	$ 381	$ 487,990	$ 9,590	$ (48,804)	38,670	$ (60)	$ 449,097

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows from operating activities:		
Net income (loss)	$ (8,043)	$ 1,509
Income from discontinued operations, net of income taxes	656	
Net income (loss) from continuing operations	(8,699)	1,509
Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:		
Depreciation and amortization	24,229	8,444
Amortization of deferred financing costs	1,203	115
Unrealized gain on derivative instrument	(375)	(2,605)
Non-cash compensation expense	2,017	685
Deferred income taxes	(5,373)	3,521
Loss on sale of assets	22	592
Loss on early extinguishment of debt		702
Pension and other postretirement benefit obligations	668	70
Impairment of long-lived assets	201	
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(1,555)	(944)
Inventory	1,019	(175)
Prepaid expenses	797	496
Other assets	(2,270)	(2,401)
Accounts payable	1,543	(498)
Accrued expenses and other current liabilities	6,781	1,276
Accrued interest	11,180	2,131
Deferred revenue	(537)	(685)
Long-term liabilities	(32)	247
Net cash provided by operating activities	30,819	12,480
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(3,663)	(5,445)
Proceeds from sale of publications and other assets	261	2,859
Acquisition of CP Media, net of cash acquired		(230,429)
Acquisition of Enterprise NewsMedia, LLC, net of cash acquired	(154)	(181,169)
Acquisition of The Copley Press, Inc. Newspapers, net of cash acquired	(380,829)	
Acquisition of Gannett Co., Inc. Newspapers, net of cash acquired	(419,932)	
Other acquisitions, net of cash acquired	(206,803)	(10,995)
Net cash used in investing activities	(1,011,120)	(425,179)
Cash flows from financing activities:		
Payment of debt issuance costs	(7,433)	(5,726)
Borrowings under term loans	1,495,000	722,000
Repayments of term loans	(558,000)	
Net borrowings under revolving credit facility	3,000	6,325
Extinguishment of credit facility, net of fees		(304,426)

Payment of offering costs	(647)	(340)
Issuance of common stock		250
Payment of dividends	(23,883)	
Net cash provided by financing activities	908,037	418,083
Net (decrease) increase in cash and cash equivalents	(72,264)	5,384
Cash and cash equivalents at beginning of period	90,302	3,063
Cash and cash equivalents at end of period	$ 18,038	$ 8,447

See accompanying notes to unaudited condensed consolidated financial statements.

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(1) Unaudited Financial Statements

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

Management believes that the accompanying condensed consolidated financial statements contain all adjustments (which include normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the Company s consolidated financial condition, results of operations and cash flows for the periods presented. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2006, included in the Company s Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

On May 9, 2005, an affiliate of Fortress Investment Group LLC, FIF III Liberty Holdings LLC (Parent), FIF III Liberty Acquisitions, LLC, a wholly owned subsidiary of Parent (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 Parent (the Merger). The Merger was completed on June 6, 2005. The total value of the transaction was approximately $527,000.

Initial Public Offering

On October 25, 2006, the Company completed its initial public offering (IPO) of 13,800,000 shares of its common stock at $18.00 per share. The Company s registered common stock is traded on the New York Stock Exchange under the symbol GHS.

On November 3, 2006, the underwriters of the Company s IPO exercised their option to purchase an additional 2,070,000 shares of common stock as allowed in the underwriting agreement. The total net proceeds from the IPO of 13,800,000 shares and this additional allotment of 2,070,000 shares, after deducting offering expenses and the underwriting discount, was $261,605.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, provides a market-based framework for measuring fair value, and expands disclosure requirements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact the adoption of SFAS No. 157 will have on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 provides guidance on the consideration of the effects of prior year uncorrected misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 requires registrants to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 does not change the SEC s previous guidance in SAB No. 99, on evaluating the materiality of misstatements. SAB No. 108 is effective for the interim period of the first fiscal year ending after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on the Company s consolidated financial statements.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits companies to measure financial instruments and certain other items at fair value. The objective of this statement is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement for accounting for financial instruments. SFAS No. 159 is effective for financial statements issued as of the beginning of the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact the adoption of SFAS No. 159 will have on its consolidated financial statements.

In May 2007, the FASB issued Staff Position No. 48-1, *Definition of Settlement in FASB Interpretation No. 48*, (FIN 48-1) which is an amendment to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. FIN 48-1 provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FIN 48-1 became effective during the first quarter of 2007 and did not have a material impact on the Company s consolidated financial statements.

(2) Share-Based Compensation

The Company recognized compensation cost for share-based payments of $910, $281, $2,017 and $685 during the three months ended June 30, 2007 and 2006 and the six months ended June 30, 2007 and 2006, respectively. The income tax benefit related to share-based payments recognized in the statement of operations during the three months ended June 30, 2007 and 2006 and the six months ended June 30, 2007 and 2006 was $356, $112, $789 and $224, respectively. The total compensation cost not yet recognized related to non-vested awards as of June 30, 2007 was $10,205, which is expected to be recognized over a weighted average period of 3.1 years through October 2011.

Total share-based compensation expense during the six months ended June 30, 2006 of $685 is comprised of $125 related to the purchase of common stock at a discount, as discussed below, and $560 related to share-based compensation expense for Restricted Share Grants (RSGs), which is net of estimated forfeitures.

Share-based compensation impacted diluted weighted average shares outstanding by 235,774 and 315,725 shares for the three and six months ended June 30, 2006, respectively. There was no impact in 2007 since the impact would have been anti-dilutive.

(a) Restricted Share Grants

The Company issued RSGs to certain management investors pursuant to each investor s management stockholder agreement (the Management Stockholder Agreements). Under the Management Stockholder Agreements, RSGs vest by one-third on each of the third, fourth and fifth anniversaries from the grant date. Following the adoption of the GateHouse Media, Inc. Omnibus Stock Incentive Plan (the Plan) in October 2006, 268,680 RSGs were granted during the year ended December 31, 2006 and an additional 54,830 RSGs were granted to Company directors, management and employees during the six months ended June 30, 2007. The majority of the RSGs issued under the Plan vest by 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; however, 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. During the three months ended June 30, 2007 and 2006 and the six months ended June 30, 2007 and 2006, the Company recognized $910, $281, $2,017 and $560, respectively, in share-based compensation expense related to RSGs.

As of June 30, 2007, and June 30, 2006, there were 1,070,340 and 783,500 RSGs, respectively, issued and outstanding with a weighted average grant date fair value of $14.63 and, $11.98 respectively. As of June 30, 2007, the aggregate intrinsic value of unvested RSGs was $19,876. During the six months ended June 30, 2007, the aggregate fair value of vested RSGs was $183.

RSG activity was as follows:

	Number of RSGs	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2006	1,051,763	$ 14.33
Granted	54,830	18.74
Vested	(10,000)	(10.00)
Forfeited	(26,253)	(12.66)
Unvested at June 30, 2007	1,070,340	14.63

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

SFAS No. 123R, *Share Based Payment*, (SFAS No. 123R) 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 will be reassessed in subsequent periods and the estimate may change based on new facts and circumstances.

(b) Other Awards

In January 2006, a management investor purchased 25,000 shares of common stock at a discount of $5.01 per share, or $125 pursuant to the investor s Management Stockholder Agreement. The purchase was determined to be compensatory in accordance with SFAS No. 123R. The Company recognized $125 in employee compensation expense related to this purchase during the three months ended March 31, 2006. The fair value of the common stock was determined to be $15.01 per share as of January 2006.

(c) Valuation of Equity Securities Issued as Compensation

Prior to January 1, 2006, the Company recorded deferred share-based compensation, which consisted of the amounts by which the estimated fair value of the instrument underlying the grant exceeded the grant or exercise price, at the date of grant or other measurement date, if applicable and recognized the expense over the related service period. In determining the fair value of the Company s common stock at the dates of grant prior to the IPO on October 25, 2006, GateHouse s stock was not traded and, therefore, the Company was unable to rely on a public trading market for its stock prior to October 25, 2006.

On May 9, 2005, an affiliate of Fortress Investment Group LLC, FIF III Liberty Holdings LLC (Parent), FIF III Liberty Acquisitions, LLC, a wholly owned subsidiary of Parent 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 Parent. The Merger was completed on June 6, 2005. The Merger resulted in a new basis of accounting under SFAS No. 141, *Business Combinations*, (SFAS No. 141).

The Company believes the Merger was on arms length terms and represented the fair value of its equity on June 6, 2005. In connection with the Merger, an appraisal of certain assets and liabilities was prepared by an unrelated valuation specialist and indicated a $10.00 fair value per share for the Company s common stock on that date.

As the Company began the process of preparing for its IPO, it developed a preliminary valuation using a discounted cash flow approach as of July 2006. The Company prepared this valuation using an estimated revenue growth rate based upon advertising rate increases considering consumer price index (CPI), implementation of additional online content and products and introduction of additional niche products. Additionally, the Company used an estimated annual EBITDA (adjusted to exclude certain non-cash and non-recurring items) growth rate based upon increases in revenues, cost reductions from the integration of acquisitions and improvements in cost from clustering and centralized services.

The Company estimated that the fair value of its common stock was $15.01 per share based on a valuation using a discounted cash flow approach as of July 2006.

In preparing a discounted cash flow analysis, certain significant assumptions were made including:

- the rate of revenue growth, which is a function of, among other things, anticipated increases in advertising rates (CPI based), impacts of online strategy and the introduction of niche products;

- the rate of the Company s Adjusted EBITDA growth, which is a function of, among other things, anticipated revenues, cost reductions and synergies from the integration of CP Media and Enterprise NewsMedia, LLC (see note 4(f)) and ongoing cost savings resulting from a clustering strategy;

- estimated capital expenditures;

- the discount rate of 7.8%, based on the Company s capital structure as of July 2006, the cost of equity, based on a risk free rate of 5.0% and a market risk of premium of 7.0% and the Company s cost of debt; and

- a terminal multiple of between 9 and 10 times unlevered cash flow, based upon the Company s anticipated growth prospects and private and public market valuations of comparable companies. The Company defines unlevered cash flow as Adjusted EBITDA less interest expense, cash taxes and capital expenditures.

The Company also considered the cash flow based trading multiples of comparable companies, including competitors and other similar publicly traded companies and sales transactions for comparable companies in its industry. Additionally, it considered the results of operations, market conditions, competitive position and the stock performance of these companies, as well as its financial forecasts, as updated, to develop its valuation. The Company determined the valuation performed by management to be the best available tool for projections of the final price range for purposes of valuing its stock-based compensation. The Company did not obtain contemporaneous valuations by unrelated valuation specialists at times other

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

than the Merger valuation because: (1) the Company s efforts were focused on, among other things, potential acquisitions and refinancing the Company and (2) the Company did not consider it to be economic to incur costs for such valuations given the number of shares issued. The Company considered that it met its internal financial performance objectives as reflected in its valuation.

The Company retrospectively applied the valuation to share-based compensation relating to RSGs and common stock sales which occurred from January 2006 to May 2006. Therefore, the unaudited condensed consolidated financial statements reflect this valuation for grants made prior to the Company s IPO.

(3) Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the 2007 presentation.

(4) Acquisitions

(a) Gannett Co., Inc. Newspaper Acquisitions 2007

On May 7, 2007, the Company completed its acquisition of thirteen publications from Gannett Co., Inc. for an aggregate purchase price of approximately $420,093. The acquisition included four daily and three weekly newspapers, as well as six shopper publications serving Rockford, Illinois, Utica, New York, Norwich, Connecticut and Huntington, West Virginia. The rationale for the acquisition was primarily due to the attractive community newspaper assets with stable cash flows which creates cost savings and compliments the Company s other newspapers. The Company has accounted for these acquisitions under the purchase method of accounting. Accordingly, the cost of the acquisition has been allocated to the assets and liabilities assumed based upon their respective fair values. The results of operations for the Gannett Co., Inc. newspaper acquisitions have been included in the Company s condensed consolidated financial statements since the date of the acquisition.

The Company continues to refine the fair value estimates in accordance with SFAS No. 141. As additional information becomes available and as actual values vary from these estimates, the underlying assets and liabilities may need to be adjusted, thereby impacting intangible asset estimates, as well as goodwill. The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date adjusted through June 30, 2007:

Current assets	$ 14,044
Other assets	75,907
Property, plant and equipment	39,558
Advertising relationships	96,503
Subscriber relationships	26,964
Mastheads	24,450
Goodwill	147,585
Total assets	425,011
Total liabilities	4,918
Net assets acquired	$ 420,093

(b) The Copley Press, Inc. Newspaper Acquisitions 2007

On April 11, 2007, the Company completed its acquisition of fifteen publications from The Copley Press, Inc. for an aggregate purchase price of approximately $385,806. The acquisition included seven daily and two weekly newspapers as well as six shopper publications, serving areas of Ohio and Illinois. The rationale for the acquisition was primarily due to the attractive community newspaper assets with stable cash flows which creates cost savings and compliments the Company s other newspapers. The Company has accounted for these acquisitions under the purchase method of accounting. Accordingly, the cost of the acquisition has been allocated to the assets and liabilities based upon their respective fair values. The results of operations for the Copley Press, Inc. newspaper acquisitions have been included in the Company s condensed consolidated financial statements since the date of the acquisition.

The Company continues to refine the fair value estimates in accordance with SFAS No. 141. As additional information becomes available and as actual values vary from these estimates, the underlying assets and liabilities may need to be adjusted, thereby impacting intangible asset estimates, as well as goodwill. The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date adjusted through June 30, 2007:

Current assets	$ 20,112
Other assets	18
Property, plant and equipment	64,906
Advertising relationships	95,466
Subscriber relationships	40,083
Mastheads	34,719
Goodwill	168,701
Total assets	424,005
Current liabilities	14,528
Long-term liabilities	23,671
Total liabilities	38,199
Net assets acquired	$ 385,806

(c) SureWest Directories Acquisition 2007

On February 28, 2007, the Company completed its acquisition of all the issued and outstanding capital stock of SureWest Directories from SureWest Communications for an aggregate purchase price of approximately $110,160. SureWest Directories is engaged in the business of publishing yellow page and white page directories, as well as internet yellow pages through the sacramento.com website. The Company has become the publisher of the official directory of SureWest Telephone. The acquisition of SureWest Directories is the Company s platform acquisition into the local directories business. The Company has accounted for this acquisition under the purchase method of accounting. Accordingly, the cost of the acquisition has been allocated to the assets and liabilities assumed based upon their respective fair values. The results of operations for SureWest Directories have been included in the Company s condensed consolidated financial statements since the date of the acquisition.

The Company continues to refine the fair value estimates in accordance with SFAS No. 141. As additional information becomes available and as actual values vary from these estimates, the underlying assets and liabilities may need to be adjusted, thereby impacting intangible asset estimates, as well as goodwill. The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date adjusted through June 30, 2007:

Current assets	$ 15,041
Property, plant and equipment	51
Advertising relationships	40,955
Trade name	5,493
Publication rights	345
Goodwill	48,458
Total assets	110,343
Total liabilities	183

Net assets acquired	$ 110,160

(d) Journal Register Company Newspaper Acquisitions 2007

On February 9, 2007, the Company completed its acquisition of eight publications from the Journal Register Company for an aggregate purchase price of approximately $72,219. The acquisition included two daily and four weekly newspapers as well as two shopper publications serving southeastern Massachusetts. The rationale for the acquisition was primarily due to the attractive community newspaper assets with stable cash flows which creates cost savings and compliments the Company s other newspapers serving Massachusetts. The Company has accounted for these acquisitions under the purchase method of accounting. Accordingly, the cost of the acquisition has been allocated to the assets and liabilities assumed based upon their respective fair values. The results of operations for the Journal Register Company newspaper acquisitions have been included in the Company s condensed consolidated financial statements since the date of the acquisition.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

The Company continues to refine the fair value estimates in accordance with SFAS No. 141. As additional information becomes available and as actual values vary from these estimates, the underlying assets and liabilities may need to be adjusted, thereby impacting intangible asset estimates, as well as goodwill. The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date adjusted through June 30, 2007:

Current assets	$ 2,614
Property, plant and equipment	7,159
Advertising relationships	27,268
Subscriber relationships	6,397
Mastheads	4,393
Goodwill	25,205
Total assets	73,036
Total liabilities	817
Net assets acquired	$ 72,219

(e) Other Acquisitions 2007

During the six months ended June 30, 2007, the Company acquired an additional 25 publications (excluding the acquisitions discussed above) for an aggregate purchase price of $24,599. The purchase price allocation for these acquisitions are as follows:

Current assets	$ 2,253
Other assets	243
Property, plant and equipment	5,627
Noncompete agreements	1,444
Advertising relationships	6,337
Subscriber relationships	1,372
Mastheads	2,903
Customer relationships	832
Goodwill	7,638
Total assets	28,649
Current liabilities	2,291
Long-term liabilities	1,759
Total liabilities	4,050
Net assets acquired	$ 24,599

The Company continues to refine the fair value estimates in accordance with SFAS No. 141. As additional information becomes available and as actual values vary from these estimates, the underlying assets and liabilities may need to be adjusted, thereby impacting intangible asset estimates, as well as goodwill.

(f) CP Media and Enterprise NewsMedia, LLC Acquisitions 2006

On June 6, 2006, the Company acquired substantially all of the assets, and assumed certain liabilities of CP Media for $232,024 and acquired all of the equity interests of Enterprise NewsMedia, LLC for $194,083 (the Massachusetts Acquisitions). CP Media and Enterprise NewsMedia, LLC are two leading publishers of daily and weekly newspapers in eastern Massachusetts. The rationale for the Massachusetts Acquisitions was primarily due to the attractive community newspaper assets with stable cash flows, the

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

combination of the two companies that creates operational upside and cost savings and economies of scale for advertising, sales, operating costs and existing infrastructure leverage. The Company has accounted for these acquisitions under the purchase method of accounting. Accordingly, the cost of each acquisition has been allocated to the assets and liabilities assumed based upon their respective fair values. The results of operations for CP Media and Enterprise NewsMedia, LLC have been included in the Company s condensed consolidated financial statements since the date they were acquired.

Upon the acquisition of Enterprise NewsMedia, LLC, the Company recorded deferred taxes based upon its best estimate of the tax basis of assets and liabilities acquired. During the year ended December 31, 2006, the Company updated its forecasted schedule of future reversals of taxable temporary differences, an adjustment was applied as an increase to the balance of goodwill attributable to the acquisition. Certain factors still remain that could change the ultimate liability and result in subsequent changes in goodwill and have an impact on the results of operations.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date adjusted through June 30, 2007:

	CP Media	Enterprise NewsMedia, LLC
Current assets	$ 12,469	$ 23,801
Other assets		107
Property, plant and equipment	19,055	22,571
Advertising relationships	76,194	52,846
Noncompete agreements		986
Subscriber relationships	10,781	22,339
Mastheads	13,214	10,146
Goodwill	111,243	122,833
Total assets	242,956	255,629
Current liabilities	10,421	7,656
Other long-term liabilities	511	12,838
Deferred income taxes		41,052
Total liabilities	10,932	61,546
Net assets acquired	$ 232,024	$ 194,083

The Company obtained third party independent appraisals to determine the fair values of the subscriber and advertiser relationships acquired in connection with the CP Media and Enterprise NewsMedia, LLC acquisitions. The appraisals used an excess earnings approach, a form of the income approach, which values assets based upon associated estimated discounted cash flows. A static pool approach using historical attrition rates was used to estimate attrition rates of 10% and 6.0% for advertiser relationships and 4.0% and 6.0% to 8.0% for subscriber relationships for CP Media and Enterprise NewsMedia, LLC, respectively. Growth rates were estimated to be 0% and 0.5% and the discount rate was estimated to be 8.5% and 9.0% for subscriber relationships for CP Media and Enterprise NewsMedia, LLC, respectively. Growth rates were estimated to be 2.5% and 3.0% and the discount rate was estimated to be 8.5% and 9.0% for advertiser relationships for CP Media and Enterprise NewsMedia, LLC, respectively.

Estimated cash flows extend up to periods of approximately 32 years which considers that a majority of the acquired newspapers have been in existence over 50 years with many having histories over 100 years for both CP Media and Enterprise NewsMedia, LLC. The Company is amortizing the fair values of the subscriber and advertiser relationships over the periods at which 90% of the cumulative net cash flows are estimated to be realized. Therefore, the subscriber and advertiser relationships are being amortized over 18 and 15 years and 14 to 16 and 18 years for CP Media and Enterprise NewsMedia, LLC, respectively, on a straight-line basis as no other discernable pattern of usage was more readily determinable.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

The fair value of non-compete agreements was determined using the damages method under the income approach method of valuation. Non-compete agreements in the Enterprise NewsMedia, LLC acquisition were valued at $986 and are being amortized over two years on a straight-line basis. There were no non-compete agreements in the CP Media acquisition.

(g) Restructuring

As of June 30, 2007, the accrued restructuring balance was $735, which relates to on-going obligations for employee termination agreements in connection with the acquisition of The Copley Press, Inc. newspapers, the acquisitions of Messenger Post and Enterprise NewsMedia, LLC. During the six months ended June 30, 2007, the Company made payments of $376 in connection with these obligations.

(h) Pro-Forma Results

The unaudited pro forma condensed consolidated statement of operations information for 2007, set forth below, presents the results of operations as if the acquisitions of the newspapers from The Copley Press, Inc. and the newspapers from Gannett Co., Inc. had occurred on January 1, 2006. The unaudited pro forma condensed consolidated statement of operations information for 2006, set forth below, presents the results of operations as if the acquisitions of the newspapers from The Copley Press, Inc., the newspapers from Gannett Co., Inc. and the acquisitions of CP Media and Enterprise NewsMedia, LLC had occurred on January 1, 2006. These amounts are not necessarily indicative of future results or actual results that would have been achieved had the acquisitions occurred as of the beginning of such period. The unaudited pro forma condensed consolidated statements of operations data, set forth below, does not give pro forma effect to:

the acquisition of all the issued and outstanding capital stock of SureWest Directories from SureWest Communications for an aggregate purchase price of approximately $110,160 in February of 2007; and

the acquisition of eight publications from the Journal Register Company for an aggregate purchase price of approximately $72,219 in February of 2007;

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues	$ 172,466	$ 166,839	$ 326,554	$ 318,434
Net income (loss)	$ 550	$ (7,046)	$ (12,051)	$ (16,281)
Net earnings (loss) per common share:				
Basic	$ 0.01	$ (0.32)	$ (0.32)	$ (0.73)
Diluted	$ 0.01	$ (0.32)	$ (0.32)	$ (0.73)

(5) Goodwill and Other Intangible Assets

Goodwill and intangible assets consisted of the following:

	June 30, 2007		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Noncompete agreements	$ 3,039	$ 831	$ 2,208
Advertiser relationships	526,719	28,262	498,457
Customer relationships	2,896	243	2,653
Subscriber relationships	138,106	6,585	131,521
Trade name	5,493	183	5,310
Publication rights	345	8	337
Total	$ 676,598	$ 36,112	$ 640,486
Nonamortized intangible assets:			
Goodwill	$ 922,621		
Mastheads	150,667		
Total	$ 1,073,288		

	December 31, 2006		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Noncompete agreements	$ 1,595	$ 401	$ 1,194
Advertiser relationships	260,191	15,986	244,205
Customer relationships	2,064	127	1,937
Subscriber relationships	63,290	3,732	59,558
Total	$ 327,140	$ 20,246	$ 306,894
Nonamortized intangible assets:			
Goodwill	$ 516,656		
Mastheads	84,202		
Total	$ 600,858		

Amortization expense for the three months ended June 30, 2007 and 2006 and the six months ended June 30, 2007 and 2006 was $10,212, $3,120, $15,864 and $5,362 respectively. Estimated future amortization expense as of June 30, 2007, is as follows:

For the year ending December 31:	
2007	$ 22,004
2008	43,101
2009	42,875
2010	42,846
2011	42,781
Thereafter	446,879
Total	$ 640,486

The changes in the carrying amount of goodwill for the period from January 1, 2007 to June 30, 2007 are as follows:

Balance at January 1, 2007	$ 516,656
Additions	405,965
Balance at June 30, 2007	$ 922,621

Additions principally relate to recent acquisitions, primarily the newspapers acquired from The Copley Press, Inc., and Gannett Co., Inc., the acquisition of SureWest Directories and the newspapers acquired from the Journal Register Company, as well as adjustments for tax uncertainties related to prior acquisitions.

The Company s date on which its annual impairment assessment is made is June 30. No impairment charge resulted from the assessment completed as of June 30, 2007.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

(6) Long-Term Debt

On February 28, 2005, GateHouse Media, Inc. (Operating Company) entered into a Credit Agreement with a syndicate of financial institutions led by Wells Fargo Bank, National Association (Wells Fargo), with U.S. Bank National Association (US Bank) as syndication agent, CIT Lending Services Corporation as documentation agent and Wells Fargo as administrative agent (the New Credit Facility). The New Credit Facility provided for a $280,000 principal amount New Term Loan B that matured in February 2012 and a revolving credit facility with a $50,000 aggregate commitment amount available, including a $10,000 sub-facility for letters of credit that mature in February 2011. The New Credit Facility was secured by a first-priority security interest in substantially all of the tangible and intangible assets of Operating Company, GateHouse, and GateHouse s other present and future direct and indirect subsidiaries. Additionally, the loans under the New Credit Facility were guaranteed, subject to specified limitations, by GateHouse and all of the future direct and indirect subsidiaries of Operating Company and GateHouse.

In June 2006, the Company repaid the New Term Loan B, the New Credit Facility and all accrued interest in full with a portion of their proceeds from the new debt, as discussed below. In connection with the termination of the New Term Loan B and the new Credit Facility, the Company wrote off $702 of deferred finance fees.

On June 6, 2006, in connection with the acquisitions of CP Media and Enterprise NewsMedia, LLC, the Company, through its direct and indirect subsidiaries entered into several new financial arrangements with a syndicate of financial institutions with Wachovia Bank, National Association as administrative agent. The first lien credit facility, as amended on June 21, 2006 and October 11, 2006, provided for a $570,000 term loan facility which matured on December 6, 2013 and 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 matured on June 6, 2013. The second lien credit facility provided for a $152,000 term facility that matured on June 6, 2014, subject to earlier maturities upon the occurrence of certain events.

The first lien credit facility and second lien credit facility were secured by a first priority security interest, respectively, in (i) 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, (ii) 66% of the voting stock (and 100% of the nonvoting stock) of all present and future first-tier foreign subsidiaries and (iii) substantially all of the tangible and intangible assets of GateHouse Media Holdco, Inc. (Holdco) a wholly owned subsidiary of the Company and direct parent of Operating, and their present and future direct and indirect domestic restricted subsidiaries. In addition, the loans and other obligations of the borrowers under the first lien credit facility were guaranteed, subject to specified limitations, by Holdco, Operating and their present and future direct and indirect domestic restricted subsidiaries.

Borrowings under the first lien credit facility bore interest, at the borrower s option, equal to the LIBOR Rate for a LIBOR Rate Loan (as defined in the first lien credit facility), or the Alternate Base Rate for an Alternate Base Rate Loan (as defined in the first lien credit facility), plus an applicable margin. The applicable margin for LIBOR Rate term loans and Alternate Base Rate term loans was fixed at 2.25% and 1.25%, respectively. The applicable margin for revolving loans was adjusted quarterly based upon Holdco s Total Leverage Ratio (as defined in the first lien credit facility) (i.e., the ratio of Holdco s Consolidated Indebtedness (as defined in the first lien credit facility) on the last day of the preceding quarter to Consolidated EBITDA (as defined in the first lien credit facility) for the four fiscal quarters ending on the date of determination). The applicable margin ranged from 1.5% to 2.0%, in the case of LIBOR Rate Loans, and 0.5% to 1.0%, in the case of Alternate Base Rate Loans. The borrowers under the revolving credit facility also paid a quarterly commitment fee on the unused portion of the revolving credit facility ranging from 0.25% to 0.5% based on the same ratio of Consolidated Indebtedness to Consolidated EBITDA and a quarterly fee equal to the applicable margin for LIBOR Rate Loans on the aggregate amount of outstanding letters of credit.

Borrowings under the second lien credit facility bore interest, at the borrower s option, equal to the LIBOR Rate for a LIBOR Rate Loan (as defined in the second lien credit facility) or the Alternate Base Rate for an Alternate Base Rate Loan (as defined in the second lien credit facility) plus an applicable margin. The applicable margin for LIBOR Rate term loans and Alternate Base Rate term loans was fixed at 1.5% and 0.5%, respectively.

No principal payments were due on the term loan facility or the revolving credit facility until the applicable maturity date. The borrowers were required to prepay borrowings under the term loan facility in an amount equal to 50% of Holdco s Excess Cash Flow (as defined in the first lien credit facility) earned during the previous fiscal year, except that no prepayments were required if the Total Leverage Ratio is less than or equal to 6.0 to 1.0 at the end of any fiscal year. In addition, the borrowers were required to prepay borrowings under the term loan facility with certain asset disposition proceeds,

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

cash insurance proceeds and condemnation or expropriation awards subject to specified reinvestment rights. The borrowers were also required to prepay borrowings with 50% of the net proceeds of certain equity issuances or 100% of the proceeds of certain debt issuances except that no prepayment is required if Holdco s Total Leverage Ratio is less than 6.0 to 1.0. If the term loan facility has been paid in full, mandatory prepayments were required to be applied to the repayment of borrowings under the swingline facility and revolving credit facility and the cash collateralization of letters of credit.

The first lien credit facility contained financial covenants that require Holdco to satisfy specified quarterly financial tests, consisting of a Total Leverage Ratio, an interest coverage ratio and a fixed charge coverage ratio. The first lien credit facility also contained affirmative and negative covenants customarily found in loan agreements for similar transactions, including restrictions on the Company s ability to incur indebtedness, 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 after the second lien credit facility has been paid in full and terminated, Holdco was also permitted to pay quarterly dividends so long as, after giving effect to any such dividend payment, Holdco and its subsidiaries were in pro forma compliance with each of the financial covenants, including the Total Leverage Ratio). The first lien credit facility contained 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; a material inaccuracy of representations and warranties; breach of covenants; failure to pay other indebtedness and cross-defaults; a Change of Control (as defined in the first lien credit facility); events of bankruptcy and insolvency; material judgments; failure to meet certain requirements with respect to ERISA; and impairment of collateral.

In October 2006, the Company used a portion of the proceeds from its IPO to repay in full and terminate its $152,000 second lien credit facility. In addition, the Company used a portion of the net proceeds to pay down $12,000 of the then outstanding $570,000 first lien credit facility, reducing its balance and limit to $558,000, and to repay in full the outstanding balance of $21,300 under its $40,000 revolving credit facility.

In connection with the termination of the $152,000 second lien credit facility and the $12,000 reduction in borrowing capacity on its first lien credit facility, the Company wrote off $1,384 of deferred financing costs.

On February 27, 2007, the Company entered into an amended and restated credit agreement with a syndicate of financial institutions with Wachovia Bank, National Association as administrative agent (the 2007 Credit Facility). The 2007 Credit Facility provides for a $670,000 term loan facility which matures in August 2014, a delayed draw term loan of up to $250,000 available until August 2007 which matures in August 2014 and a revolving credit agreement with a $40,000 aggregate loan commitment available, including a $15,000 sub-facility for letters of credit and a $10,000 swingline facility, which matures in February 2014.

The 2007 Credit Facility is secured by a first priority security interest in (i) 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, (ii) 66% of the voting stock (and 100% of the nonvoting stock) of all present and future first-tier foreign subsidiaries and (iii) substantially all of the tangible and intangible assets of Holdco, Operating and their present and future direct and indirect domestic restricted subsidiaries. In addition, the loans and other obligations of the borrowers under the 2007 Credit Facility are guaranteed, subject to specified limitations, by Holdco, Operating and their present and future direct and indirect domestic restricted subsidiaries.

Borrowings under the 2007 Credit Facility bear interest, at the borrower s option, equal to the LIBOR Rate for a LIBOR Rate Loan (as defined in the 2007 Credit Facility), or the Alternate Base Rate for an Alternate Base Rate Loan (as defined in the 2007 Credit Facility), plus an applicable margin. The applicable margin for LIBOR Rate term loans and Alternate Base Rate term loans is 1.75% and 0.75%, respectively, if the ratings for the credit facilities by Moody s Investors Service Inc. is at least B1 and by Standard & Poor s Ratings Services is at least B+ , and otherwise is 2.00% and 1.00%, respectively. The applicable margin for revolving loans is adjusted quarterly based upon Holdco s Total Leverage Ratio (as defined in the 2007 Credit Facility) (*i.e.*, the ratio of Holdco s Consolidated Indebtedness (as defined in the 2007 Credit Facility) on the last day of the preceding quarter to Consolidated EBITDA (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 loan facility the Company also pays a quarterly commitment fee on the unused portion of the revolving loan facility ranging from 0.25% to 0.5% based on the same ratio of Consolidated Indebtedness to Consolidated EBITDA and a quarterly fee equal to the applicable margin for LIBOR Rate Loans on the aggregate amount of outstanding letters of credit. In addition, the Company is 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.

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 the Company 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 (i) 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 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 (ii) make restricted payments of proceeds of asset dispositions to the Company to the extent such proceeds are not required to prepay loans under the 2007 Credit Facility and/or cash collateralize letter of credit obligations if such proceeds are used to prepay borrowings under acquisition credit facilities of GateHouse Media, Inc.). 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; a material inaccuracy of representations and warranties; breach of covenants; 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.

On April 11, 2007, the Company entered into the Bridge Facility with a syndicate of financial institutions with Wachovia Investment Holdings, LLC as administrative agent. The Bridge Facility provides for a $300,000 term loan facility that matures on April 11, 2015. The Bridge Facility is secured by a first priority security interest in all present and future capital stock of Holdco owned by us and all proceeds thereof.

Borrowings under the Bridge Facility bear interest, at the borrower s option, at a floating rate equal to the LIBOR Rate for a LIBOR Rate Loan (as defined in the Bridge Facility), or the Base Rate for a Base Rate Loan (as defined in the Bridge Facility), plus an applicable margin. During the first year of the facility, until April 11, 2008 (the Pricing Step-Up Date), the applicable margin for LIBOR Rate term loans and Base Rate term loans, is 1.50% and 0.50%, respectively. On the Pricing Step-Up Date and quarterly thereafter until the maturity date, the applicable margin for LIBOR Rate term loans and Base Rate term loans will be determined by reference to a pricing grid which is based upon (i) the Company s Total Leverage Ratio (as defined in the Bridge Facility) and (ii) the ratings provided by Moody s and by S&P for the Bridge Facility, or if the Bridge Facility has not been rated, for the corporate family of GateHouse. If the ratings for the Bridge Facility by Moody s is at least B3 and by S&P is at least B- (or if the Bridge Facility has not been rated, the corporate family rating of GateHouse and its subsidiaries is at least B1 by Moody s and at least B+ by S&P), the applicable margin for LIBOR Rate term loans and Base Rate term loans will range from 3.50% to 4.25% and 2.50% to 3.25%, respectively; otherwise the applicable margin for LIBOR Rate term loans and Base Rate term loans will range from 4.00% to 4.75% and 3.0% to 3.75%, respectively.

The Bridge Facility contains affirmative and negative covenants applicable to us and our restricted subsidiaries customarily found in loan agreements for similar transactions, including restrictions on our ability to incur indebtedness (which we are generally permitted to incur so long as the Company satisfies an incurrence test that requires us to maintain a pro forma Total Leverage Ratio of not greater than 8.25 to 1.00 and which provide that the Company is only permitted to incur indebtedness if the proceeds of such indebtedness are used to prepay the Bridge Loan), 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 the Company is permitted to make restricted payments (including quarterly dividends) so long as, after giving effect to any such restricted payment, it would be able to incur an additional $1.00 of debt under the incurrence test referred to above). The Bridge Facility also permits the Company, in certain limited circumstances, to designate subsidiaries as unrestricted subsidiaries which are not subject to the covenant restrictions in the Bridge Facility. The Bridge 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; a material inaccuracy of representations and warranties; breach of covenants; failure to pay other indebtedness and cross-accelerations; a Change of

Control (as defined in the Bridge Facility); events of bankruptcy and insolvency; material judgments; failure to meet certain requirements with respect to ERISA; and impairment of collateral.

As of June 30, 2007, a total of $300,000 was outstanding under the Bridge Facility.

On May 7, 2007, the Company entered into the First Amendment to amend the 2007 Credit Facility. The First Amendment provided for 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 billion of term loan facilities and a $40.0 million 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 Investor Service Inc. (Moody s) and Standard & Poor s Rating Services (S&P), are at least B1 and B+, respectively, in each case with stable outlook or (ii) 2.25%, otherwise, or (b) the greater of the prime rate set by Wachovia Bank, National Association, 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 of June 30, 2007, a total of $670,000, $250,000, $275,000 and $3,000 was outstanding under the term loan facility, the delayed draw term loan, the incremental term loan facility and the revolving credit facility, respectively.

(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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). For these instruments, the effective portion of the change in the fair value of the derivative is recorded in accumulated other comprehensive income in the Unaudited Condensed

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

Consolidated Statement of Stockholders Equity and recognized in the Unaudited Condensed Consolidated Statement of Operations in the same period in which the hedged transaction impacts earnings. The ineffective portion of the change in the fair value of the derivative is immediately recognized in earnings.

On June 23, 2005, the Company entered into and designated an interest rate swap based on a notional amount of $300,000 maturing June 2012 as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one month LIBOR and pays a fixed rate of 4.135%, with settlements occurring monthly. For the period from January 1, 2006 through February 19, 2006, the hedge was deemed ineffective and, as a result, the change in the fair value of the derivative of $2,605 was recognized through earnings. On February 20, 2006, the Company redesignated the same interest rate swap as a cash flow hedge for accounting purposes. The fair value of the swap decreased by $1,082, net, of which $(1,472) was recognized through earnings and a $234 increase in fair value net of income taxes of $156 was recognized through accumulated other comprehensive income. At December 31, 2006, the swap no longer qualified as an effective hedge. Therefore, the balance in accumulated other comprehensive income will be 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. During the three months ended June 30, 2007, the fair value of the swap increased by $5,642, net, of which $425 was recognized through earnings and a $3,175 increase in fair value net of income taxes of $2,042 was recognized through accumulated other comprehensive income. During the six months ended June 30, 2007, the effective portion of the increase in the fair value of the swap of $2,244, net of income taxes of $1,444 was recognized through accumulated other comprehensive income. During the three and six months ended June 30, 2007, $10 and $20 net of taxes of $7 and $14, respectively was amortized and recognized through earnings relating to the balance in accumulated other comprehensive income as of December 31, 2006. The estimated net amount to be reclassified into earnings during the next twelve months is $68.

In connection with the 2006 Financing, the Company entered into and designated an interest rate swap based on a notional amount of $270,000 maturing July 2011 as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one month LIBOR and pays a fixed rate of 5.359%, with settlements occurring monthly. On December 31, 2006, the swap was dedesignated and was redesignated on January 1, 2007 due to the fact that the Company has changed its method of assessing the hedge effectiveness for interest rate swaps designated as cash flow hedges. Therefore, the balance in accumulated other comprehensive income will be reclassified into earnings over the life of the hedged item. During the three months ended June 30, 2007, the fair value of the swap increased by $4,823, net, of which $417 was recognized through earnings and a $2,681 increase in fair value net of income taxes of $1,725 was recognized through accumulated other comprehensive income. During the six months ended June 30, 2007, the fair value of the swap increased by $3,679, net, of which $417 was recognized through earnings and a $1,985 increase in fair value, net of income taxes of $1,277, was recognized through accumulated other comprehensive income. During the three and six months ended June 30, 2007, $31 and $46, net of taxes of $21 and $31 respectively was amortized and recognized through earnings relating to the balance in accumulated other comprehensive income as of December 31, 2006. The estimated net amount to be reclassified into earnings during the next twelve months is $927.

In connection with the 2007 Credit Facility, the Company entered into and designated an interest rate swap based on a notional amount of $100,000 maturing September 2014, as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one-month LIBOR and pays a fixed rate of 5.14% with settlements occurring monthly. During the three and six months ended June 30, 2007, the effective portion of the increase in the fair value of the swap of $1,759 and 1,057, net of income taxes of $1,132 and $680, was recognized through accumulated other comprehensive income, respectively. There was no ineffectiveness recognized related to this swap.

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 and six months ended June 30, 2007, the effective portion of the increase in the fair value of the swap of $4,190, net of income taxes of $2,696 was recognized through accumulated other comprehensive income. There was no ineffectiveness recognized related to this swap.

In connection with the First Amendment to the 2007 Credit Facility, the Company entered into and designated an interest rate swap based on a notional amount of $200,000 maturing September 2014, as a cash flow hedge. Under the swap agreement, the Company receives interest equivalent to one-month LIBOR and pays a fixed rate of 5.079% with settlements occurring monthly. During the three and six months ended June 30, 2007 the effective portion of the increase in the fair value of the swap of $2,560, net of income taxes of $1,647 was recognized through accumulated other comprehensive income. There was no ineffectiveness recognized related to this swap.

(8) Related Party Transactions

As of June 30, 2007, Fortress beneficially owned approximately 57.82% of the Company s outstanding common stock.

In addition, the Company s Chairman, Wesley Edens, is the Chief Executive Officer and Chairman of the board of directors of Fortress Investment Group LLC, an affiliate of the Company s majority stockholder. The Company does not pay Mr. Edens a salary or any other form of compensation.

Affiliates of Fortress own $112,000 of the $1,195,000 2007 Credit Facility as of June 30, 2007. 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 Fortress, its majority stockholder. The Investor Rights Agreement provides Fortress with certain rights with respect to the nomination of directors to the Company s board of directors as well as registration rights for securities of the Company owned by Fortress.

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

Pursuant to the Investor Rights Agreement, the Company grants Fortress, for so long as it beneficially owns 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 Fortress at any time after six months following the consummation of its IPO to request that the Company register under the Securities

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

Act of 1933, as amended, an amount equal to or greater than a Registrable Amount. Fortress 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 six months of a firm commitment underwritten offering to which the requestor held piggyback rights and which included at least 50% of the securities requested by the requestor to be included. The Company is not obligated to grant a request for a demand registration within four months of any other demand registration and may refuse a request for demand registration if, in the Company s reasonable judgment, it is not feasible for the Company to proceed with the registration because of the unavailability of audited financial statements.

For so long as Fortress beneficially owns an amount of the Company s common stock at least equal to 1% of the Company s common stock issued and outstanding immediately after the consummation of its IPO, Fortress also has piggyback registration rights that allow Fortress to include the shares of common stock that Fortress owns 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 Fortress are subject to proportional cutbacks based on the manner of the offering and the identity of the party initiating such offering.

The Company grants Fortress, 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 agrees to indemnify Fortress against any losses or damages resulting from any untrue statement or omission of material fact in any registration statement or prospectus pursuant to which Fortress sells shares of the Company s common stock, unless such liability arose from Fortress misstatement or omission, and Fortress 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. SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109) 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 reported pretax losses for the year ended December 31, 2004, the period from January 1, 2005 to June 5, 2005 the year ended December 31, 2006, the three months ended March 31, 2007 and the three and six months ended June 30, 2007. The Company concluded during the fourth quarter of 2006 and the first and second quarters of 2007 that it was more likely than not that the Company would fully realize the benefits of its existing deductible differences.

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

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

The tax rate for the six months ended June 30, 2007, is less than the Federal statutory rate of 34% principally due to adjustments recorded during the six months ended June 30, 2007 of $825 related to tax contingencies offset by the impact of state taxes. For the six months ended June 30, 2007, the expected Federal tax benefit at 34% is $4,325. The difference between the expected tax rate and the effective tax rate is attributable to the tax adjustment of $825, a state tax benefit of $596, and non-deductible meals and entertainment of $75.

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 2003 tax year and beyond.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, *an interpretation of SFAS No. 109* (FIN 48), effective January 1, 2007. There was no impact as a result of the implementation of FIN 48. The Company does not anticipate significant increases or decreases in our uncertain tax positions within the next twelve months. The Company recognizes penalties and interest relating to uncertain tax positions in the provision for income taxes. The implementation of FIN 48 did not have a material impact on the tax provision for the three months ended March 31, 2007. The Company recognizes interest and penalties related to unrealized tax benefits in income tax expense.

The Company records tax assets and liabilities at the date of a purchase business combination, based on management s best estimate of the ultimate tax basis that will be accepted by the tax authority, and liabilities for prior tax returns of the acquired entity should be based on the Company s best estimate of the ultimate settlement in accordance with Emerging Issues Task Force (EITF) Issue No. 93-7, *Uncertainties Related to Income Taxes in a Purchase Business Combination*. At the date of a change in the Company s best estimate of the ultimate tax basis of acquired assets, liabilities, and carryforwards, and at the date that the tax basis is settled with the tax authority, tax assets and liabilities should be adjusted to reflect the revised tax basis and the amount of any settlement with the tax authority for prior-year income taxes. Similarly, at the date of a change in the Company s best estimate of items relating to the acquired entity s prior tax returns, and at the date that the items are settled with the tax authority, any liability previously recognized should be adjusted. The effect of those adjustments should be applied to increase or decrease the remaining balance of goodwill attributable to that acquisition. If goodwill is reduced to zero, the remaining amount of those adjustments should be applied initially to reduce to zero other noncurrent intangible assets related to that acquisition, and any remaining amount should be recognized in earnings.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

(10) Pension and Postretirement Benefits

As a result of the acquisition of Enterprise News Media, LLC, the Company maintains a pension plan and postretirement medical and life insurance plan which cover certain employees. The Company uses the accrued benefit actuarial method and best estimate assumptions to determine pension costs, liabilities and other pension information for defined benefit plans.

The following provides information on the pension plan and postretirement medical and life insurance plan for the three and six months ended June 30, 2007, and the period from June 6, 2006 to June 30, 2006.

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007		Period from June 6, 2006 to June 30, 2006	
	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement
Components of Net Periodic Benefit Costs:						
Service cost	$ 160	$ 108	$ 320	$ 216	$ 46	$ 27
Interest cost	313	143	621	286	80	35
Expected return on plan assets	(353)		(698)		(94)	
Amortization of unrecognized loss						(8)
Special termination benefits	43		43			
Total	$ 163	$ 251	$ 286	$ 502	$ 32	$ 54

During the three and six months ended June 30, 2007, and the period from June 6, 2006 to June 30, 2006, the Company recognized a total of $414, $788 and $86 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 during the six months ended June 30, 2007:

	Pension	Postretirement
Weighted average discount rate	6.0%	6.0%
Rate of increase in future compensation levels	3.5%	%
Expected return on assets	8.5%	%
Current year trend		8.5%
Ultimate year trend		5.5%
Year of ultimate trend		2011

(11) Assets Held for Sale

As of June 30, 2007, the Company intends to dispose of various assets which are classified as held for sale on the condensed consolidated balance sheet in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, (SFAS No. 144).

The following table summarizes the major classes of assets and liabilities held for sale at June 30, 2007:

Assets held for sale:	
Cash	$ 874
Accounts receivable, net	2,100
Inventory	690
Prepaid expenses and other current assets	99
Total assets held for sale	$ 3,763
Long-term assets held for sale:	
Property, plant and equipment, net	$ 9,026
Intangible assets	70,350
Total long-term assets held for sale	$ 79,376
Liabilities held for sale	$ 871

The assets held for sale primarily consist of the newspaper operations in Huntington, West Virginia which were purchased from Gannett Co., Inc. in April, 2007. The value recorded for these assets is $79,000.

During the three and six months ended June 30, 2007, the Company recorded a charge to operations of $82 and $201, respectively related to the impairment of property, plant and equipment which were classified as held for sale as of June 30, 2007.

Table of Contents

GATEHOUSE MEDIA, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

(12) Commitments and Contingencies

The Company becomes involved from time to time in claims and lawsuits incidental to the ordinary course of its business, including such matters as libel, invasion of privacy, intellectual property infringement, wrongful termination actions, and complaints alleging 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 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 flow.

(13) Discontinued Operations

In June 2007 the Company entered into a definitive agreement to sell *The Herald Dispatch* and related publications (initially acquired in the Gannett Co., Inc. acquisition) which are located in Huntington, West Virginia for a purchase price of approximately $79,000. The net revenue and income before income taxes during the three and six months ended June 30, 2007 for the aforementioned discontinued operations was $3,299 and $1,060, respectively.

(14) Subsequent Events

On July 23, 2007 the Company completed its follow-on public offering of 18,700,000 shares of its common stock, including 1,700,000 shares sold pursuant to the exercise by the underwriters of their option, at a public offering price of $18.45 per share. The total net proceeds from the follow-on public offering were approximately $332,841. The Company used a portion of the proceeds to repay in full and terminate its $300,000 Bridge Facility.

Table of Contents

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

The following discussion of 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 that are subject to risks, uncertainties and other factors described under the heading Risk Factors in our Annual Report on Form 10-K that could cause actual future growth, results of operations, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, such forward looking information.

Certain statements in this Quarterly Report on Form 10-Q may constitute 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, 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 , would , seek(s) , estimate(s) and similar expressions are inten such forward-looking statements.

Forward-looking statements are based on management s current expectations and beliefs and are subject to a number of known and unknown risks, uncertainties and other factors that could lead to actual results 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 identified by us under the heading Risk Factors included in our Annual Report on Form 10-K. 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.

Table of Contents

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 as of June 30, 2007, includes 470 community publications and more than 245 related websites, serves over 173,000 business advertising accounts and reaches approximately 10 million people on a weekly basis.

Our core products include:

- 87 daily newspapers with total paid circulation of approximately 802,000;
- 251 weekly newspapers (published up to three times per week) with total paid circulation of approximately 536,000 and total free circulation of approximately 731,000;
- 132 shoppers (generally advertising-only publications) with total circulation of approximately 2.5 million;
- over 245 locally focused websites, which extend our franchises onto the internet; and
- 7 yellow page directories, with a distribution of approximately 758,000, that cover a population of approximately 2.0 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. Over the last twelve months, we created approximately 79 niche publications.

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.

On May 9, 2005, FIF III Liberty Holdings LLC, an affiliate of Fortress Investment Group, LLC, entered into an Agreement and Plan of Merger with us 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 making FIF III Liberty Holdings LLC our principal and controlling stockholder. Prior to the effectiveness of the Merger, affiliates of Leonard Green & Partners, L.P. controlled the Company.

As of June 30, 2007, Fortress beneficially owned approximately 57.82% of our outstanding common stock.

Since 1998, we have acquired 352 daily and weekly newspapers and shoppers, including 17 dailies, 120 weeklies and 22 shoppers acquired in the acquisitions of CP Media, Enterprise NewsMedia, LLC, (the Massachusetts Acquisitions), The Copley Press, Inc. and Gannett Co., Inc. and launched numerous new products, including 10 weekly newspapers.

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.

Our advertising revenue tends to follow a seasonal pattern, with higher advertising revenue in months containing significant events or holidays. Accordingly, our first quarter is, historically, our weakest quarter of the year in terms of revenue. Correspondingly, our fourth fiscal quarter is, historically, our strongest quarter, because it includes heavy holiday season advertising. We expect that this seasonality will continue to affect our advertising revenue in future periods.

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

According to the Newspaper Association of America, overall daily newspaper circulation, including national and urban newspapers, has declined at an average annual rate of 0.8% during the three year period from 2002 to 2004. This has put downward pressure on advertising and circulation revenues in the industry. We have maintained relatively stable revenues due to our geographic diversity, well-balanced portfolio of products, strong local franchises and broad customer base. 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.

Operating cost categories of newsprint, labor and delivery costs have experienced increased upward price pressure in the industry over the three-year period from 2003 to 2006. We expect newsprint costs to continue to increase per metric ton. We have also experienced these pressures and have taken steps to mitigate some of these increases. We are a member of a newsprint-buying consortium which enables our local publishers to obtain favorable pricing. 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.

Recent Developments

On July 23, 2007, we completed our follow-on public offering of 18,700,000 shares of our common stock, including 1,700,000 shares sold pursuant to the exercise by the underwriters of their option, at a public offering price of $18.45 per share. The total net proceeds from our follow-on public offering were approximately $332.8 million. We used a portion of the proceeds to repay in full and terminate our $300.0 million Bridge Facility.

Table of Contents

Pro Forma

We have presented our operating results on a pro forma basis for the three months ended June 30, 2007 and 2006 and the six months ended June 30, 2007 and 2006. This pro forma presentation for the three and six months ended June 30, 2007 and 2006 assumes that the Massachusetts Acquisitions, the acquisitions of the newspapers from The Copley Press Inc. and Gannett Co, Inc. and the 2007 Financings occurred at the beginning of the pro forma period. This pro forma presentation is not necessarily indicative of what our operating results would have actually been had the Massachusetts Acquisitions, the acquisitions of the newspapers from The Copley Press, Inc. and Gannett Co., Inc., and the 2007 Financings occurred at the beginning of the pro forma period.

Critical Accounting Policy Disclosure

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

A summary of our significant accounting policies are described in Note 1 of our consolidated financial statements for the year ended December 31, 2006, with our Annual Report filed on Form 10-K.

There have been no changes in critical accounting policies in the current year from those described in our Annual Report on Form 10-K for the year ended December 31, 2006.

Table of Contents

Results of Operations

The following table summarizes our pro forma results of operations for the three months ended June 30, 2007 and 2006 and the six months ended June 30, 2007 and 2006.

	Three months ended June 30, 2007 (Pro forma)	Three months ended June 30, 2006 (Pro forma)	Six months ended June 30, 2007 (Pro forma)	Six months ended June 30, 2006 (Pro forma)
	(in thousands)			
Revenues:				
Advertising	$ 128,253	$ 125,262	$ 239,607	$ 236,125
Circulation	35,242	32,399	68,102	64,481
Commercial printing and other	8,971	9,178	18,845	17,828
Total revenues	172,466	166,839	326,554	318,434
Operating costs and expenses:				
Operating costs	89,456	87,937	176,984	174,509
Selling, general and administrative	43,405	40,326	87,891	79,469
Depreciation and amortization	16,093	13,156	31,070	26,561
Transaction costs related to Merger and Acquisitions		4,420		4,420
Integration and reorganization costs	1,615	386	2,453	2,096
Impairment of long-lived assets	82		201	
Loss on sale of assets	(9)	(143)	(22)	(580)
Operating income	21,806	20,471	27,933	30,799
Interest expense	22,379	25,983	48,362	51,966
Amortization of deferred financing costs	980	1,100	1,297	2,199
Loss on early extinguishment of debt		2,065		2,065
Unrealized gain on derivative instrument	(758)		(375)	(2,605)
Other income	(4)	(22)	(229)	(45)
Loss from continuing operations before income taxes	(791)	(8,655)	(21,122)	(22,781)
Income tax benefit	(471)	(620)	(7,552)	(4,810)
Net loss from continuing operations	(320)	(8,035)	(13,570)	(17,971)
Income from discontinued operations, net of tax	870	989	1,519	1,690
Net income (loss)	$ 550	$ (7,046)	$ (12,051)	$ (16,281)

Three Months Ended June 30, 2007 Compared To Three Months Ended June 30, 2006

Revenue. Total revenue for the three months ended June 30, 2007 increased by $5.6 million, or 3.4%, to $172.5 million from $166.8 million for the three months ended June 30, 2006. The increase in total revenue was comprised of a $3.0 million, or 2.4%, increase in advertising revenue and a $2.8 million, or 8.8% increase in circulation revenue, partially offset by a $0.2 million, or 2.3%, decrease in commercial printing and other revenue. The increase in advertising revenue was primarily due to advertising revenue from certain acquisitions that did not meet the significance test for pro forma treatment (the Acquisitions) of $4.6 million, partially offset by the loss of a third party printing contract not assumed in the acquisition of The Copley Press, Inc. as well as a decrease in advertising revenue from Massachusetts. Massachusetts has been impacted by lower real estate advertising and additionally reflects the intentional and careful elimination of seven publications to maximize the operations in the region. The increase in advertising revenue was also offset due to the sale of a stand alone commercial printing facility in October 2006. The increase in circulation revenue was due to pricing.

We acquired SureWest Directories on February 28, 2007. SureWest Directories publishes and sells directory advertising in yellow page and white page directories which are published annually and had total circulation exceeding 600,000 for the year ended December 31, 2006. Deferred revenue and the related costs since the date of the SureWest Directories acquisition are not recorded in this period since no new directories were issued. This resulted in revenues and expenses being less that what the predecessor owner would have recognized. Exclusive of the effect of purchase accounting adjustments, revenue during the three months ended June 30, 2007 would have been $4.8 million.

Operating Costs. Operating costs for the three months ended June 30, 2007 increased by $1.5 million, or 1.7%, to $89.5 million from $87.9 million for the three months ended June 30, 2006. The increase in operating costs was primarily due to operating costs of the Acquisitions of $2.8 million as well as an increase in delivery, facility and external printing costs of $0.3 million, $0.3 million and $0.6 million, respectively. These amounts were partially offset by decreased payroll and newsprint expenses of $0.3 and $2.2 million respectively.

Selling, General and Administrative. Selling, general and administrative expenses for the three months ended June 30, 2007 increased by $3.1 million, or 7.6%, to $43.4 million from $40.3 million for the three months ended June 30, 2006. The increase in selling, general and administrative expenses was primarily due to selling, general and administrative expenses of the Acquisitions of $1.7 million as well as an increase in non-cash compensation expense related to our RSGs of $0.6 million. Additionally, during the three months ended June 30, 2007 we incurred an increase in professional fees and pension and postretirement expenses of $0.7 million and $0.2 million, respectively.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended June 30, 2007 increased by $2.9 million to $16.1 million from $13.2 million for the three months ended June 30, 2006. The increase was primarily due to depreciation and amortization of the Acquisitions of $1.7 million. Additionally, during the second quarter of 2007, we incurred capital expenditures of $1.6 million.

Transaction Costs Related to Merger and Acquisitions. During the three months ended June 30, 2006, we incurred approximately $4.4 million in transaction costs primarily related to bonuses at Enterprise NewsMedia, LLC.

Impairment of Long-Lived Assets. During the three months ended June 30, 2007 we incurred a charge of $0.1 million related to the impairment of property, plant and equipment which were classified as held for sale at June 30, 2007.

Interest Expense. Total interest expense for the three months ended June 30, 2007 decreased by $3.6 million, or 13.9%, to $22.4 million from $26.0 million for the three months ended June 30, 2006. The decrease was primarily due to decreases in our interest rates.

Loss on Early Extinguishment of Debt. During the three months ended June 30, 2006, we incurred a $2.1 million loss due to the write off of deferred financing costs associated with the extinguishment of our Term Loan B and second lien credit facility.

Unrealized Gain on Derivative Instrument. During the three months ended June 30, 2007 we recorded a gain of $0.8 million due to ineffectiveness related to our $300 million and $270 million interest rate swaps, which we entered into in June 2005 and May 2006, respectively, in an effort to eliminate a significant portion of our exposure to fluctuations in LIBOR.

Income Tax Benefit. Income tax benefit for the three months ended June 30, 2007 was $0.5 million compared to $0.6 million for the three months ended June 30, 2006. The change of $0.1 million was primarily due to a decrease in book pretax loss during the three months ended June 30, 2007. The 2007 effective rate was primarily impacted by adjustments for tax projections of full year taxable income.

Net Loss from Continuing Operations. Net loss from continuing operations for the three months ended June 30, 2007 was $0.3 million. Net loss from continuing operations for the three months ended June 30, 2006 was $8.0 million. Our net loss from continuing operations decreased due to the factors noted above.

Income from Discontinued Operations. Income from discontinued operations was $0.9 million for the three months ended June 30, 2007 and $1.0 million for the three months ended June 30, 2006. Income from discontinued operations relates to the sale of the Huntington, West Virginia newspapers which were initially purchased in connection with the Gannett acquisition.

Net Income (Loss). Net income for the three months ended June 30, 2007 was $0.6 million. Net loss for the three months ended June 30, 2006 was $7.0 million. Our net income increased due to the factors noted above.

Table of Contents

Six Months Ended June 30, 2007 Compared To Six Months Ended June 30, 2006

Revenue. Total revenue for the six months ended June 30, 2007 increased by $8.1 million, or 2.5%, to $326.6 million from $318.4 million for the six months ended June 30, 2006. The increase in total revenue was comprised of a $3.5 million, or 1.5%, increase in advertising revenue, a $3.6 million, or 5.6% increase in circulation revenue and a $1.0 million, or 5.7%, increase in commercial printing and other revenue. The increase in advertising revenue was primarily due to advertising revenue from the Acquisitions of $7.0 million, partially offset by the loss of a third party printing contract not assumed in the acquisition of The Copley Press, Inc. as well as a decrease in advertising revenue from Massachusetts. Massachusetts has been impacted by lower real estate advertising and additionally reflects the intentional and careful elimination of seven publications to maximize the operations in the region. The increase in advertising revenue was also offset due to the sale of a stand alone commercial printing facility in October 2006. The increase in circulation revenue was due to pricing.

We acquired SureWest Directories on February 28, 2007. SureWest Directories publishes and sells directory advertising in yellow page and white page directories which are published annually and had total circulation exceeding 600,000 for the year ended December 31, 2006. Deferred revenue and the related costs since the date of the SureWest Directories acquisition are not recorded in this period since no new directories were issued. This resulted in revenues and expenses being less that what the predecessor owner would have recognized. Exclusive of the effect of purchase accounting adjustments, revenue during the period from February 28, 2007 to June 30, 2007 and the six months ended June 30, 2007 would have been $6.4 million and $9.5 million, respectively.

Operating Costs. Operating costs for the six months ended June 30, 2007 increased by $2.5 million, or 1.4%, to $177.0 million from $174.5 million for the six months ended June 30, 2006. The increase in operating costs was primarily due to operating costs of the Acquisitions of $4.1 million as well as an increase in delivery and external printing expenses of $1.3 million and $0.5 million, respectively. These amounts were partially offset by decreased payroll, newsprint, ink and postage expenses of $0.7 million, $2.6 million, $0.1 million, and $0.3 million, respectively.

Selling, General and Administrative. Selling, general and administrative expenses for the six months ended June 30, 2007 increased by $8.4 million, or 10.6%, to $87.9 million from $79.5 million for the six months June 30, 2006. The increase in selling, general and administrative expenses was primarily due to selling, general and administrative expenses of the Acquisitions of $2.4 million as well as an increase in non-cash compensation expense related to our RSGs of $1.5 million. Additionally, during the six months ended June 30, 2007 we incurred an increase in professional fees and pension and postretirement expenses of $1.5 million and $0.5 million, respectively.

Depreciation and Amortization. Depreciation and amortization expense for the six months ended June 30, 2007 increased by $4.5 million to $31.1 million from $26.6 million for the six months ended June 30, 2006. The increase was primarily due to depreciation and amortization of the Acquisitions of $2.5 million. Additionally, during the six months ended June 30, 2007, we incurred capital expenditures of $3.7 million.

Transaction Costs Related to Merger and Acquisitions. During the six months ended June 30, 2006, we incurred approximately $4.4 million in transaction costs primarily related to bonuses at Enterprise NewsMedia, LLC.

Impairment of Long-Lived Assets. During the six months ended June 30, 2007 we incurred a charge of $0.2 million related to the impairment of property, plant and equipment which were classified as held for sale at June 30, 2007.

Interest Expense. Total interest expense for the six months ended June 30, 2007 decreased by $3.6 million, or 6.9%, to $48.4 million from $52.0 million for the six months ended June 30, 2006. The decrease was primarily due to decreases in our interest rates.

Loss on Early Extinguishment of Debt. During the six months ended June 30, 2006, we incurred a $2.1 million loss due to the write off of deferred financing costs associated with the extinguishment of our Term Loan B and second lien credit facility.

Unrealized Gain on Derivative Instrument. During the six months ended June 30, 2007 we recorded a gain of $0.4 million due to ineffectiveness related to our $270 million interest rate swap, which we entered into in May, 2006 in an effort to eliminate a significant portion of our exposure to fluctuations in LIBOR.

Income Tax Benefit. Income tax benefit for the six months ended June 30, 2007 was $7.6 million compared to $4.8 million for the six months ended June 30, 2006. The change of $2.7 million was primarily due to a decrease in book pretax loss during the six months ended June 30, 2007. The effective tax rate was 35.8% for the six months ended June 30, 2007 and 21.1% for the six months ended June, 2006. The 2007 effective rate was impacted by adjustments for tax contingencies identified in the quarter and the 2006 effective tax rate was impacted by projections of full year taxable income.

Net Loss from Continuing Operations. Net loss from continuing operations for the six months ended June 30, 2007 was $13.6 million. Net loss from continuing operations for the six months ended June 30, 2006 was $18.0 million. Our net loss from continuing operations decreased due to the factors noted above.

Income from Discontinued Operations. Income from discontinued operations was $1.5 million for the six months ended June 30, 2007 and 1.7 million for the six months ended June 30, 2006. Income from discontinued operations relates to the sale of the Huntington, West Virginia newspapers which were initially purchased in connection with the Gannett acquisition.

Net Loss. Net loss for the six months ended June 30, 2007 was $12.1 million. Net loss for the six months ended June 30, 2006 was $16.3 million. Our net loss decreased due to the factors noted above.

Table of Contents

Liquidity and Capital Resources

Our primary cash requirements are for working capital, borrowing obligations and capital expenditures. We have no material outstanding commitments for capital expenditures. We also intend to continue to pursue our strategy of opportunistically acquiring locally focused media businesses in contiguous and new markets. Our principal sources of funds have historically been, and will be, cash provided by operating activities and borrowings under our revolving credit facility.

On February 27, 2007, we entered into the 2007 Credit Facility with a syndicate of financial institutions with Wachovia Bank, National Association as administrative agent. The 2007 Credit Facility provides for a $670.0 million term loan facility which matures in August, 2014, a delayed draw term loan of up to $250.0 million available until August 2007 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 April 11, 2007, we entered into the Bridge Agreement with a syndicate of financial institutions with Wachovia Investment Holdings LLC as administrative agent. The Bridge Agreement provided a $300.0 million term loan facility which matures on April 11, 2015.

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

The rate on the previously existing borrowings of $920 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% premium if the debt is called within one year and an interest feature that grants the previously outstanding debt an interest rate of .25% below the highest rate of any borrowing under the 2007 Credit Facility.

As of June 30, 2007, the available amount of debt under our current agreements was $37.0 million.

As a holding company, we have no operations of our own and accordingly 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. Our 2007 Credit Facility imposes upon us certain financial and operating covenants, including, among others, requirements that we satisfy certain quarterly financial tests, including a total leverage ratio, a minimum fixed charge ratio, and restrictions on our ability to incur debt, pay dividends or take certain other corporate actions. 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.

On October 25, 2006, we completed our IPO of 13,800,000 shares of common stock at a price of $18 per share, raising approximately $231.0 million, which is net of the underwriters discount of $17.4 million. We used a portion of the net proceeds to repay in full and terminate our $152.0 million second lien term loan credit facility. In addition, we used a portion of the net proceeds to pay down $12.0 million of the $570.0 million first lien term loan credit facility, reducing the balance and limit to $558.0 million, and to repay in full the outstanding balance of $21.3 million under our $40.0 million revolving credit facility. In connection with the termination of our $152.0 million second lien term loan credit facility and the $12.0 million reduction in borrowing capacity on the first lien term loan credit facility, we wrote off $1.4 million of deferred financing costs, in the fourth quarter of 2006.

On November 3, 2006, the underwriters of the Company s initial public offering exercised their option to purchase an additional 2,070,000 shares of common stock as allowed in the underwriting agreement. The net proceeds before offering expenses of these additional shares was $34.7 million, after deducting the underwriting discount. The total net proceeds from the initial public offering of 13,800,000 shares and this additional allotment of 2,070,000 shares before offering expenses was $265.7 million, after deducting the underwriting discount.

On July 23, 2007, we completed our follow-on public offering of 18,700,000 shares of our common stock, including 1,700,000 shares sold pursuant to the exercise by the underwriters of their option, at a public offering price of $18.45 per share. The total net proceeds from our follow-on public offering were approximately $332.8 million. We used a portion of the proceeds to repay in full and terminate our $300.0 million Bridge Facility.

Cash Flows

The following table summarizes our historical cash flows.

	Six months ended June 30, 2007	Six months ended June 30, 2006
	(in thousands)	
Cash provided by operating activities	$ 30,819	$ 12,480
Cash used in investing activities	(1,011,120)	(425,179)
Cash provided by financing activities	908,037	418,083

The discussion of our cash flows that follows is based on our historical cash flows for the six months ended June 30, 2007 and June 30, 2006.

Cash Flows from Operating Activities. Net cash provided by operating activities for the six months ended June 30, 2007 was $30.8 million, an increase of $18.3 million when compared to the $12.5 million of cash provided by operating activities for the six months ended June 30, 2006. This $18.3 million increase was the result of an increase in cash provided by working capital of $17.5 million and an increase in non-cash charges of $11.1 million, partially offset by a decrease in net income from continuing operations of $10.2 million.

The $17.5 million increase in cash provided by working capital for the six months ended June 30, 2007 when compared to the six months ended June 30, 2006 is primarily attributable to increases in accrued interest due to higher levels of debt and increases in accrued expenses, accounts payable, and inventory.

The $11.1 million increase in non-cash charges primarily consisted of an increase in depreciation and amortization of $15.8 million, of which approximately $8.1 million related to acquisitions consummated during the first six months of 2007 and approximately $6.3 million related to acquisitions consummated in June 2006, an unrealized gain on derivative instruments of $2.6 million that was recognized during the six months ended June 30, 2006, an increase in non-cash compensation expense of $1.3 million, an increase in amortization of deferred financing costs of $1.1 million, partially offset by a decrease of $8.9 million related to deferred income taxes.

Table of Contents

Cash Flows from Investing Activities. Net cash used in investing activities for the six months ended June 30, 2007 was $1,011.1 million. During the six months ended June 30, 2007, we used $1,007.7 million, net of cash acquired, for acquisitions and $3.7 million for capital expenditures, which uses were partially offset by proceeds of $0.3 million from the sale of assets.

Net cash used in investing activities for the six months ended June 30, 2006 was $425.2 million. During the six months ended June 30, 2006, we used $422.6 million, net of cash acquired, for acquisitions and $5.4 million for capital expenditures, which uses were partially offset by proceeds of $2.9 million from the sale of publications and other assets.

Cash Flows from Financing Activities. Net cash provided by financing activities for the six months ended June 30, 2007 was $908.0 million. The net cash provided by financing activities resulted from net borrowings of $1,498.0 million under the 2007 Credit Facility, partially offset by the repayment of $558.0 million of borrowings under the 2006 Credit Facility, payment of dividends of $23.9 million, payment of $7.4 million of debt issuance costs in connection with the 2007 Credit Facility, and payment of $0.6 million of offering costs.

Net cash provided by financing activities for the six months ended June 30, 2006 was $418.1 million. The net cash provided by financing activities primarily resulted from net borrowings of $728.3 million under the 2006 Credit Facility, partially offset by the repayment of $304.4 million of borrowings under the 2005 Credit Facility and payment of $5.7 million of debt issuance costs in connection with the 2006 Credit Facility.

Changes in Financial Position

The discussion that follows highlights significant changes in our financial position and working capital from December 31, 2006 to June 30, 2007.

Accounts Receivable. Accounts receivable increased $41.1 million from December 31, 2006 to June 30, 2007, of which $41.8 million was acquired from acquisitions during the first six months of 2007. In addition, accounts receivable increased $1.6 million primarily from an increase in sales for the last two months of the second quarter of 2007 when compared to the last two months of the fourth quarter of 2006. Accounts receivable decreased $2.1 million from assets held for sale.

Inventory. Inventory increased $4.1 million from December 31, 2006 to June 30, 2007, of which $5.8 million was acquired from acquisitions consummated during the first six months of 2007. In addition, inventory decreased $1.0 million primarily from an overall decline in newsprint pricing. Inventory decreased $0.7 million from assets held for sale.

Property, Plant, and Equipment. Property, plant, and equipment increased $110.5 million during the period from December 31, 2006 to June 30, 2007, of which $123.1 million was acquired from acquisitions during the first six months of 2007 and $3.7 million was used for capital expenditures. These increases in property, plant, and equipment were partially offset by depreciation of $8.4 million, assets held for sale of $7.0 million, purchase accounting adjustments of $0.8 million from acquisitions consummated in June 2006, and an impairment of $0.2 million on long-lived assets.

Goodwill. Goodwill increased $406.0 million from December 31, 2006 to June 30, 2007, of which $434.4 million was acquired from acquisitions consummated during the first six months of 2007, $3.6 million related to the resolution of certain tax uncertainties, and $4.5 million related to purchase accounting adjustments from acquisitions in June 2006. These increases in goodwill were partially offset by assets held for sale of $36.8 million.

Intangible Assets. Intangible assets increased $400.1 million from December 31, 2006 to June 30, 2007, of which $449.5 million was acquired from acquisitions consummated during the first six months of 2007, partially offset by assets held for sale of $33.5 million and amortization of $15.9 million.

Derivative Instruments. Derivative instruments increased $20.2 million from December 31, 2006 to June 30, 2007 primarily attributable to the fair value of new derivative financial instruments entered into in the first six months of 2007 and the increase in fair value of pre-existing derivative financial instruments from December 31, 2006 to June 30, 2007.

Long-term Assets Held for Sale. Long-term assets held for sale increased $77.1 million from December 31, 2006 to June 30, 2007, of which $77.3 million became held for sale during the first six months of 2007, partially offset by proceeds of $0.3 million from assets sold during the first six months of 2007.

Accounts Payable. Accounts payable increased $3.3 million from December 31, 2006 to June 30, 2007, of which $2.0 million was acquired from acquisitions consummated during the first six months of 2007. In addition, accounts payable increased $1.5 million primarily from the timing of vendor payments. Accounts payable decreased $0.2 million from net assets held for sale.

Accrued Expenses. Accrued expenses increased $18.2 million from December 31, 2006 to June 30, 2007, of which $11.3 million was acquired from acquisitions consummated during the first six months of 2007. In addition, accrued expenses increased $7.4 million primarily from an increase of $3.0 million in accrued acquisition costs, an increase of $1.4 million in income taxes payable, an increase of $1.0 million in accrued vacation, an increase of $0.7 million in employee withholdings primarily related to acquisitions consummated during the second quarter of 2007, an increase of $0.6 million in accrued expenses associated with being a public company, and a net increase of $0.7 million in other accrued expenses. Accrued expenses decreased $0.3 million from net assets held for sale.

Accrued Interest. Accrued interest increased $11.2 million from December 31, 2006 to June 30, 2007 primarily attributable to the $940.0 million increase in debt.

Deferred Revenue. Deferred revenue increased $10.9 million from December 31, 2006 to June 30, 2007, of which $11.9 million was acquired from acquisitions consummated during the first six months of 2007, partially offset by a decrease of $0.4 million from net assets held for sale.

Long-Term Debt. Long-term debt increased $940.0 million from December 31, 2006 to June 30, 2007 from borrowings of $1,498.0 million under the 2007 Credit Facility, partially offset by repayments of $558.0 million under the 2006 Credit Facility.

Deferred Income Taxes. Deferred income taxes increased $33.0 million from December 31, 2006 to June 30, 2007, of which $22.5 million was acquired from acquisitions consummated during the first six months of 2007. In addition, deferred income taxes increased $6.0 million primarily attributable to amortization and the effective portions of the derivative financial instruments, partially offset by the tax provision. Deferred income taxes increased $4.0 million from purchase accounting adjustments related to acquisitions in June 2006.

Accumulated Other Comprehensive Income (Loss). Accumulated other comprehensive income (loss) increased $12.2 million from December 31, 2006 to June 30, 2007 primarily attributable to the additional derivative financial instruments entered into in the first six months of 2007 and the change in fair value during the period.

Accumulated Deficit. Accumulated deficit increased $38.2 million from December 31, 2006 to June 30, 2007 from declaration of dividends of $30.2 million and a net loss of $8.0 million.

Table of Contents

Contractual Commitments

The changes to our contractual commitments as of June 30, 2007 compared to December 31, 2006 relate to the consummation of our 2007 Credit Facility, and the repayment in full of our Bridge Facility.

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*:

- Net income tax expense (benefit);
- depreciation and amortization; and
- other non-recurring items.

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 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 used by senior management and the board of directors to review the financial performance of the business on a monthly basis.

Table of Contents

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 expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of facilities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results.

An investor or potential investor 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. You should not rely on Adjusted EBITDA as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of net (loss) income to Adjusted EBITDA, along with our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. We also strongly urge you 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 Quarterly Report on Form 10-Q may differ from and may not be comparable to similarly titled measures used by other companies.

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

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
		(in thousands)		
Income (loss) from continuing operations	$ (2,620)	$ 1,104	$ (8,699)	$ 1,509
Income tax expense (benefit)	(1,535)	764	(4,021)	1,132
Unrealized gain on derivative instrument	(758)		(375)	(2,605)
Loss on early extinguishment of debt		702		702
Amortization of deferred financing costs	980	85	1,203	115
Interest expense	22,379	7,260	32,596	12,436
Impairment of long-lived assets	82		201	
Depreciation and amortization	15,427	4,845	24,229	8,444
Adjusted EBITDA from continuing operations	$ 33,955(a)	$ 14,760(b)	$ 45,134(c)	$ 21,733(d)

-

(a) Adjusted EBITDA for the three months ended June 30, 2007 includes a total of $6,343, net expense, which is comprised of non-cash compensation and other expense of $1,292, non-cash portion of postretirement benefits expense of $354, integration and reorganization costs of $1,615, a $9 loss on the sale of assets and the impact of SureWest Directories purchase accounting of $3,073.

(b) Adjusted EBITDA for the three months ended June 30, 2006 includes a total of $1,029, net expense, which is comprised of non-cash compensation and other expense of $422, non-cash portion of postretirement benefits expense of $70, integration and reorganization costs of $386 and a $151 loss on the sale of assets.

(c) Adjusted EBITDA for the six months ended June 30, 2007 includes a total of $10,392, net expense, which is comprised of non-cash compensation and other expense of $3,161, non-cash portion of postretirement benefits expense of $668, integration and reorganization costs of $2,453, a $22 loss on the sale of assets and the impact of SureWest Directories purchase accounting of $4,088.

(d) Adjusted EBITDA for the six months ended June 30, 2006 includes a total of $3,884, net expense, which is comprised of non-cash compensation and other expense of $1,126, non-cash portion of postretirement benefits expense of $70, integration and reorganization costs of $2,096 and a $592 loss on the sale of assets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates and commodity prices. Changes in these factors could cause fluctuations in earnings and cash flow. In the normal course of business, exposure to certain of these market risks is managed as described below.

Interest Rates

Our debt structure and interest rate risks are managed through the use of floating rate debt and interest rate swaps. Our primary exposure is to LIBOR. A 100 basis point change in LIBOR would change our income before income taxes on an annualized basis by approximately $0.4 million, based on outstanding floating rate debt of $1,498.0 million outstanding at June 30, 2007, after consideration of the interest rate swaps of $1,120.0 million described below.

On June 23, 2005, we executed an interest rate swap in the notional amount of $300 million with a forward starting date of July 1, 2005. The interest rate swap has a term of seven years. Under this swap, we pay an amount to the swap counterparty representing interest on a notional amount at a rate of 4.135% and receive an amount from the swap counterparty representing interest on the notional amount at a rate equal to the one month LIBOR.

On May 10, 2006, we executed an additional interest rate swap in the notional amount of $270 million with a forward starting date of July 3, 2006. The interest rate swap has a term of five years. Under this swap, we pay an amount to the swap counterparty representing interest on a notional amount at a rate of 5.359% and receive an amount from the swap counterparty representing interest on the notional amount at a rate equal to the one month LIBOR.

On February 27, 2007, we executed an additional interest rate swap in the notional amount of $100 million with a forward starting date of February 28, 2007. The interest rate swap has a term of seven years. Under this swap, we pay an amount to the swap counterparty representing interest on a notional amount at a rate of 5.14% and receive an amount from the swap counterparty representing, interest on the notional amount at a rate equal to the one month LIBOR. These interest rate swaps effectively fix our interest rate on $670.0 million of our variable rate debt for the term of the swaps.

On April 4, 2007 we executed an additional interest rate swap in the notional amount of $250 million with a forward starting date of April 13, 2007. The interest rate swap has a term of seven years. Under this swap, we pay an amount to the swap counterparty representing interest on a notional amount at a rate of 4.971% and receive an amount from the swap counterparty representing interest on the notional amount at a rate equal to one month LIBOR.

On April 13, 2007 we executed an additional interest rate swap in the notional amount of $200 million with a forward starting date of April 30, 2007. The interest rate swap has a term of seven years. Under this swap, we pay an amount to the swap counterparty representing interest on a notional amount at a rate of 5.079% and receive an amount from the swap counterparty representing interest on the notional amount at a rate equal to one month LIBOR.

At June 30, 2007, after consideration of the forward starting interest rate swaps described above, $378.0 million of the remaining principal amount of our debt is subject to floating interest rates.

Commodities

Certain materials we use are subject to commodity price changes. We manage this risk through instruments such as purchase orders, membership in a buying consortium and continuing programs to mitigate the impact of cost increases through identification of sourcing and operating efficiencies. Primary commodity price exposures are newsprint, energy costs and, to a lesser extent, ink.

A $10 per metric ton newsprint price change would result in a corresponding annualized change in our income from continuing operations before income taxes of $0.5 million based on pro forma as adjusted newsprint usage for the year ended December 31, 2006, of approximately 50,000 metric tons.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), 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 Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls

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 report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 4T. Controls and Procedures

Not applicable

Part II. Other Information

Item 1. Legal Proceedings

Not applicable

Item 1A. Risk Factors

There have been no material changes to the disclosure related to risk factors made in our Annual Report on Form 10-K for the year ended December 31, 2006, except as set forth in the heading entitled Risk Factors of our Registration Statement on Form S-1 (File No. 333-144227) as filed with the SEC on June 29, 2007, which risk factors are incorporated herein by reference.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Not applicable

Item 3. Defaults Upon Senior Securities
Not applicable

Item 4. Submission of Matters to Vote of Security Holders
At the Annual Meeting of Stockholders of GateHouse Media, Inc. held on May 17, 2007 (the Annual Meeting), the holders of the Company s Common Stock (the Common Stock), voting as a single class, reelected Martin Bandier and Richard Friedman as Class I directors of the Company for a term that ends at the 2010 Annual Meeting. Continuing to serve as Class II directors until the 2008 Annual Meeting of Stockholders are Burl Osborne and Michael E. Reed. Continuing to serve as Class III directors until the 2009 Annual Meeting of Stockholders are Wesley R. Edens, Howard Rubin and Kevin Sheehan.

In addition, at the Annual Meeting, the holders of the Company s Common Stock, voting together as a single class, voted to ratify the selection of Ernst & Young LLP, Certified Public Accountants, as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007.

Set forth below is the number of votes cast for, against or withheld, as well as the number of abstentions and broker nonvotes, as applicable, as to each of the foregoing matters.

I. The results of the voting for the election of Class I Directors of the Company are as follows:

Nominee	For	Withheld
Martin Bandier	36,385,731	14,236
Richard Friedman	36,385,731	14,236

II. The selection of Ernst & Young LLP was ratified with the following votes:

For:	36,390,391
Against:	4,775
Abstain:	4,800

Item 5. Other Information
Not applicable

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer (principal executive officer).

31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer (principal financial officer).

32.1 Section 1350 Certifications.

Table of Contents

SIGNATURES

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

	GATEHOUSE MEDIA, INC.
Date: August 14, 2007	/s/ Mark R. Thompson Mark R. Thompson Chief Financial Officer

32