Yale SCHOOL of MANAGEMENT

Equity Research

Newspaper David Keeping Up With Goliaths

Company

Journal Register Co.

Company Rating

Buy

Forecast Horizon

12 months

Stock Information

Tickers	JRC
Price Target	$21.58
Price (12/10/04)	$18.38
52 Wk Range	$17.65-$22.10
Market Cap (millions)	$792.6
# Shares (millions)	41.96
FY Ending	12/28/04

Analysts

Omer Dror
omer.dror@yale.edu
+1 (954) 662 1488
Alex Hung
alexander.hung@yale.edu
+1 (917) 279 1180

- **Rationale**
  We believe that the stock price for Journal Register Co. (JRC), a fundamentally strong pure play newspaper company focusing on local news and advertising, should trade 10%+ higher in the next twelve months.

- **Recent results**
  Journal Register Co. reported on October 26, 2004 net income for the first 3Q 2004 of $66.1 million, compared to $31.9 million for the first 3Q 2003. Net income per diluted share was $1.55 for the first 3Q 2004 compared to $0.76 per diluted share for first 3Q 2003.

- **Positive industry trends**
  Several factors cause us to believe that JRC will be trading higher in the coming 12 months: (1) the recovering U.S. economy and subsequent increase in advertising budgets, (2) continued success in maintaining high margins and further leveraging of its mini-monopoly position in its local markets, (3) realizing of positive returns through its acquisitions.

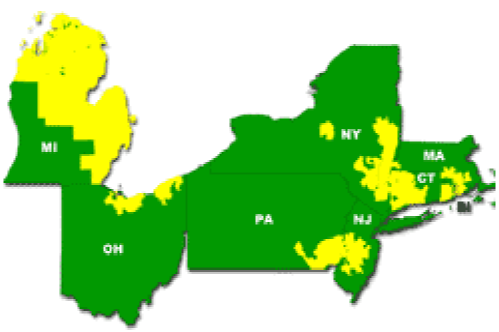
See important disclaimer at the end of this report.

I. Company Description

Journal Register Company ("Journal Register" or the "Company) is a newspaper company comprised of 27 daily newspapers, including the *New Haven Register*, 327 non-daily distributions, as well as commercial printing and software development companies.[1] Total circulation numbers for the Company are 675,000 for the daily newspapers and a total distribution of approximately 5.2 million for the non-dailies. In addition, the Company runs 189 web sites featuring all of the Company's newspapers.[2] The Company's newspapers are characterized by having been a fixture in the local community for awhile, the quality of its local news and sports coverage and its colorful layouts.

The Company is positioned ("clustered") in seven metropolitan areas: Connecticut, Philadelphia (plus surrounding areas), Ohio, Central New England, Capital-Saratoga area of New York, Mid-Hudson region of New York and Michigan. The Michigan region came in 2004 as the Company acquired privately held 21st Century Newspapers in August, which operates four daily newspapers including the 67,750-circulation Daily Oakland Press in Michigan.

Distribution Area Demographics
Households : 7.4 million
Population: 19 million



Average Household Income: $76,048 (20% above U.S. average of $63,207)
Median Household Wealth: $155,439 (21% above U.S. average of $128,296)
Percent With College Degree: 27%
Source: Journal Register, Compusearch

II. Recent Company Performance

On October 26, 2004, the Company reported net income for the first 3Q 2004 of $66.1 million, compared to $31.9 million for the first 3Q 2003.[3] Net income per diluted share was $1.55 for the first 3Q 2004 compared to $0.76 per diluted share for first 3Q 2003.[4] The increase can be attributed to one-time expenses such as the reversal of certain tax accruals, deferred loan costs

[1] www.journalregister.com
[2] www.journalregister.com
[3] October 26, 2004, Journal Register press release.
[4] October 26, 2004, Journal Register press release.

associated with the extinguishment of the Company's credit facility and expenses incurred in a potential acquisition. Without these adjustments, the Company's net income grew from $11.5 million in 3Q 2003 to $12.2 million in 3Q 2004, a healthy 5.8% growth.

In addition to reporting results to the SEC, the Company also keeps track of its all-important advertising revenues every four-to-five week "period" throughout the fiscal year (the Company has 12 such periods each fiscal year). The Company recently reported advertising revenues for the five-week period ended October 31, 2004 (Period Ten) of $44.7 million, an increase of 48.9% as compared to $30.0 million for the same Period Ten of 2003.[5] While these results look impressive, they do include revenues generated by the Company's 2004 acquisitions. However, for comparison's sake, advertising revenues on a same store basis (removing the Company's 2003 and 2004 acquisitions) increased 4.7% over the same Period Ten from 2003 to 2004. Like other newspaper companies, the Company fairly reliant on its advertising business, as it accounts for nearly 75% of the Company's revenues.

Total advertising revenues for the recently-acquired 21st Century Newspapers group, based in Pontiac, Michigan, were up 1.7 percent in Period Ten, as compared to the comparable prior year period. These results were driven by strong growth at *The Macomb Daily*, in Mt. Clemens, which was up 7.7 percent, driven by strength in retail and national advertising revenues. The Heritage Group, the Company's weekly newspaper group based in Southgate, Michigan, also showed strong growth, up 5.6 percent, with increases in retail, national, classified automotive and classified employment advertising revenues.[6]

Results for Retail, Classified and National Advertising[7]

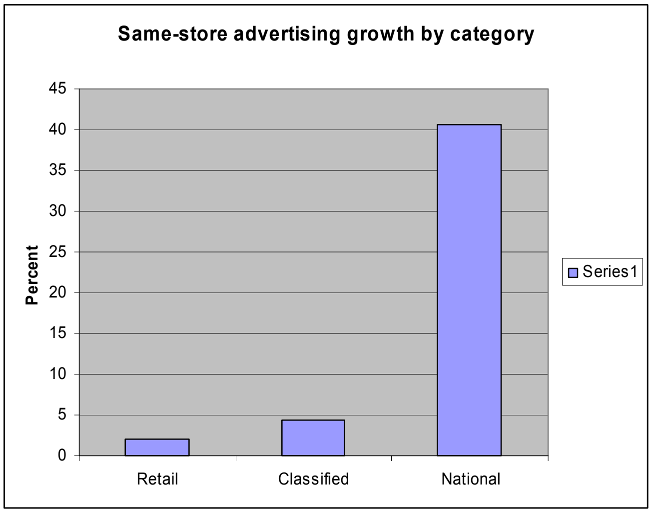
On same-store basis, retail advertising revenues increased 2.0 percent in Period Ten as compared to the prior year period, with four of the Company's clusters reporting increases in the category.

Classified advertising revenues for Period Ten, on a same-store basis, increased 4.4 percent as compared to Period Ten of 2003. The growth in classified advertising revenues was led by continued growth in classified real estate and employment advertising revenues. On a same-store basis, classified real estate advertising revenues were up 13.7 percent in Period Ten, with all of the Company's clusters reporting increases in the category. On a same-store basis, classified employment advertising revenues were up 11.3 percent in Period Ten, with five of the Company's six same-store clusters reporting increases in the category. Classified automotive advertising revenues, on a same-store basis, decreased 6.9 percent as compared to Period Ten of 2003.

National advertising revenues continued were strong, up 40.6 percent in Period Ten, on a same-store basis, as compared to the prior year period. This is the best performance the Company has reported in national advertising revenues since Period One of 2001. Growth in national advertising revenues in these clusters continues to be led by the telecommunications and national automotive categories.

---

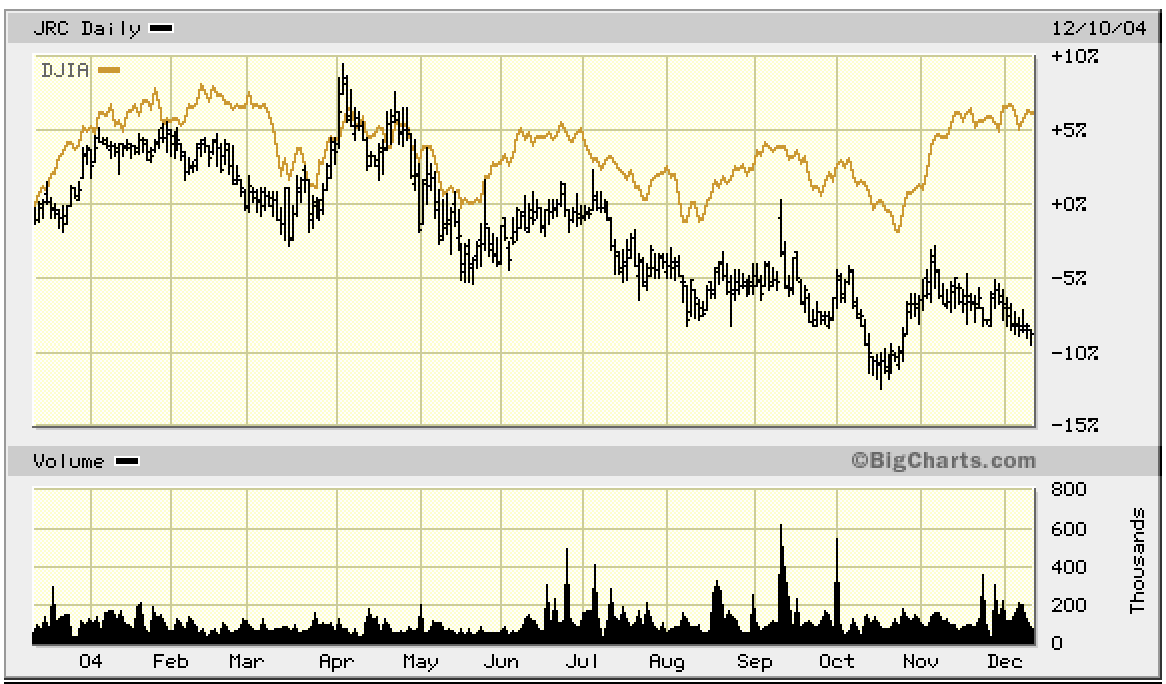
[5] November 16, 2004, Journal Register press release.
[6] November 16, 2004, Journal Register press release.
[7] November 16, 2004, Journal Register press release.



The strength in overall advertising shows a burgeoning economy within the Company's core areas. Retail advertising growth at 2.0% seems to be a little on the low side as retailers have only shown recent modest sales. The Classified's 4.4% growth is in line with traditional advertising growth in the sector and reflects stronger housing and job markets. However, the Company has to be especially encouraged by the continued growth in National advertising, which generally brings the highest margins.

Source: Journal Register, BigCharts.com

<u>Stock Performance</u>



As you can see, the Company's stock has been severely underperforming the Dow Jones in the past year. This is partly attributable to the overall weakness in the sector as it been hit by flagging circulation and accounting scandals that have dragged newspaper stocks down. The Company is fundamentally sound and we feel is a little undervalued by the stock market.

III. Recent Announcements

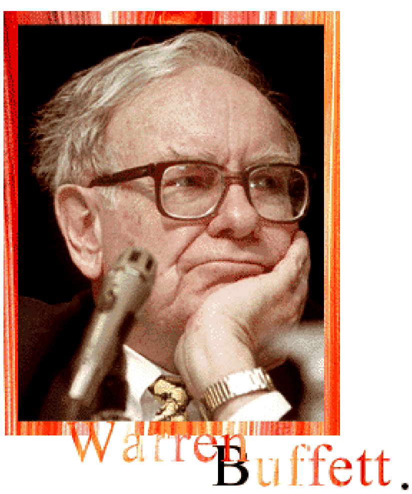
On December, 2004, executives of the Company announced that expected results for 4Q 2004 would be in a range slightly below current analysts' estimates.[8] The Company is expected to report earnings of 34 to 36 cents per share, below the previously expected 35 to 37 cents per share.[9] The reason for the lowering of expectations is partly based on results to date and also on the higher than expected expenses incurred in compliance with Sarbanes-Oxley legislation.

The company also said it expects to report an increase of 4 percent to 5 percent in total advertising revenues in 2005, with circulation revenues flat to up 1 percent. It expects unit costs for newsprint to rise 11 percent to 14 percent.[10]

IV. Going Forward

Leveraging Its Strength in Local Markets

Going forward, Journal Register will rely on its strengths in local markets, employing the "clustering" business model that it pioneered and has enjoyed success with. By aggregating papers into these geographic clusters, the Company allows the small papers to share sales representatives and back-office operations, which keeps margins high – near the top of the industry. For example, the Company highlights that its Exton, PA facility prints for 37 of its newspapers.[11]



Source: Salon Brilliant Careers

By locating its newspaper properties in small markets, the Company has in effect created "mini-monopolies" that face little or no competition. This benefits the firm in two ways. First, demand tends to be relatively steady, as most of its newspapers are distributed free of charge. The 27 daily papers that are not free are a primary source of local news and classified ads, making reader demand relatively price-inelastic. (Warren Buffett once surmised that a newspaper could double its price and retain 90% of its readers.)[12] Second, because local businesses have few alternatives with whom to advertise in a print format, they too are tolerant of price increases. Journal Register has historically raised its advertising rates 3%-5% annually. We believe that the Company will be able to continue this trend.

[8] Associated Press, December 7, 2004, reporting on Journal Register announcement at CSFB media conference.
[9] Thomson First Call poll of analysts
[10] Associated Press, December 7, 2004, reporting on Journal Register announcement at CSFB media conference.
[11] 2003 Journal Register Annual Report; Morningstar Equity Research.
[12] Morningstar Equity Research

Growth by Acquisition Strategy

The one drawback about focusing on local markets is that while the Company is protected in its market, organic expansion is somewhat limited. Thus the Company has always pursued a controlled growth strategy, acquiring newspapers in strong local markets with potential. The latest example was its August 2004 acquisition of 21st Century Newspapers, a Southfield, Michigan-based newspaper chain. The 21st Century acquisition will turn out to be additive, as it will add approximately 2 cents per share of earnings for this coming quarter.

This long-standing strategy has helped the Company benefit from sales leverage and keep profit margins high. The fact that the Company has still been generating increasing profits suggests that management has not been overpaying for acquisitions. Given management's track record with acquisitions, we give them the benefit of the doubt and believe that they can successfully find fairly priced acquisitions in the future.

On-line advertising growth

As previously stated, the Company runs 189 websites which are closely linked to its strategy of controlling the local advertising markets. This has been relatively profitable for the Company. The primary source of online revenues is classified advertising, and this the fastest growing segment of the Company. For the fiscal year ended December 28, 2003, its online advertising revenues were $4.7 million, a 19.4 percent increase over fiscal year 2002.[13] So far in the year 2004, online revenues are projected to rise another 20 percent as well.

Continuity and Quality of Management

A smaller company such as Journal Register needs to be run as a tighter ship as there is less margin for error than at larger competitors such as The New York Times or Tribune Company. Much of the Company's successful execution of its business strategy has to be attributed to its management team. A look at the tenures of the senior management and their long-standing experience in the newspaper industry:[14]

- Robert M. Jelenic, CEO – at Company 10 years, 28 years of senior management in newspaper industry
- Jean Clifton, CFO – at Company since founding, 18 years of senior management in newspaper industry
- Thomas Rice, SVP Operations – at Company 4 years, 41 years in newspaper industry
- Allen Mailman, SVP Technology – at Company 6 years, 30 years in newspaper industry
- Marc Goldfarb, General Counsel – at Company 2 years, previously a Managing Director in private equity and private law practices

One important fact to report is that management tends to receive high salaries relative to executives at other newspaper companies. However, what is good for the Company and rather

[13] 2003 Journal Register Annual Report
[14] 2003 Journal Register Annual Report

unusual in the industry is the fact that management's stock options carry high strike prices above the market's current valuation of the shares.[15] This helps align management's interests with those of the Company's shareholders as management stock options are worthless if exercised.

General Industry Trends

Journal Register is affected like the rest of the industry by basic underlying industry patterns. Revenues in the newspaper industry are still mainly driven by advertising revenue – as evidenced by the Company's nearly 75% of revenues coming from advertising. As the economy is expected to pick up in the last quarter of 2004 and in 2005, so should advertising budgets as a whole. The Company is well-positioned to take advantage of this as it has a strong hold on its local markets and its customers are more price-inelastic relative to those of its competitors. In addition, the Company is gaining a rapidly growing position in the high margin National advertising arena.

Stock Held by Large Number of Institutional Investors

For a small cap stock, it is usually healthy for a company to be held in large numbers by institutional investors. Institutional investors are known for their financial savvy, are less skittish than individual investors and can signal to the market a company's strength. 95% of the Company's shares are owned by institutions[16] and the Company's shares had been going under heavy accumulation by institutional investors. However, there is a possible sign of trouble as for the first time in many quarters, institutional investors sold more shares than they bought. 3.9 million shares were sold while only 3.4 million shares were bought in 3Q 2004.[17] This data is difficult to interpret – as 0.5 million shares over the course of a quarter is not considered extremely large; however, the negative trend cannot be ignored as it may signal that some investors are starting to lose confidence in the Company.

V. Operating Numbers that Show Company Health

The Company has shown growth during the past three years, but the best trend for it is that fiscal year 2004 growth has outpaced 2002 and 2003 growth. This is a pattern of momentum for the Company and we expect that the stock will appreciate in the coming few months.

Earnings Per Share - Quarterly Results

	FY (12/04)	FY (12/03)	FY (12/02)
1st Qtr	$0.24	$0.24	$0.22
2nd Qtr	$0.35	$0.34	$0.33
3rd Qtr	$1.55	$0.76	$0.28
4th Qtr	NA	$0.38	$0.33
Total	**$2.14**	**$1.72**	**$1.16**

[15] Prudential Equity Research
[16] InvestorGuide.com
[17] InvestorGuide.com

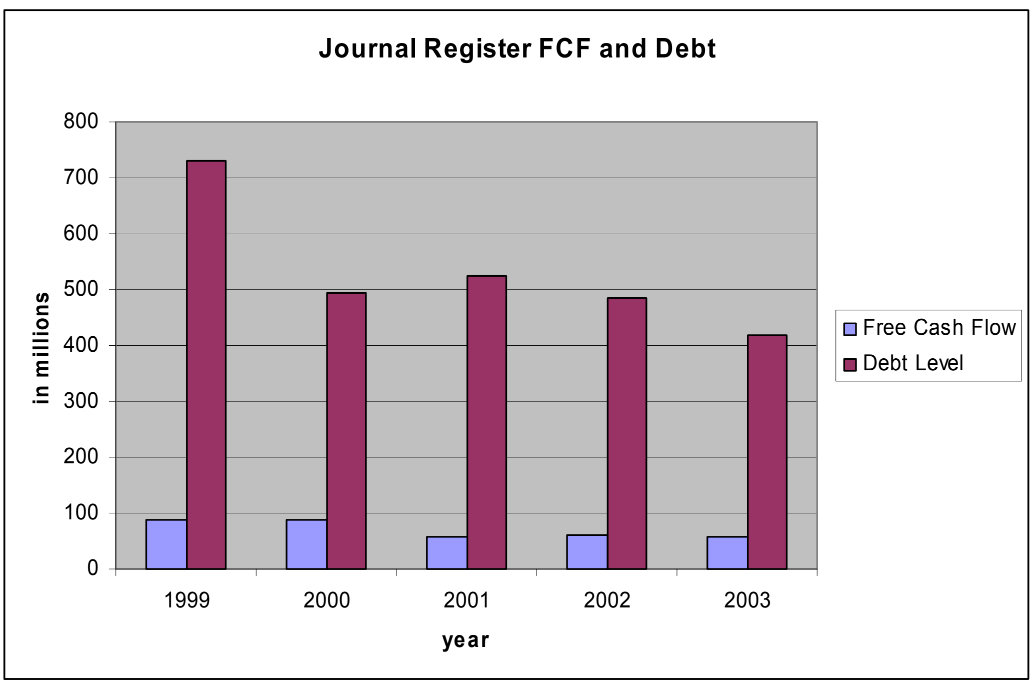
Qtr. over Qtr. EPS Growth Rate

	FY (12/04)	FY (12/03)	FY (12/02)
1st Qtr	-37%	-27%	---
2nd Qtr	46%	42%	50%
3rd Qtr	343%	124%	-15%
4th Qtr	NA	-50%	18%

Source: MSN Money stock report on InvestorGuide.com

Free Cash Flow and Debt Levels

As we have noted in other newspaper equity reports, the newspaper industry is a relatively safe one over time as its stocks tend to have good cash flows, minimal debt[18] and relatively modest capital expenditures relative to its competition. The Company is no different in this regard that it generates a healthy amount of free cash flow per year (almost $100 million on about $400 million in revenues). Its strategy is usually to divide free cash flow evenly to pay down debt, buy back shares and to fund acquisitions. The Company keeps its debt level a little high relative to competitors in the newspaper industry as it needs to fund acquisitions, but has been able to service its debt levels with no problems in the past. We foresee no change in this.



Source: 2003 Journal Register Annual Report

[18] These numbers end in 2003 – as of this writing, the Company has increased its debt load to almost $600 million due to the 21st Century acquisition but we foresee a paydown to the $400+ million by 2005.

VI. Company Metrics Versus Competitors

Operating Numbers

Ticker	Name	Beta	Operating Margin	Profit Margin	Return on Assets	Return on Equity
JRC	Journal Register Company	0.761	22.66%	24.75%	13.64%	111.76%
NYT	The New York Times Co.	0.730	16.16%	9.02%	7.87%	22.14%
DJ	Dow Jones Co.	1.055	11.05%	7.53%	9.16%	117.53%
KRI	Knight Ridder Inc.	0.699	19.31%	10.64%	7.77%	21.62%
HLR	Hollinger International	0.762	4.88%	-5.20%	-3.06%	-45.35%
TRB	Tribune Company	0.625	20.68%	12.98%	5.20%	10.83%
LEE	Lee Enterprises	0.760	21.40%	12.61%	5.98%	10.30%
PTZ	Pulitzer Inc.	0.471	19.80%	10.52%	3.49%	5.22%
MNI	The McClatchy Co.	0.296	22.89%	13.27%	7.93%	12.50%
Average		**0.684**	**17.65%**	**10.68%**	**6.44%**	**29.62%**
Median		**0.760**	**19.80%**	**12.61%**	**7.87%**	**12.50%%**
JRC	**Journal Register Company**	**0.761**	**22.66%**	**24.75%**	**13.64%**	**111.76%**

Source: Yahoo! Finance.

In looking at operating numbers against its competitors, we see that the Company is ahead of the competition in every important category. While small, local newspapers tend to have higher operating margins and profit margins. This had led to the Company's spectacular performance in the Return on Equity numbers which are only rivaled by Dow Jones.

Even if the Company were only compared to the smaller publishers such as McClatchy, Lee Enterprises, Pulitzer and Hollinger, its results are still superior and justify our belief that the Company is well run.

VII. Price / Equity Multiples

Valuation Multiples vs. Comparables

Ticker	Name	Price / Sales	Price / Earnings (ttm)	Price / Earnings (forward)	Price / Book
JRC	Journal Register Company	1.79	7.29	13.94	4.54
NYT	The New York Times Co.	1.80	20.47	18.98	4.42
DJ	Dow Jones Co.	2.21	28.95	27.99	29.5
KRI	Knight Ridder Inc.	1.76	17.03	16.12	18.1
HLR	Hollinger International	1.55	N/A	N/A	25.70
TRB	Tribune Company	2.45	28.89	18.08	21.8
LEE	Lee Enterprises	3.11	24.37	20.60	2.43
PTZ	Pulitzer Inc.	3.12	30.98	26.60	1.57
MNI	The McClatchy Co.	2.85	21.52	19.33	18.2
Average		**2.29**	**22.44**	**20.21**	**14.03**
Median		**2.45**	**24.37**	**18.98**	**18.1**
TRB	**Journal Register Company**	**1.79**	**7.29**	**13.94**	**4.54**
	Implied price of such multiple	**$ 23.57**	**$ 56.63**	**$ 26.67**	**$ 56.86**

Source: Yahoo! Finance, Morgan Stanley Research.

In looking at these market comparables, the Company's stock is trading at a discount relative to its competitors on all metrics. We see the fact that it is a small local newspaper operator without a large brand name as the reason its multiples are lagging. Otherwise, based on its well-run operations and the fact that it runs mini-monopolies in its clusters, the stock should be trading near the average multiples of its competitors. We believe that the trailing P/E ratio and Price/Book give us implied prices which are completely out of whack, but we do believe in the Price/Sales and forward P/E numbers. Those two ratios give the Company an implied price from the multiples of $25.12. If we were to apply a 15% discount for being a non-brand name, we still have a price of $21.35 which we believe is a fair price for the stock.

VIII. DCF

Based on Bloomberg, we obtained an equity beta for the Company of 0.761. With an equity risk premium assumption of 7.00% and a risk-free rate of 4.16%, we calculated the Company's WACC to be 8.38%. We set the target D/E at 0.5 which is in line with historical figures and not years where the Company is highly levered due to acquisitions. For the DCF, we assumed a tax rate of 35%, the normal corporate tax rate (not the one we use to calculate free cash flow). Based on the following assumptions, our DCF model gives us a share price of $21.60.

Revenue Assumptions

1) Advertising revenue grows 10.0% in 2004 due to the 21st Century acquisition and results obtained so far. We then assume an acquisition in 2006 and 2008 as per the Company's acquisition strategy. In years where there is an acquisition, we have revenues growing 10.0%, in other years at the historical growth rate of 4.0%.
2) For circulation, we have revenues growing 5.0% in years where there is an acquisition, for other years we have 1.0% growth.
3) Commercial printing revenues growth at the inflation rate of 2.5%.

Cost Assumptions

1) We grow SG&A at the historical rate as a percentage of sales every year. For salaries, we assume the Company does not add employees at the same rate as revenues, so we took 1% off the historical salaries/revenues ratio.
2) We assumed newsprint rises 15% in the next year and keep it at this level throughout our model.
3) We set depreciation and amortization at 4.0% of revenues for 2004 in line with historical numbers. However, for future years, we set it at 8.0% for 2005 and 2006 and then 12.0% going forward to reflect that with larger depreciation numbers on more CAPEX due to acquisitions.
4) We set tax rate at 20% which is a discount based on NOLs the Company will realize as a result of acquisitions.

Other Assumptions

1) To calculate working capital each year, we kept Current Assets at 15.0% of revenues and Current Liabilities at 12.0% of revenues. We assume the Company is in growth mode, so there will be use of working capital.
2) We set capital expenditures at 20.0% of revenues in 2006 and 2008, the years we are predicting acquisitions will take place. For all other years, capital expenditures are 3.75% of revenues. This is close to the historical rate of 3.0% but we added 0.75% perr year to reflect a growing company needing more maintenance CAPEX.

Please refer to the following DCF model.

Fiscal year ended	30-Dec 2001	29-Dec 2002	28-Dec 2003	30-Dec 2004	30-Dec 2005	30-Dec 2006	30-Dec 2007	30-Dec 2008	30-Dec 2009	
Revenues:										
Advertising	287,859	297,056	298,986	328,885	342,040	376,244	391,294	430,423	447,640	
Growth rate		*3.19%*	*0.65%*	*10.00%*	*4.00%*	*10.00%*	*4.00%*	*10.00%*	*4.00%*	
Circulation	87,737	91,123	90,034	94,536	95,481	100,255	101,258	106,321	107,384	
Growth rate		*3.86%*	*-1.20%*	*5.0%*	*1.0%*	*5.0%*	*1.0%*	*5.0%*	*1.0%*	
Newspaper revenues	375,596	388,179	389,020	423,420	437,521	476,499	492,551	536,744	555,024	
Commercial printing and other	18,809	19,575	16,966	17,390	17,825	18,271	18,727	19,195	19,675	
Growth rate		*3.9%*	*-15.4%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*	
Total	**$394,405**	**$407,754**	**$405,986**	**$440,810**	**$455,346**	**$494,770**	**$511,279**	**$555,939**	**$574,699**	
Operating Expenses:										
Salaries and employee benefits	140,522	150,614	155,355	168,681	174,243	189,329	195,646	212,736	219,915	
Newsprint, ink and printing	37,741	32,023	31,181	38,264	39,525	42,948	44,381	48,257	49,886	
SG&A	47,810	52,976	51,932	54,183	55,969	60,815	62,844	68,334	70,640	
Depreciation and amortization	26,317	14,927	15,447	17,632	36,428	39,582	61,353	66,713	68,964	
Other	53,474	56,866	58,334	63,338	65,426	71,091	73,463	79,880	82,576	
	305,864	307,406	312,249	342,097	371,592	403,764	437,688	475,920	491,980	
Operating Income	**$88,541**	**$100,348**	**$93,737**	**$98,713**	**$83,754**	**$91,006**	**$73,591**	**$80,019**	**$82,720**	
Net interest expense	(30,490)	(23,677)	(15,627)							
Gains on sale of newspapers	32,212									
Income before provision for taxes	90,263	76,671	78,110	98,713	83,754	91,006	73,591	80,019	82,720	
Income taxes	(10,818)	(27,444)	(6,120)	(19,743)	(16,751)	(18,201)	(14,718)	(16,004)	(16,544)	
Tax rate	*11.98%*	*35.79%*	*7.84%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*	
Equity interest	(1,313)									
Net income	**$78,132**	**$49,227**	**$71,990**	**$78,970**	**$67,003**	**$72,805**	**$58,873**	**$64,015**	**$66,176**	
Total current assets	66,573	65,383	58,087	66,122	68,302	74,215	76,692	83,391	86,205	
Total current assets as % of rev	*16.88%*	*16.03%*	*14.31%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	
Total current liabilities	62,877	52,069	45,632	52,897	54,642	59,372	61,353	66,713	68,964	
Total current liabilities as % of rev	*15.94%*	*12.77%*	*11.24%*	*12%*	*12%*	*12%*	*12%*	*12%*	*12%*	
Depreciation and amort as % of rev	6.7%	3.7%	3.8%	4.0%	8.0%	8.0%	12.0%	12.0%	12.0%	
Capital expenditures	(34,929)	(13,010)	(15,129)	(16,530)	(17,075)	(98,954)	(19,173)	(111,188)	(21,551)	
CAPEX as % of rev	8.86%	3.19%	3.73%	*3.75%*	*3.75%*	*20.00%*	*3.75%*	*20.00%*	*3.75%*	
Free Cash Flow calculation										
Net income				$78,970	$67,003	$72,805	$58,873	$64,015	$66,176	
+ Depreciation and amortization				17,632	36,428	39,582	61,353	66,713	68,964	
- Change in WC				769	436	1,183	495	1,340	563	
- Capital expenditures				16,530	17,075	98,954	19,173	111,188	21,551	terminal
Free Cash Flow				$79,303	$85,920	$12,249	$100,558	$18,201	$113,026	$1,971,487
Discounted Cash Flow				79,303	79,279	10,429	78,998	13,193	75,597	1,318,626

Enterprise Value	1,655,425
less debt	(750,000)
Equity value	905,425
# of shares	41,960
	$ 21.58

Cost of capital calculations	
* Beta	0.761
Risk-free	4.15%
Target D/E	0.5
Mkt prem.	7.0%
R(e)	9.48%
R(d)	9.50%
Tax rate	35%
WACC	8.38%

* Terminal growth rate is 3%

IX. Risks to Our Recommendation

As much as we believe in our analysis of the Company, our recommendation may have to be tempered due to the following factors:

Newsprint Prices

Consolidation of North American paper mills and the concentration of suppliers coupled with mill closures have put upward pressure on newsprint prices. The company's margins may be further squeezed in the fourth quarter by higher costs. The Company itself has announced that it expects newsprint prices to rise 11-14%, so that has been built into our model.

Circulation

Circulation numbers for most newspapers across the country have been falling. We do not build much growth in for circulation except for that which comes from acquisitions.

Macroeconomy

Obviously, the newspaper and broadcast industries are very sensitive to economic growth as the majority of revenue is derived from advertising. Advertising is highly correlated to GDP growth. The Company is not very diversified into interactive media and other ventures that larger conglomerates are and may be affected more by an economic downturn.

Effect of Being Possible Acquisition Target

The Company has strong operating numbers but is still rather small in size. It could be a potential acquisition target for a large, national newspaper that desires to gain a stronghold into local media. In such a case, a premium would have to be added to our valuation.

Important Disclaimer

Please read this statement before reading this report.