TO: Pioneer Newspaper and Skagit Publishing Employees

FROM: Mike Gugliotto, President, Pioneer Newspapers, Inc.

RE: Mid-year update

DATE: June 6, 2011

Despite the financial progress we made at the end of 2010, anticipated continued slow improvement hasn’t materialized so far this year. Company advertising revenues have slipped significantly since January, coinciding with an unexpected slowdown in the economy.

That raises the question of whether this economic soft patch is short-term because of temporary conditions or something likely to be around awhile. The bigger question for us is what will the effect be on our business?

We’ve seen slight improvement in the past two months but nothing to hang our hats on. As long as the economy struggles to gain momentum, we’ll be fighting an uphill battle to increase revenues to desired levels, which means continued scrutiny of our costs to bring expenses in line with a lower revenue base.

That doesn’t mean we haven’t had successes.

We continue to do a good job diversifying our mix of products through multiple publishing platforms. Online revenues are up 30% over last year. That’s no small feat when considering several traditional advertising sources have been down on the print side. Our online reach is up too; unique visitors and page views are above last year and our Facebook fans and Twitter followers continue to grow. Niche products, print publications that we publish outside of our core newspapers, are 37% over last year in advertising revenue.

On the newspaper side, while advertising revenues have dropped off, paid circulation is down less than 2% to last year. That’s a strong indicator that people in our communities still want and need our newspapers, even when discretionary household expenditures are being re-evaluated and new online information sites pop up daily. The takeaway is that nobody produces the compilation of news and advertising that we do. And that continues to have high value, especially when economic times are tough and readers are bombarded with less credible news and advertising offers.
While there isn’t a crystal ball to shed more light on what’s ahead with the economy, here are a few things that you should keep your eye on.

Each paper now has mobile phone apps and we’ll be pushing that presence. Apps for tablet devices like the iPad are next up. We’re down to two advertising agencies to handle company-wide promotion work for our group; we’ve got a few myths to dispel and new messages to better communicate. The Idaho State Journal just launched a premium paid content website and Ellensburg is close to launching a metered paid website. Both endeavors will test the waters to charge for our content online.

Finally, Pioneer has recently taken an investment position with the Digital News Registry, a new company being formed to allow newspapers to track where their content goes online and to help enforce unauthorized use. That puts us on the front lines of an important developing technology and demonstrates Pioneer’s belief in our future by putting company money where our mouth is.

On the personnel front, Stedem Wood has announced that he’ll be retiring as publisher of the Skagit Valley Herald but plans on continuing his role as a devoted company owner and member of our Board of Directors. A new publisher will take the reins at the Skagit Valley Herald next month.

Thanks for your continuing hard work. Although we’re currently operating in a very challenging business environment, it’s also an exciting time of evolution in our industry. Through your dedicated efforts, we’ll be in a good spot after the dust settles.