LEE ENTERPRISES, INC
Form 10-Q
August 03, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 24, 2012

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	42-0823980 (I.R.S. Employer Identification No.)

201 N. Harrison Street, Suite 600, Davenport, Iowa 52801
(Address of principal executive offices)

(563) 383-2100
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[ ]	Accelerated filer	[X]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ]   No [X]

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [X]   No [ ]

As of July 31, 2012, 52,291,241 shares of Common Stock of the Registrant were outstanding.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the "Company"). References to "2012", "2011" and the like refer to the fiscal years ended the last Sunday in September.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This report contains information that may be deemed forward-looking that is based largely on our current expectations, and is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those anticipated. Among such risks, trends and other uncertainties, which in some instances are beyond our control, are our ability to generate cash flows and maintain liquidity sufficient to service our debt, comply with or obtain amendments or waivers of the financial covenants contained in our credit facilities, if necessary, and to refinance our debt as it comes due.

Other risks and uncertainties include the impact and duration of continuing adverse economic conditions, changes in advertising demand, potential changes in newsprint and other commodity prices, energy costs, interest rates, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, maintaining our listing status on the NYSE, competition and other risks detailed from time to time in our publicly filed documents.

Any statements that are not statements of historical fact (including statements containing the words “may”, “will”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “project”, “consider” and similar expressions) generally should be considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. We do not undertake to publicly update or revise our forward-looking statements.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	June 24 2012	September 25 2011
ASSETS		
Current assets:		
Cash and cash equivalents	19,176	23,555
Accounts receivable, net	69,098	71,024
Income taxes receivable	—	1,335
Inventories	6,294	7,388
Deferred income taxes	967	967
Other	8,927	19,553
Total current assets	104,462	123,822
Investments:		
Associated companies	42,800	44,057
Restricted cash and investments	—	4,972
Other	9,899	9,199
Total investments	52,699	58,228
Property and equipment:		
Land and improvements	27,017	27,017
Buildings and improvements	192,080	191,250
Equipment	309,050	317,126
Construction in process	3,627	2,852
	531,774	538,245
Less accumulated depreciation	333,489	326,205
Property and equipment, net	198,285	212,040
Goodwill	247,271	247,271
Other intangible assets, net	463,077	495,509
Postretirement assets, net	17,542	14,934
Other	4,094	6,444
Total assets	1,087,430	1,158,248

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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(Thousands of Dollars and Shares, Except Per Share Data)	June 24 2012	September 25 2011
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	9,467	994,550
Accounts payable	26,347	27,740
Compensation and other accrued liabilities	37,803	35,437
Income taxes payable	7,791	—
Unearned revenue	37,452	36,512
Total current liabilities	118,860	1,094,239
Long-term debt, net of current maturities	925,547	—
Pension obligations	69,579	73,518
Postretirement and postemployment benefit obligations	6,714	6,104
Deferred income taxes	50,429	66,204
Income taxes payable	9,125	8,588
Other	10,566	10,489
Total liabilities	1,190,820	1,259,142
Equity (deficit):		
Stockholders' equity (deficit):		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, authorized 120,000 shares; issued and outstanding:	518	89,915
June 24, 2012; 51,791 shares; $0.01 par value		
September 25, 2011; 44,958 shares; $2 par value		
Class B Common Stock, $2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	240,763	140,887
Accumulated deficit	(339,605)	(326,062)
Accumulated other comprehensive loss	(5,630)	(6,086)
Total stockholders' deficit	(103,954)	(101,346)
Non-controlling interests	564	452
Total deficit	(103,390)	(100,894)
Total liabilities and deficit	1,087,430	1,158,248

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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LEE ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 24 2012	June 26 2011	June 24 2012	June 26 2011
Operating revenue:				
Advertising	125,285	132,996	385,286	408,814
Circulation	44,403	44,875	135,977	135,173
Other	9,620	9,435	29,864	29,712
Total operating revenue	179,308	187,306	551,127	573,699
Operating expenses:				
Compensation	71,838	74,458	217,939	229,008
Newsprint and ink	13,175	14,632	41,113	45,156
Other operating expenses	54,045	55,969	165,298	173,114
Depreciation	6,039	6,559	18,401	20,376
Amortization of intangible assets	10,588	11,047	32,432	33,531
Impairment of goodwill and other assets	—	187,325	—	187,325
Workforce adjustments	2,823	2,086	3,703	2,721
Total operating expenses	158,508	352,076	478,886	691,231
Curtailment gains	—	3,974	—	16,137
Equity in earnings of associated companies	1,762	1,225	6,003	5,078
Reduction of investment in TNI	—	12,000	—	12,000
Operating income (loss)	22,562	(171,571)	78,244	(108,317)
Non-operating income (expense):				
Financial income	3	102	113	179
Financial expense	(24,468)	(13,223)	(57,533)	(39,800)
Debt financing costs	(42)	(6,053)	(2,780)	(9,913)
Other, net	—	668	—	(16)
Total non-operating expense, net	(24,507)	(18,506)	(60,200)	(49,550)
Income (loss) before reorganization costs and income taxes	(1,945)	(190,077)	18,044	(157,867)
Reorganization costs	(250)	—	37,617	—
Loss before income taxes	(1,695)	(190,077)	(19,573)	(157,867)
Income tax benefit	(341)	(34,637)	(6,301)	(19,955)
Net loss	(1,354)	(155,440)	(13,272)	(137,912)
Net income attributable to non-controlling interests	(119)	(77)	(272)	(136)
Loss attributable to Lee Enterprises, Incorporated	(1,473)	(155,517)	(13,544)	(138,048)
Other comprehensive income, net	152	1,725	456	3,936
Comprehensive loss	(1,321)	(153,792)	(13,088)	(134,112)
Loss per common share:				
Basic	(0.03)	(3.46)	(0.28)	(3.08)
Diluted	(0.03)	(3.46)	(0.28)	(3.08)

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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LEE ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Thousands of Dollars)	39 Weeks Ended June 24 2012	June 26 2011
Cash provided by (required for) operating activities:		
Net loss	(13,272)	(137,912)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50,833	53,907
Impairment of goodwill and other assets	—	187,325
Curtailment gains	—	(16,137)
Reduction of investment in TNI	—	12,000
Amortization (accretion) of debt present value adjustment	2,557	(410)
Stock compensation expense	802	1,031
Distributions greater than current earnings of MNI	347	87
Deferred income tax benefit	(16,092)	(25,444)
Debt financing costs	2,805	9,913
Reorganization costs	37,617	—
Changes in operating assets and liabilities:		
Decrease in receivables	1,926	5,159
Decrease in inventories and other	969	2,468
Increase (decrease) in accounts payable, accrued expenses and unearned revenue	947	(4,204)
Decrease in pension, postretirement and post employment benefits	(5,164)	(547)
Change in income taxes receivable or payable	9,663	(2,250)
Other, net	(2,045)	(1,158)
Net cash provided by operating activities	71,893	83,828
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(4,743)	(3,641)
Decrease in restricted cash	4,972	4,651
Proceeds from sales of assets	4,933	1,790
Distributions greater than current earnings of TNI	910	27
Other, net	(500)	(10)
Net cash provided by investing activities	5,572	2,817
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	1,004,795	36,000
Payments on long-term debt	(1,055,305)	(113,330)
Debt financing and reorganization costs paid	(31,334)	(4,608)
Common stock transactions, net	—	(205)
Net cash required for financing activities	(81,844)	(82,143)
Net increase (decrease) in cash and cash equivalents	(4,379)	4,502
Cash and cash equivalents:		
Beginning of period	23,555	19,422
End of period	19,176	23,924

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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LEE ENTERPRISES, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the "Company") as of June 24, 2012 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's amended 2011 Annual Report on Form 10-K/A.

Because of seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 24, 2012 are not necessarily indicative of the results to be expected for the full year.

References to "we", "our", "us" and the like throughout the Consolidated Financial Statements refer to the Company. References to "2012", "2011" and the like refer to the fiscal years ended the last Sunday in September.

The Consolidated Financial Statements include our accounts and those of our subsidiaries, all of which are wholly-owned, except for our 50% interest in TNI Partners ("TNI"), 50% interest in Madison Newspapers, Inc. ("MNI"), and 82.5% interest in INN Partners, L.C.

On December 12, 2011, the Company and certain of its subsidiaries filed voluntary, prepackaged petitions in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for relief under Chapter 11 of the U.S. Bankruptcy Code (the "U.S. Bankruptcy Code") (collectively, the "Chapter 11 Proceedings"). Our interests in TNI and MNI were not included in the filings. During the Chapter 11 Proceedings, we, and certain of our subsidiaries, continued to operate as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the U.S. Bankruptcy Code. In general, as debtors-in-possession, we were authorized under the U.S. Bankruptcy Code to continue to operate as an ongoing business, but were not to engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On January 23, 2012, the Bankruptcy Court approved our Second Amended Joint Prepackaged Plan of Reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from the Chapter 11 Proceedings. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. Implementation of the Plan resulted primarily in a comprehensive refinancing of our debt. See Notes 4 and 11.

2 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

In Tucson, Arizona, TNI, acting as agent for our subsidiary, Star Publishing Company ("Star Publishing"), and Citizen Publishing Company ("Citizen"), a subsidiary of Gannett Co. Inc., is responsible for printing, delivery, advertising, and circulation of the Arizona Daily Star as well as the related digital platforms and specialty publications. TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspapers and other media.

Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

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Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended June 24 2012	13 Weeks Ended June 26 2011	39 Weeks Ended June 24 2012	39 Weeks Ended June 26 2011
Operating revenue	14,155	15,035	45,878	48,051
Operating expenses, excluding workforce adjustments, depreciation and amortization	11,986	13,307	37,926	40,467
Workforce adjustments	33	—	(31)	232
Operating income	2,136	1,728	7,983	7,352
Company's 50% share of operating income	1,068	864	3,992	3,676
Less amortization of intangible assets	181	303	542	911
Equity in earnings of TNI	887	561	3,450	2,765

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Operations and Comprehensive Loss. These amounts totaled $(128,000) and $(34,000) in the 13 weeks ended June 24, 2012 and June 26, 2011, respectively and $(440,000) and $177,000 in the 39 weeks ended June 24, 2012 and June 26, 2011, respectively.

Our impairment analysis resulted in pretax reductions in the carrying value of TNI totaling $11,900,000 in 2011. See Note 3.

Annual amortization of intangible assets is estimated to be $696,000 in the 53 week period ending June 2013 and $418,000 in each of the 52 week periods ending June 2014, June 2015, June 2016 and June 2017.

Madison Newspapers, Inc.

We have a 50% ownership interest in MNI, which publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and operates their related digital platforms. Net income or loss of MNI (after income taxes) is allocated equally to us and The Capital Times Company ("TCT"). MNI conducts its business under the trade name Capital Newspapers.

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended June 24 2012	13 Weeks Ended June 26 2011	39 Weeks Ended June 24 2012	39 Weeks Ended June 26 2011
Operating revenue	17,289	18,183	53,063	55,727
Operating expenses, excluding workforce adjustments, depreciation and amortization	13,993	15,007	43,440	46,135
Workforce adjustments	(6)	541	22	674
Depreciation and amortization	424	514	1,271	1,542
Operating income	2,878	2,121	8,330	7,376
Net income	1,748	1,328	5,106	4,626
Equity in earnings of MNI	874	664	2,553	2,313

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3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	39 Weeks Ended June 24 2012
Goodwill, gross amount	1,536,000
Accumulated impairment losses	1,288,729
Goodwill, beginning of period	247,271
Goodwill, end of period	247,271

Identified intangible assets consist of the following:

(Thousands of Dollars)	June 24 2012	September 25 2011
Nonamortized intangible assets:		
Mastheads	30,795	30,795
Amortizable intangible assets:		
Customer and newspaper subscriber lists	881,164	881,164
Less accumulated amortization	448,883	416,457
	432,281	464,707
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,523	28,517
	1	7
	463,077	495,509

In assessing the recoverability of goodwill and other nonamortized intangible assets, we make a determination of the fair value of our business. Fair value is determined using a combination of an income approach, which estimates fair value based upon future revenue, expenses and cash flows discounted to their present value, and a market approach, which estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the publishing industry. A non-cash impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.

The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by us. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

We analyze goodwill and other nonamortized intangible assets for impairment on an annual basis, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate and operating or cash flow losses related to such assets.

We review our amortizable intangible assets for impairment when indicators of impairment are present. We assess recoverability of these assets by comparing the estimated undiscounted cash flows associated with the asset or asset group with their carrying amount. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

Due primarily to the difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets in 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analysis. We concluded the fair value of our business did not exceed the carrying value of our net assets.

As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill and nonamortized and

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amortizable intangible assets in 2011. Additional pretax, non-cash charges were recorded to reduce the carrying value of TNI in 2011. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment in 2011. We recorded deferred income tax benefits related to these charges.

A summary of impairment charges is included in the table below:

(Thousands of Dollars)	13 Weeks Ended June 26 2011	September 25 2011	Total
Goodwill	174,125	12,156	186,281
Nonamortized intangible assets	13,200	759	13,959
Amortizable intangible assets	—	4,199	4,199
Property and equipment	—	700	700
	187,325	17,814	205,139
Investment in TNI	12,000	(100)	11,900
	199,325	17,714	217,039

Future decreases in our market value, or significant differences in revenue, expenses or cash flows from estimates used to determine fair value, could result in additional impairment charges in the future.

We also periodically evaluate our determination of the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact our cash flows. However, a decrease in the useful lives of such intangible assets would increase future amortization expense and decrease future reported operating results and earnings per common share.

Annual amortization of intangible assets for the 53 week period ending June 2013 and for each of the 52 week periods ending June 2014, June 2015, June 2016 and June 2017 is estimated to be $38,924,000, $38,601,000, $38,404,000, $37,275,000 and $36,035,000, respectively.

4 DEBT

As discussed more fully below (and certain capitalized terms used below defined), in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders.

1st Lien Agreement

In January 2012, we entered into a credit agreement (the "1st Lien Agreement") with a syndicate of lenders (the "1st Lien Lenders"). The 1st Lien Agreement consists of a term loan of $689,510,000, and a new $40,000,000 revolving credit facility under which we have not drawn. The revolving credit facility also supports issuance of letters of credit.

Interest Payments

Debt under the 1st Lien Agreement bears interest, at our option, at either a base rate or an adjusted Eurodollar rate ("LIBOR"), plus an applicable margin. The base rate for the facility is the greater of (a) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (b) 0.5% in excess of the overnight federal funds rate at such time; or (c) 30 day LIBOR plus 1.0%. LIBOR loans are subject to a minimum rate of 1.25%. The applicable margin for term loan base rate loans is 5.25%, and 6.25% for LIBOR loans. The applicable margin for revolving credit facility base rate loans is 4.5%, and is 5.5% for LIBOR loans. At June 24, 2012, all borrowing under the 1st Lien Agreement is based on LIBOR at a total rate of 7.5%.

Principal Payments

At June 24, 2012, the balance outstanding under the term loan is $668,000,000. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1st Lien Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

We are required to repay principal amounts, on a quarterly basis until maturity, under the 1st Lien Agreement. Principal payments are required quarterly beginning in June 2012, and total $5,000,000 in 2012, $11,000,000 in 2013, $12,750,000 in 2014, $13,500,000 in 2015 and $3,375,000 in 2016, prior to the final maturity.

In addition to the scheduled payments, we are required to make mandatory prepayments under the 1st Lien Agreement under certain other conditions, such as from the net proceeds from asset sales. The 1st Lien Agreement also requires us to accelerate future payments in the amount of our quarterly excess cash flow, as defined. The acceleration of such payments due to future asset sales or excess cash flow does not change the due dates of other 1st Lien Agreement payments prior to the December 2015 maturity.

2012 payments made under the 1st Lien Agreement, and required to be made for the remainder of the fiscal year, are summarized as follows:

	13 Weeks Ended		14 Weeks Ending
(Thousands of Dollars)	March 25 2012	June 24 2012	September 30 2012