

LEE ENTERPRISES, INC  
Form 10-Q  
February 10, 2010

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

FORM 10-Q

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

For The Quarterly Period Ended December 27, 2009

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

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  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  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 large accelerated filer" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer

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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

As of December 27, 2009, 39,110,328 shares of Common Stock and 5,763,769 shares of Class B 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").

**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, and comply with or obtain amendments or waivers of the financial covenants contained in our credit facilities, if necessary.

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 and the availability of credit due to instability in the credit markets, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, 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", "believes", "expects", "anticipates", "intends", "plans", "projects", "considers" (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, Except Per Share Data)

December 27

September 27

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	2009	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	10,594	7,905
Accounts receivable, net	95,304	79,731
Income taxes receivable	—	5,625
Inventories	16,343	13,854
Deferred income taxes	3,638	3,638
Other	6,336	7,354
Total current assets	132,215	118,107
Investments:		
Associated companies	58,078	58,073
Restricted cash and investments	9,363	9,324
Other	9,583	9,498
Total investments	77,024	76,895
Property and equipment:		
Land and improvements	30,365	30,365
Buildings and improvements	195,623	195,573
Equipment	313,495	316,364
Construction in process	4,259	1,985
	543,742	544,287
Less accumulated depreciation	285,832	281,318
Property and equipment, net	257,910	262,969
Goodwill	433,552	433,552
Other intangible assets, net	592,028	603,348
Other	18,521	20,741
Total assets	1,511,250	1,515,612

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)	December 27 2009	September 27 2009
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	72,000	89,800
Accounts payable	28,688	31,377
Compensation and other accrued liabilities	39,680	42,755
Income taxes payable	2,567	—
Unearned revenue	37,624	37,001
Total current liabilities	180,559	200,933
Long-term debt, net of current maturities	1,090,472	1,079,993
Pension obligations	46,134	45,953
Postretirement and postemployment benefit obligations	9,076	40,687
Other retirement and compensation obligations	1,603	1,539
Deferred income taxes	104,786	93,766
Redeemable and other minority interest	303	252
Income taxes payable	13,400	12,839
Other	12,102	16,052
Total liabilities	1,458,435	1,492,014
Stockholders' equity:		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, \$2 par value; authorized 120,000 shares; issued and outstanding: December 27, 2009; 39,110 shares; September 27, 2009; 39,139 shares	78,220	78,278
Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding: December 27, 2009; 5,764 shares; September 27, 2009; 5,776 shares	11,528	11,552
Additional paid-in capital	138,313	137,713
Accumulated deficit	(197,393 )	(225,299 )
Accumulated other comprehensive income	22,147	21,354
Total stockholders' equity	52,815	23,598
Total liabilities and stockholders' equity	1,511,250	1,515,612

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 INCOME (LOSS)  
(Unaudited)

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(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended December 27 2009	December 28 2008
Operating revenue:		
Advertising	154,402	184,583
Circulation	45,115	47,556
Other	10,321	11,416
Total operating revenue	209,838	243,555
Operating expenses:		
Compensation	82,136	94,483
Newsprint and ink	12,693	25,154
Other operating expenses	61,477	69,950
Depreciation	7,362	8,296
Amortization of intangible assets	11,320	12,103
Impairment of goodwill and other assets	—	70,045
Workforce adjustments	397	838
Total operating expenses	175,385	280,869
Curtailed gains	31,130	—
Equity in earnings of associated companies	2,190	3,064
Operating income (loss)	67,773	(34,250 )
Non-operating income (expense):		
Financial income	54	1,271
Financial expense	(19,804 )	(18,086 )
Debt financing costs	(1,995 )	(1,922 )
Total non-operating expense, net	(21,745 )	(18,737 )
Income (loss) from continuing operations before income taxes	46,028	(52,987 )
Income tax expense (benefit)	18,069	(5,524 )
Minority interest	52	170
Income (loss) from continuing operations	27,907	(47,633 )
Discontinued operations, net	—	(5 )
Net income (loss)	27,907	(47,638 )
Increase in redeemable minority interest	—	1,039
Income (loss) available to common stockholders	27,907	(48,677 )
Other comprehensive income (loss), net	793	(1,746 )
Comprehensive income (loss) available to common stockholders	28,700	(50,423 )
Earnings (loss) per common share:		
Basic:		
Continuing operations	0.63	(1.10 )
Discontinued operations	—	—
	0.63	(1.10 )
Diluted:		
Continuing operations	0.62	(1.10 )
Discontinued operations	—	—
	0.62	(1.10 )

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)	13 Weeks Ended	
	December 27, 2009	December 28, 2008
Cash provided by operating activities:		
Net income (loss)	27,907	(47,638 )
Results of discontinued operations	—	(5 )
Income (loss) from continuing operations	27,907	(47,633 )
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	18,682	20,399
Impairment of goodwill and other assets	—	70,045
Curtailment gains	(31,130)	—
Accretion of debt fair value adjustment	(155 )	(2,064 )
Stock compensation expense	682	1,052
Distributions greater (less) than current earnings of associated companies	(192 )	5
Deferred income taxes	10,588	(10,699 )
Changes in operating assets and liabilities:		
Increase in receivables	(9,948 )	(9,928 )
Decrease (increase) in inventories and other	(1,161 )	3,809
Decrease in accounts payable, accrued expenses and unearned revenue	(4,806 )	(25,298 )
Decrease in pension, postretirement and post employment benefits	(1,407 )	—
Change in income taxes receivable or payable	3,128	758
Other, net	735	367
Net cash provided by operating activities of continuing operations	12,923	813
Cash provided by (required for) investing activities of continuing operations:		
Purchases of marketable securities	—	(26,635 )
Sales or maturities of marketable securities	—	21,375
Purchases of property and equipment	(3,254 )	(5,301 )
Decrease (increase) in restricted cash	(39 )	3,292
Proceeds from sale of assets	203	—
Other	187	370
Net cash required for investing activities of continuing operations	(2,903 )	(6,899 )
Cash provided by (required for) financing activities of continuing operations:		
Proceeds from long-term debt	47,800	76,625
Payments on long-term debt	(54,966)	(49,625 )
Debt financing costs paid	—	(9,702 )
Common stock transactions, net	(165 )	50
Cash dividends paid	—	(8,539 )
Net cash provided by (required for) financing activities of continuing operations	(7,331 )	8,809

Net cash required for discontinued operations	—	(5 )
Net increase in cash and cash equivalents	2,689	2,718
Cash and cash equivalents:		
Beginning of period	7,905	23,459
End of period	10,594	26,177

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 December 27, 2009 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 2009 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 27, 2009 are not necessarily indicative of the results to be expected for the full year.

References to "we", "our", "us" and the like throughout this document refer to the Company.

References to "2010", "2009" and the like refer to the fiscal year ended the last Sunday in September.

The Consolidated Financial Statements include our accounts and 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. ("INN").

#### Subsequent Events

We have evaluated subsequent events through February 10, 2010. The Quarterly Report on Form 10-Q was filed with the Securities and Exchange Commission on February 10, 2010, which is the date the Consolidated Financial Statements were issued. No events have occurred subsequent to December 27, 2009 that require disclosure or recognition in these financial statements except as included herein.

#### Accounting Standards Codification

In 2009, the Financial Accounting Standards Board ("FASB") issued Statement 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("ASC"), which became the source of accounting principles to be applied in the preparation of financial statements for nongovernmental agencies. ASC was effective for us as of September 27, 2009. ASC did not have any impact on our Consolidated Financial Statements since it was not intended to change existing accounting principles generally accepted in the United States of America



("GAAP"), except as related to references for authoritative literature.

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 and, until May 2009, the Tucson Citizen, as well as their related online operations 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.

In May 2009, Citizen discontinued print publication of the Tucson Citizen. The change resulted in workforce adjustments and other transitions costs of approximately \$1,925,000 in 2009, of which \$1,093,000 was incurred directly by TNI.

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Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended	
	December 27, 2009	December 28, 2008
Operating revenue	17,806	21,998
Operating expenses, excluding curtailment gain, workforce adjustments, depreciation and amortization	14,739	18,732
Curtailment gain	—	(1,332 )
Workforce adjustments	783	102
Operating income	2,284	4,496
Company's 50% share of operating income	1,142	2,248
Less amortization of intangible assets	244	379
Equity in earnings of TNI	898	1,869

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 Income (Loss). These amounts totaled (\$135,000) and \$591,000 in the 13 weeks ended December 27, 2009 and December 28, 2008, respectively.

Annual amortization of intangible assets is estimated to be \$1,215,000 in each of the 52 week periods ending December 2010 through December 2012, \$1,036,000 in the 52 week period ending December 2013 and \$911,000 in the 52 week period ending December 2014.

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 online sites. 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	
	December 27 2009	December 28 2008
Operating revenue	20,597	23,384
Operating expenses, excluding depreciation and amortization	15,823	18,946
Depreciation and amortization	576	824
Operating income	4,198	3,614
Net income	2,584	2,390
Equity in earnings of MNI	1,292	1,195

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### 3 GOODWILL AND OTHER INTANGIBLE ASSETS

There were no changes in the carrying value of goodwill in the 13 weeks ended December 27, 2009.

Identified intangible assets consist of the following:

(Thousands of Dollars)	December 27 2009	September 27 2009
Nonamortized intangible assets:		
Mastheads	44,754	44,754
Amortizable intangible assets:		
Customer and newspaper subscriber lists	885,713	885,713
Less accumulated amortization	338,451	327,133
	547,262	558,580
Noncompete and consulting agreements	28,658	28,658
Less accumulated amortization	28,646	28,644
	12	14
	592,028	603,348

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 recovery 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.

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.

Due primarily to the continuing and (at the time) increasing difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets as of December 28, 2008 and again as of March 29, 2009. Deterioration in our revenue and the overall recessionary operating environment for us and other publishing companies were also factors in the timing of the analyses.

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As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill, nonamortized and amortizable intangible assets in the 13 weeks ended December 28, 2008 and March 29, 2009. Additional pretax, non-cash charges were recorded to reduce the carrying value of TNI. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment. We recorded deferred income tax benefits related to these charges.

Because of the timing of the determination of impairment and complexity of the calculations required, the amounts recorded in the 13 weeks ended March 29, 2009 were preliminary. The final analysis, which was completed in the 13 weeks ended June 28, 2009, resulted in additional charges.

2009 impairment charges and the related income tax benefit are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended				Total
	December 28 2008	March 29 2009	June 28 2009	September 27 2009	
Goodwill	67,781	107,115	18,575	—	193,471
Mastheads	—	17,884	(3,829 )	—	14,055
Customer and newspaper subscriber lists	—	18,928	14,920	—	33,848
Property and equipment	2,264	935	—	1,380	4,579

70,045