LEE ENTERPRISES, INC
Form 10-Q
February 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 December 25, 2011

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 incorporation or organization) | (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 | | Smaller reporting company | [ ] |

[ ] (Do not check if a 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]

As of December 25, 2011, 44,957,601 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, to 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, availability of credit, 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) | December 25 2011 | September 25 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | 31,428 | 23,555 |
| Accounts receivable, net | 83,953 | 71,024 |
| Income taxes receivable | — | 1,335 |
| Inventories | 7,922 | 7,388 |
| Deferred income taxes | 967 | 967 |
| Other | 30,975 | 19,553 |
| Total current assets | 155,245 | 123,822 |
| Investments: | | |
| Associated companies | 43,401 | 44,057 |
| Restricted cash and investments | — | 4,972 |
| Other | 9,319 | 9,199 |
| Total investments | 52,720 | 58,228 |
| Property and equipment: | | |
| Land and improvements | 27,017 | 27,017 |
| Buildings and improvements | 191,399 | 191,250 |
| Equipment | 310,222 | 317,126 |
| Construction in process | 4,230 | 2,852 |
| | 532,868 | 538,245 |
| Less accumulated depreciation | 325,162 | 326,205 |
| Property and equipment, net | 207,706 | 212,040 |
| Goodwill | 247,271 | 247,271 |
| Other intangible assets, net | 484,585 | 495,509 |
| Postretirement assets, net | 15,423 | 14,934 |
| Other | 4,458 | 6,444 |
| Total assets | 1,167,408 | 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) | December 25 2011 | September 25 2011 |
|---|---|---|
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | — | 994,550 |
| Accounts payable | 31,335 | 27,740 |
| Compensation and other accrued liabilities | 29,375 | 35,437 |
| Income taxes payable | 5,672 | — |
| Unearned revenue | 37,636 | 36,512 |
| Total current liabilities | 104,018 | 1,094,239 |
| Long-term debt, net of current maturities | — | — |
| Pension obligations | 72,703 | 73,518 |
| Postretirement and postemployment benefit obligations | 6,306 | 6,104 |
| Deferred income taxes | 67,516 | 66,204 |
| Income taxes payable | 8,853 | 8,588 |
| Other | 10,100 | 10,489 |
| Total liabilities not subject to compromise | 269,496 | 1,259,142 |
| Liabilities subject to compromise | 983,781 | — |
| Equity (deficit): | | |
| Stockholders' equity (deficit): | | |
| Serial convertible preferred stock, no par value; authorized 500 shares; none issued | — | — |
| Common Stock, $2 par value; authorized 120,000 shares; issued and outstanding: | 89,915 | 89,915 |
| December 25, 2011; 44,958 shares; | | |
| September 25, 2011 44,958 shares | | |
| Class B Common Stock, $2 par value; authorized 30,000 shares; none issued | — | — |
| Additional paid-in capital | 141,133 | 140,887 |
| Accumulated deficit | (311,505) | (326,062) |
| Accumulated other comprehensive income | (5,934) | (6,086) |
| Total stockholders' deficit | (86,391) | (101,346) |
| Non-controlling interests | 522 | 452 |
| Total deficit | (85,869) | (100,894) |
| Total liabilities and deficit | 1,167,408 | 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 INCOME AND COMPREHENSIVE INCOME
(Unaudited)

| (Thousands of Dollars, Except Per Common Share Data) | 13 Weeks Ended December 25 2011 | December 26 2010 |
|---|---|---|
| Operating revenue: | | |
| Advertising | 142,501 | 151,766 |
| Circulation | 46,697 | 45,478 |
| Other | 10,363 | 10,424 |
| Total operating revenue | 199,561 | 207,668 |
| Operating expenses: | | |
| Compensation | 73,577 | 78,020 |
| Newsprint and ink | 14,861 | 15,674 |
| Other operating expenses | 57,243 | 59,669 |
| Depreciation | 6,235 | 6,523 |
| Amortization of intangible assets | 10,924 | 11,283 |
| Workforce adjustments | 337 | 192 |
| Total operating expenses | 163,177 | 171,361 |
| Curtailment gain | — | 10,172 |
| Equity in earnings of associated companies | 2,812 | 2,705 |
| Operating income | 39,196 | 49,184 |
| Non-operating income (expense): | | |
| Financial income | 55 | 59 |
| Financial expense | (12,752) | (13,437) |
| Debt financing costs | (2,024) | (1,966) |
| Other, net | — | (453) |
| Total non-operating expense, net | (14,721) | (15,797) |
| Income before reorganization costs and income taxes | 24,475 | 33,387 |
| Reorganization costs | 1,241 | — |
| Income before income taxes | 23,234 | 33,387 |
| Income tax expense | 8,610 | 14,407 |
| Net income | 14,624 | 18,980 |
| Net income attributable to non-controlling interests | (70) | (35) |
| Income attributable to Lee Enterprises, Incorporated | 14,554 | 18,945 |
| Other comprehensive income, net | 152 | 5,485 |
| Comprehensive income | 14,706 | 24,430 |
| Earnings per common share: | | |
| Basic | 0.32 | 0.42 |
| Diluted | 0.32 | 0.42 |

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 25 2011 | December 26 2010 |
|---|---|---|
| Cash provided by (required for) operating activities: | | |
| Net income | 14,624 | 18,980 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,159 | 17,806 |
| Curtailment gain | — | (10,172) |
| Accretion of debt fair value adjustment | (124) | (136) |
| Stock compensation expense | 248 | 518 |
| Distributions greater (less) than current earnings of MNI | 70 | (436) |
| Deferred income tax expense | 1,206 | 5,968 |
| Debt financing and reorganization costs | 3,265 | 1,966 |
| Changes in operating assets and liabilities: | | |
| Increase in receivables | (12,929) | (11,695) |
| Decrease (increase) in inventories and other | 1,556 | (207) |
| Decrease in accounts payable, accrued expenses and unearned revenue | (7,343) | (7,318) |
| Increase (decrease) in pension, postretirement and post employment benefits | (844) | 1,614 |
| Change in income taxes receivable or payable | 7,272 | 6,645 |
| Other, net | (509) | 119 |
| Net cash provided by operating activities | 23,651 | 23,652 |
| Cash provided by (required for) investing activities: | | |
| Purchases of property and equipment | (1,879) | (1,105) |
| Decrease in restricted cash | 4,972 | 4,500 |
| Proceeds from sales of assets | 1,324 | 452 |
| Distributions greater than current earnings of TNI | 586 | 68 |
| Net cash provided by investing activities | 5,003 | 3,915 |
| Cash provided by (required for) financing activities: | | |
| Proceeds from long-term debt | 21,180 | 9,000 |
| Payments on long-term debt | (31,825) | (38,650) |
| Debt financing and reorganization costs paid | (10,136) | (94) |
| Common stock transactions, net | — | (238) |
| Net cash required for financing activities | (20,781) | (29,982) |
| Net increase (decrease) in cash and cash equivalents | 7,873 | (2,415) |
| Cash and cash equivalents: | | |
| Beginning of period | 23,555 | 19,422 |
| End of period | 31,428 | 17,007 |

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 25, 2011 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 2011 Annual Report on Form 10-K and amended 2011 Annual Report on Form 10-K/A.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 25, 2011 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 affiliates 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"). Our interests in TNI and MNI were not included in the filings. We and certain of our affiliates 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 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 Chapter 11. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. See Note 4.

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 December 25 2011 | December 26 2010 |
|---|---|---|
| Operating revenue | 16,522 | 17,232 |
| Operating expenses, excluding workforce adjustments, depreciation and amortization | 13,062 | 13,454 |
| Workforce adjustments | (64) | 232 |
| Operating income | 3,524 | 3,546 |
| | | |
| Company's 50% share of operating income | 1,762 | 1,773 |
| Less amortization of intangible assets | 180 | 304 |
| Equity in earnings of TNI | 1,582 | 1,469 |

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 Income and Comprehensive Income. These amounts totaled $(105,000) and $127,000 in the 13 weeks ended December 25, 2011 and December 26, 2010, 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 $723,000 in the 53 week period ending December 2012, $544,000 in the 52 week period ending December 2013 and $418,000 in each of the 52 week periods ending December 2014, December 2015 and December 2016.

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 December 25 2011 | December 26 2010 |
|---|---|---|
| Operating revenue | 19,457 | 20,200 |
| Operating expenses, excluding workforce adjustments, depreciation and amortization | 15,094 | 15,685 |
| Workforce adjustments | 26 | 16 |
| Depreciation and amortization | 424 | 515 |
| Operating income | 3,913 | 3,984 |
| | | |
| Net income | 2,460 | 2,472 |
| | | |
| Equity in earnings of MNI | 1,230 | 1,236 |

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3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows: