LEE ENTERPRISES, INC
Form 10-Q
February 08, 2008

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 30, 2007

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 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 x Accelerated filer ¨ Non-accelerated filer ¨

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 30, 2007, 40,491,715 shares of Common Stock and 6,119,413 shares of Class B Common Stock of the Registrant were outstanding.

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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 the current expectations of Lee Enterprises, Incorporated and subsidiaries (the Company), 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 are changes in advertising demand, newsprint prices, energy costs, interest rates, labor costs, legislative and regulatory rulings and other results of operations or financial conditions, difficulties in integration of acquired businesses or maintaining employee and customer relationships, increased capital and other costs and other risks detailed from time to time in the Company s publicly filed documents including the Company Annual Report on Form 10-K for the year ended September 30, 2007. The words may, will, would, could, believes, expects, anticip intends, plans, projects, considers and similar expressions generally identify 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. The Company does not undertake to publicly update or revise its forward-looking statements.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(Thousands, Except Per Common Share Data)	13 Weeks Ended December 30, 2007	Three Months Ended December 31, 2006
Operating revenue:		
Advertising	$217,570	$232,589
Circulation	49,805	52,036
Other	12,481	13,864
Total operating revenue	279,856	298,489
Operating expenses:		
Compensation	108,194	112,191
Newsprint and ink	25,103	30,925
Other operating expenses	74,126	74,923
Depreciation	8,159	8,248
Amortization of intangible assets	14,872	14,955
Total operating expenses	230,454	241,242
Equity in earnings of associated companies	4,301	6,505
Operating income	53,703	63,752
Non-operating income (expense):		
Financial income	1,796	1,509
Financial expense	(20,850)	(23,435)
Total non-operating expense, net	(19,054)	(21,926)
Income before income taxes	34,649	41,826
Income tax expense	12,254	14,799
Minority interest	607	504
Income from continuing operations	21,788	26,523
Discontinued operations, net	338	128
Net income	22,126	26,651
Other comprehensive loss, net	(2,455)	(148)
Comprehensive income	$ 19,671	$ 26,503
Earnings per common share:		
Basic:		
Continuing operations	$0.48	$0.58
Discontinued operations	0.01	-
Net income	$0.48	$0.58
Diluted:		
Continuing operations	$0.48	$0.58
Discontinued operations	0.01	-
Net income	$0.48	$0.58
Dividends per common share	$0.19	$0.18

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

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Thousands, Except Per Share Data)	December 30, 2007	September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,732	$ -
Accounts receivable, net	130,919	118,723
Receivable from associated companies	-	1,563
Inventories	15,461	14,153
Assets of discontinued operations	-	18,820
Other	13,551	13,624
Total current assets	167,663	166,883
Investments	210,386	212,724
Restricted cash and investments	114,810	111,060
Property and equipment, net	322,525	324,655
Goodwill	1,505,504	1,505,460
Other intangible assets, net	899,358	914,232
Other	25,983	25,949
Total assets	$3,246,229	$3,260,963
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 97,875	$ 62,250
Accounts payable	34,314	39,288
Compensation and other accrued liabilities	78,734	96,036
Income taxes payable	31,774	7,971
Dividends payable	8,765	6,703
Unearned revenue	39,247	38,513
Liabilities of discontinued operations	-	3,943
Total current liabilities	290,709	254,704
Long-term debt, net of current maturities	1,288,046	1,346,630
Pension obligations	2,259	2,302
Postretirement and postemployment benefit obligations	72,658	72,236
Deferred income taxes	470,743	478,418
Other	25,115	20,231
Total liabilities	2,149,530	2,174,521
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 30, 2007 40,492 shares;		
September 30, 2007 39,979 shares	80,984	79,958
Class B Common Stock, $2 par value; authorized 30,000 shares; issued and outstanding:		
December 30, 2007 6,119 shares;		
September 30, 2007 6,208 shares	12,238	12,416
Additional paid-in capital	132,329	132,090
Retained earnings	831,411	819,786
Accumulated other comprehensive income	39,737	42,192
Total stockholders equity	1,096,699	1,086,442
Total liabilities and stockholders equity	$3,246,229	$3,260,963

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

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Thousands)	13 Weeks Ended December 30, 2007	Three Months Ended December 31, 2006
Cash provided by (required for) operating activities:		
Net income	$22,126	$26,651
Results of discontinued operations	338	128
Income from continuing operations	21,788	26,523
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	23,031	23,203
Stock compensation expense	1,514	2,103
Accretion of debt fair value adjustment	(1,959)	(1,857)
Distributions greater than current earnings of associated companies	798	95
Increase (decrease) in deferred income taxes	(1,551)	(2,127)
Change in operating assets and liabilities, net of acquisitions:		
Increase in receivables	(10,184)	(10,968)
Decrease in accounts payable, accrued expenses and unearned revenue	(17,714)	(2,959)
Change in income taxes receivable or payable	17,647	(2,504)
Other, net	(1,424)	5,299
Net cash provided by operating activities of continuing operations	31,946	36,808
Cash provided by (required for) investing activities of continuing operations:		
Purchases of property and equipment	(8,976)	(5,698)
Purchases of marketable securities	(39,469)	(26,914)
Sales or maturities of marketable securities	23,457	22,043
Increase in restricted cash	13,186	1,315
Acquisitions	(1,224)	-
Other, net	2,103	2,136
Net cash required for investing activities of continuing operations	(10,923)	(7,118)
Cash provided by (required for) financing activities of continuing operations:		
Proceeds from long-term debt	35,000	28,000
Payments on long-term debt	(56,000)	(66,000)
Common stock transactions, net	(424)	(805)
Cash dividends paid	(6,703)	(8,255)
Net cash required for financing activities of continuing operations	(28,127)	(47,060)
Net cash provided by (required for) discontinued operations:		
Operating activities	(9,075)	(366)
Investing activities	23,911	19,841
Net increase in cash and cash equivalents	7,732	2,105
Cash and cash equivalents:		
Beginning of period	-	8,638
End of period	$ 7,732	$10,743

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

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 30, 2007 and its results of operations and cash flows for the periods presented. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company s 2007 Annual Report on Form 10-K.

Because of acquisitions, divestitures, seasonal and other factors, the results of operations for the 13 weeks ended December 30, 2007 are not necessarily indicative of the results to be expected for the full year.

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, except for its 95% interest in St. Louis Post-Dispatch LLC (PD LLC) and STL Distribution Services LLC (DS LLC), 50% interest in TNI Partners (TNI), 50% interest in Madison Newspapers, Inc. (MNI), and 82.5% interest in INN Partners, L.C. (INN).

Certain amounts as previously reported have been reclassified to conform with the current period presentation.

References to 2008, 2007, 2006 and the like mean the fiscal year ended in September.

The Company s 2008 fiscal year ends on the last Sunday in September. Beginning in 2008, all of the Company s enterprises use period accounting. The Company and its enterprises owned before the Pulitzer acquisition, which accounted for approximately 62% of revenue in the 13 weeks ended December 30, 2007, used calendar accounting in 2007, with a September 30 fiscal year end. The former Pulitzer operations used period accounting in 2007. The table below summarizes business days in both years:

	Enterprises Owned Prior to Pulitzer Acquisition		Former Pulitzer Enterprises		TNI	
(Business Days)	2008	2007	2008	2007	2008	2007
Period Ending:						
December	91	92	91	91	91	98
March	91	90	91	91	91	91
June	91	91	91	91	91	91
September	91	92	91	98	91	91
	364	365	364	371	364	371

2 ACQUISITIONS AND DIVESTITURES

All acquisitions are accounted for as purchases and, accordingly, the results of operations since the respective dates of acquisition are included in the Consolidated Financial Statements.

Acquisitions

In 2008, the Company purchased a newspaper distribution business at a cost of $240,000 and made final cash payments totaling $984,000 related to newspaper distribution businesses purchased in 2007.

In 2007, the Company purchased a minority interest in an online employment application from PowerOne Media, LLC (PowerOne), in which the Company and MNI owned minority interests, at a cost of $118,000. In 2007, PowerOne was dissolved. In 2007, the

Company also purchased several newspaper distribution businesses at a cost of $1,911,000, of which $984,000 was included in accounts payable at September 30, 2007. In 2007, the Company also purchased a specialty publication at a cost of $20,000.

These acquisitions did not have a material effect on the Consolidated Financial Statements.

Divestitures

In December 2007, the Company sold its daily newspaper in DeKalb, Illinois for $24,000,000. The transaction resulted in an after tax gain of $256,000, which is recorded in discontinued operations. Results of DeKalb have been classified as discontinued operations for all periods presented.

In 2006, the Company sold several stand-alone publishing and commercial printing operations in Seattle and Spokane, Washington, and Portland, Oregon, a twice weekly newspaper in Oregon, and a daily newspaper in Rhinelander, Wisconsin. The Company received $33,198,000 in 2006 and recorded a receivable of $20,700,000, which was collected in 2007. In 2007, the Company sold a weekly newspaper in Oregon. The transactions resulted in an after tax loss of $5,204,000, which was recorded in discontinued operations in 2006.

Results of discontinued operations consist of the following:

(Thousands)	13 Weeks Ended December 30, 2007	Three Months Ended December 31, 2006
Operating revenue	$1,376	$2,116
Income from discontinued operations	$ 128	$ 242
Gain (loss) on sale of discontinued operations, before income taxes	5,867	(45)
Income tax expense	5,657	69
	$ 338	$ 128

Tax expense of $3,382,000 recorded in results of discontinued operations in 2008 is related to goodwill basis differences recognized as a result of the sale of DeKalb operations.

3 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

In Tucson, Arizona, TNI, acting as agent for the Company s 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 *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.

Each newspaper is solely responsible for its own news and editorial content. Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

Summarized results of TNI are as follows:

(Thousands)	13 Weeks Ended December 30, 2007	Three Months Ended December 31, 2006
Operating revenue	$27,769	$33,107
Operating expenses, excluding depreciation and amortization	19,775	22,113
Operating income	$ 7,994	$10,994
Company s 50% share of operating income	$ 3,997	$ 5,497
Less amortization of intangible assets	1,585	1,585
Equity in earnings of TNI	$ 2,412	$ 3,912

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 in the Company s Consolidated Statements of Income and Comprehensive Income. These amounts totaled $221,000 and $475,000 in the 13 weeks ended December 30, 2007 and three months ended December 31, 2006, respectively.

Annual amortization of intangible assets is estimated to be $6,339,000 in each of the five years ending December 2012.

In January 2007 defined pension benefits for certain TNI employees were frozen at the current levels. As a result, TNI recognized a curtailment gain of $2,074,000. See Note 7.

Madison Newspapers, Inc.

The Company has a 50% ownership interest in MNI, which publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, as well as their related online operations. Net income or loss of MNI (after income taxes) is allocated equally to the Company and The Capital Times Company. MNI conducts its business under the trade name Capital Newspapers.

Summarized results of MNI are as follows:

	13 Weeks Ended December 30,