

LEE ENTERPRISES, INC  
Form 10-Q  
August 07, 2009  
Table of Contents

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 June 28, 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  
(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  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

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

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 large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
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 June 28, 2009, 39,062,485 shares of Common Stock and 5,863,157 shares of Class B Common Stock of the Registrant were outstanding.

**Table of Contents**

TABLE OF CONTENTS	PAGE
<u>FORWARD LOOKING STATEMENTS</u>	1
PART I <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	2
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) – 13 weeks and 39 weeks ended June 28, 2009 and June 29, 2008</u>	2
<u>Consolidated Balance Sheets – June 28, 2009 and September 28, 2008</u>	3
<u>Consolidated Statements of Cash Flows – 39 weeks ended June 28, 2009 and June 29, 2008</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	37
PART II <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	37
Item 2(c). <u>Issuer Purchases of Equity Securities</u>	37
Item 6. <u>Exhibits</u>	37
<u>SIGNATURES</u>	38

**Table of Contents**

**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 Lee Enterprises, Incorporated's (the Company) 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 its control, are the Company's ability to generate cash flows and maintain liquidity sufficient to service its debt, and comply with or obtain amendments or waivers of the financial covenants contained in its credit facilities, if necessary. Other risks and uncertainties include the impact of continuing adverse economic conditions, potential changes in advertising demand, 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 and other results of operations or financial conditions, difficulties in maintaining employee and customer relationships, increased capital and other costs, competition and other risks detailed from time to time in the Company's 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. The Company does not undertake to publicly update or revise its forward-looking statements.

Table of Contents

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## LEE ENTERPRISES, INCORPORATED

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	June 28,	June 29,	June 28,	June 29,
	2009	2008	2009	2008
<i>(Thousands, Except Per Common Share Data)</i>				
Operating revenue:				
Advertising	\$148,034	\$195,502	\$474,146	\$599,205
Circulation	45,320	48,344	139,962	147,236
Other	10,451	12,548	32,096	37,534
Total operating revenue	203,805	256,394	646,204	783,975
Operating expenses:				
Compensation	80,703	103,984	259,481	317,753
Newsprint and ink	15,752	26,859	61,570	76,311
Other operating expenses	61,118	71,211	193,939	218,587
Depreciation	8,055	8,828	24,759	25,804
Amortization of intangible assets	11,597	13,138	35,792	42,878
Impairment of goodwill and other assets	29,665	10,360	244,572	851,365
Workforce adjustment and transition costs	1,541	544	4,730	954
Total operating expenses	208,431	234,924	824,843	1,533,652
Equity in earnings of associated companies	838	2,549	4,250	8,658
Reduction of investment in TNI	(10,000)	(3,000)	(19,951)	(93,384)
Operating income (loss)	(13,788)	21,019	(194,340)	(834,403)
Non-operating income (expense):				
Financial income	56	1,386	1,876	4,702
Financial expense	(19,806)	(15,111)	(54,922)	(53,033)
Debt financing costs	(784)	(877)	(15,634)	(2,629)
Other, net	-	(393)	1,823	(369)
Total non-operating expense, net	(20,534)	(14,995)	(66,857)	(51,329)
Income (loss) before income taxes	(34,322)	6,024	(261,197)	(885,732)
Income tax expense (benefit)	(9,830)	2,372	(79,353)	(206,215)
Minority interest	20	113	152	709
Income (loss) from continuing operations	(24,512)	3,539	(181,996)	(680,226)
Discontinued operations, net	-	(52)	(5)	285
Net income (loss)	(24,512)	3,487	(182,001)	(679,941)
Change in redeemable minority interest	-	(655)	57,055	(8,138)
Net income (loss) available to common stockholders	(24,512)	2,832	(124,946)	(688,079)
Other comprehensive income (loss), net	(610)	1,636	10,466	(4,156)
Comprehensive income (loss) available to common stockholders	\$ (25,122)	\$ 4,468	\$ (114,480)	\$ (692,235)
Earnings (loss) per common share:				
Basic:				
Continuing operations	\$(0.55)	\$0.07	\$(2.81)	\$(15.31)
Discontinued operations	-	-	-	0.01
	\$(0.55)	\$0.06	\$(2.81)	\$(15.30)

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

Diluted:				
Continuing operations	\$(0.55)	\$0.06	\$(2.81)	\$(15.31)
Discontinued operations	-	-	-	0.01
	\$(0.55)	\$0.06	\$(2.81)	\$(15.30)
Dividends per common share	\$ -	\$0.19	\$ -	\$ 0.57

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

**Table of Contents****LEE ENTERPRISES, INCORPORATED****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

	June 28,	September 28,
	2009	2008
		Revised - See Note 2
<i>(Thousands, Except Per Share Data)</i>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,252	\$ 23,459
Accounts receivable, net	80,351	100,380
Income taxes receivable	888	-
Inventories	9,019	18,952
Other	11,328	10,988
Total current assets	116,838	153,779
Restricted cash, cash equivalents and investments	4,919	126,060
Investments	67,598	97,643
Property and equipment, net	271,723	292,828
Goodwill	433,552	627,023
Other intangible assets, net	614,348	701,184
Other	30,291	17,850
Total assets	\$1,539,269	\$2,016,367
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 96,900	\$1,337,640
Accounts payable	27,607	53,827
Compensation and other accrued liabilities	45,015	60,416
Unearned revenue	38,739	38,871
Income taxes payable	-	5,431
Dividends payable	-	8,539
Total current liabilities	208,261	1,504,724
Long-term debt, net of current maturities	1,093,107	-
Pension obligations	2,224	2,803
Postretirement and postemployment benefit obligations	38,145	58,767
Deferred income taxes	112,082	187,869
Other	31,479	34,442
Redeemable and other minority interest	235	72,244
Total liabilities	1,485,533	1,860,849
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:	78,124	78,222
June 28, 2009: 39,062 shares;		
September 28, 2008: 39,111 shares		
Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding:	11,726	11,958
June 28, 2009: 5,863 shares;		
September 28, 2008: 5,979 shares		
Additional paid-in capital	137,016	134,289
Accumulated deficit	(226,789)	(112,144)
Accumulated other comprehensive income	53,659	43,193
Total stockholders' equity	53,736	155,518
Total liabilities and stockholders' equity	\$1,539,269	\$2,016,367
The accompanying Notes are an integral part of the Consolidated Financial Statements.		





**Table of Contents**

**LEE ENTERPRISES, INCORPORATED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

<i>(Thousands)</i>	39 Weeks Ended June 28, 2009	June 29, 2008
<b>Cash provided by operating activities:</b>		
Net loss	\$(182,001)	\$(679,941)
Results of discontinued operations	(5)	285
Loss from continuing operations	(181,996)	(680,226)
<b>Adjustments to reconcile loss from continuing operations to net cash provided by operating activities of continuing operations:</b>		
Depreciation and amortization	60,551	68,682
Impairment of goodwill and other assets	244,572	851,365
Reduction of investment in TNI	19,951	93,384
Stock compensation expense	2,337	4,290
Accretion of debt fair value adjustment	(3,633)	(5,953)
Distributions greater than current earnings of associated companies	32	2,629
Deferred income taxes	(78,768)	(229,242)
Debt financing costs	15,634	2,629
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Decrease in receivables	20,179	13,162
Decrease (increase) in inventories and other current assets	8,451	(4,711)
Decrease in accounts payable, accrued expenses and unearned revenue	(38,525)	(33,559)
Change in income taxes receivable or payable	(6,319)	5,513
Other, net	(3,023)	(1,982)
Net cash provided by operating activities of continuing operations	59,443	85,981
<b>Cash provided by (required for) investing activities of continuing operations:</b>		
Purchases of property and equipment	(10,686)	(17,498)
Purchases of marketable securities	(47,777)	(93,929)
Sales or maturities of marketable securities	166,109	67,781
Increase in restricted cash	2,114	16,329
Acquisitions	-	(1,624)
Other, net	3,263	2,809
Net cash provided by (required for) investing activities of continuing operations	113,023	(26,132)
<b>Cash provided by (required for) financing activities of continuing operations:</b>		
Proceeds from long-term debt	155,950	109,400
Payments on long-term debt	(299,950)	(138,025)
Financing costs	(26,005)	-
Common stock transactions, net	49	(18,144)
Cash dividends paid	(8,539)	(24,039)
Other	(2,173)	-
Net cash required for financing activities of continuing operations	(180,668)	(70,808)
<b>Net cash provided by (required for) discontinued operations:</b>		
Operating activities	(5)	(8,741)
Investing activities	-	23,911
Net increase (decrease) in cash and cash equivalents	(8,207)	4,211
<b>Cash and cash equivalents:</b>		
Beginning of period	23,459	-
End of period	\$ 15,252	\$ 4,211

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

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

**Table of Contents**

**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 28, 2009 and its 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 2008 Annual Report on Form 10-K.

Because of acquisitions, divestitures, seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 28, 2009 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 50% interest in TNI Partners (TNI), 50% interest in Madison Newspapers, Inc. (MNI), and 82.5% interest in INN Partners, L.C. (INN).

The Company has evaluated subsequent events through the time the June 28, 2009, Form 10-Q was filed with the Securities and Exchange Commission on August 7, 2009, which is the date the Consolidated Financial Statements were issued. No events have occurred subsequent to June 28, 2009 that require disclosure or recognition in these financial statements.

Certain amounts as previously reported have been reclassified to conform with the current period presentation. See Notes 3 and 6.

References to 2009, 2008 and the like mean the fiscal year ended the last Sunday in September.

**Debt and Liquidity**

As discussed more fully in Note 6 (and capitalized terms used below defined), in February 2009, the Company completed a comprehensive restructuring of its Credit Agreement and a refinancing of its Pulitzer Notes debt, substantially enhancing its liquidity and operating flexibility until April 2012. The Company disclosed in its 2008 Annual Report on Form 10-K, in part, that the ability to extend or refinance the Pulitzer Notes as they become due and to delay the acceleration of debt maturities upon the expiration of existing waivers of default under both the Credit Agreement and the Pulitzer Notes, were factors that raised significant uncertainty about the Company's ability to continue as a going concern. The restructuring of the Credit Agreement and refinancing of the Pulitzer Notes resolve these issues.

KPMG LLP's (KPMG) auditors' report on the Company's 2008 Consolidated Financial Statements (the 2008 Report) included an explanatory paragraph, which raised substantial doubt about the Company's ability to continue as a going concern. KPMG has not reissued its 2008 Report removing the explanatory paragraph and has informed the Company that it does not expect to reevaluate its conclusion until the 2009 audit of the Consolidated Financial Statements is completed.

**2 CORRECTION OF AN ERROR**

The Company recorded a \$30,019,000 increase in the valuation allowance for deferred tax assets in the 13 weeks ended September 28, 2008. In the 13 weeks ended December 28, 2008, the Company determined that it had not considered the benefit of net operating loss carrybacks in its determination of the 2008 valuation allowance for deferred tax assets. The correction of this error resulted in a decrease of \$8,431,000 in the valuation allowance included in net deferred income tax liabilities recorded as of September 28, 2008, a corresponding increase in income tax benefit in the 13 weeks ended September 28, 2008, and a decrease in diluted loss per common share of \$0.19. The Company determined that the impact of this error on previously issued Consolidated Financial Statements is not material. The September 28, 2008 Consolidated Balance Sheet included herein has been

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

revised to reflect the corrected amounts. The corrected amounts related to the 2008 Consolidated Statement of Operations and Comprehensive Income (Loss) will be reflected in subsequent filings on Form 10-K. See Note 9.

**Table of Contents****3 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 specialty publication at a cost of \$400,000 and 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.

**Divestitures**

In 2008, the Company sold its daily newspaper in DeKalb, Illinois for \$24,000,000, before income taxes. The transaction resulted in an after tax gain of \$219,000, which is recorded in discontinued operations. Results of DeKalb operations have been classified as discontinued operations for all periods presented.

Results of discontinued operations consist of the following:

	13 Weeks Ended June 29,	39 Weeks Ended June 28,	June 29,
(Thousands)	2008	2009	2008
Operating revenue	\$ -	\$ -	\$1,376
Income from discontinued operations	\$ -	\$ -	\$ 128
Gain (loss) on sale of discontinued operations, before income taxes	(80)	(8)	5,786
Income tax expense (benefit)	(28)	(3)	5,629
	\$(52)	\$(5)	\$ 285

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.

**4 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.

In May 2009, Citizen discontinued print publication of the *Tucson Citizen*. The change resulted in workforce adjustment and other transition costs of approximately \$1,848,000, of which \$1,093,000 was incurred by TNI.

**Table of Contents**

Summarized results of TNI are as follows:

(Thousands)	13 Weeks Ended		39 Weeks Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Operating revenue	\$17,560	\$24,121	\$58,350	\$77,262
Operating expenses, excluding workforce adjustment and transition costs, depreciation and amortization	15,877	19,111	51,739	58,401
Curtailment gain	-	-	(1,332)	-
Workforce adjustment and transition costs	1,093	-	1,195	247
Operating income	\$ 590	\$ 5,010	\$ 6,748	\$18,614
Company's 50% share of operating income	\$ 295	\$ 2,505	\$ 3,374	\$ 9,307
Less amortization of intangible assets	333	663	1,092	3,832
Equity in earnings (loss) of TNI	\$ (38)	\$ 1,842	\$ 2,282	\$ 5,475

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 Operations and Comprehensive Income (Loss). These amounts totaled \$166,000 and \$376,000 in the 13 weeks ended June 28, 2009 and June 29, 2008, respectively, and \$1,295,000 and \$865,000 in the 39 weeks ended June 28, 2009 and June 29, 2008, respectively.

Annual amortization of intangible assets of TNI is estimated to be \$1,215,000 in each of the 52 week periods ending June 2010 through June 2012 and \$1,189,000 and \$911,000 in the 52 week periods ending June 2013 and 2014, respectively.

The Company's preliminary impairment analysis as of March 29, 2009 resulted in a pretax reduction in the carrying value of TNI of \$9,951,000. The final analysis, which was completed in the 13 weeks ended June 28, 2009, resulted in an additional pretax reduction of \$10,000,000. See Note 5.

**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 (TCT). MNI conducts its business under the trade name Capital Newspapers.

In 2008, one of MNI's daily newspapers, *The Capital Times*, decreased print publication from six days per week to one day. The change resulted in workforce adjustment and transition costs of \$2,578,000 in 2008, of which \$538,000 and \$1,883,000 were recorded in the 13 weeks and 39 weeks ended June 29, 2008, respectively.

Summarized results of MNI are as follows:

(Thousands)	13 Weeks Ended		39 Weeks Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Operating revenue	\$ 19,468	\$ 24,878	\$ 61,173	\$ 77,535
Operating expenses, excluding workforce adjustment and transition costs, depreciation and amortization	15,957	21,181	52,655	62,629
Workforce adjustment and transition costs	-	538	294	1,883
Depreciation and amortization	774	1,085	2,426	3,270

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

Operating income	\$ 2,737	\$ 2,074	\$ 5,798	\$ 9,753
Net income	\$ 1,752	\$ 1,414	\$ 3,936	\$ 6,366
Company's 50% share of net income	\$ 876	\$ 707	\$ 1,968	\$ 3,183

Debt of MNI totaled \$2,285,000 at September 28, 2008.

**Table of Contents****5 GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the carrying value of goodwill are as follows:

	39 Weeks Ended
<i>(Thousands)</i>	June 28, 2009
Goodwill, beginning of period	\$627,023
Goodwill impairment	193,471
Goodwill, end of period	\$433,552

Identified intangible assets consist of the following:

<i>(Thousands)</i>	June 28, 2009	September 28, 2008
<b>Nonamortized intangible assets:</b>		
Mastheads	\$ 44,755	\$ 59,869
<b>Amortizable intangible assets:</b>		
Customer and newspaper subscriber lists	885,713	921,642
Less accumulated amortization	316,136	280,359
	569,577	641,283
Noncompete and consulting agreements	28,658	28,658
Less accumulated amortization	28,642	28,626
	16	32
	\$614,348	\$701,184

In assessing the recoverability of its goodwill and other nonamortized intangible assets, the Company makes a determination of the fair value of its 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. An 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 management. 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.

The Company analyzes its 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.

The Company reviews its amortizable intangible assets for impairment when indicators of impairment are present. The Company assesses 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.

Due primarily to the increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of December 28, 2008 and again as of March 29, 2009. Recent deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analysis. The Company concluded the fair value of its business did not exceed the carrying value of its net assets as of December 28, 2008 and again as of March 29, 2009.



## Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

The Company recorded pretax, non-cash charges in the 13 weeks ended December 28, 2008 and March 29, 2009 to reduce the carrying value of goodwill by \$67,781,000 and \$107,115,000, respectively. The Company also recorded pretax, non-cash charges of \$17,884,000 and \$18,928,000 to reduce the value of nonamortized and amortizable intangible assets, respectively, in the 13 weeks ended March 29, 2009. Additional pretax, non-cash charges of \$9,951,000 were recorded to reduce the carrying value of TNI in the 13 weeks ended March 29, 2009. The Company recorded \$13,460,000 and \$39,139,000 of income tax benefits related to these charges in the 13 weeks ended December 28, 2008 and March 29, 2009, respectively.

---

## **Table of Contents**

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 pretax, non-cash charges of \$18,575,000 to reduce the carrying value of goodwill. The Company also recorded additional, non-cash pretax charges of \$14,920,000 to reduce the carrying value of amortizable intangible assets and reduced previously recorded charges for nonamortized intangible assets by \$3,829,000. \$10,000,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company recorded \$11,720,000 of income tax benefits related to these charges in the 13 weeks ended June 28, 2009.

The Company also periodically evaluates its determination of the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact the cash flows of the Company. 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. The Company tested such assets for impairment as of March 29, 2009, as noted above, and concluded no adjustments to the useful lives of such assets were required.

Annual amortization of intangible assets for each of the 52 week periods ending June 2010 through June 2014 is estimated to be \$45,247,000, \$44,806,000, \$43,797,000, \$39,347,000 and \$39,033,000, respectively.

## **6 DEBT**

### **Credit Agreement**

In 2006, the Company entered into an amended and restated credit agreement (Credit Agreement) with a syndicate of financial institutions (the Lenders). The Credit Agreement provided for aggregate borrowing of up to \$1,435,000,000 and replaced a \$1,550,000,000 credit agreement consummated in 2005. In February 2009, the Company completed a comprehensive restructuring of the Credit Agreement, which supplemented amendments consummated earlier in 2009 (together, the 2009 Amendments).

### **Security**

The Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by substantially all of the Company's existing and future, direct and indirect subsidiaries in which the Company holds a direct or indirect interest of more than 50% (the Credit Parties); provided however, that Pulitzer Inc. (Pulitzer), a wholly-owned subsidiary of the Company, and its subsidiaries will not become Credit Parties for so long as their doing so would violate the terms of the Pulitzer Notes discussed more fully below. The Credit Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

As a result of the 2009 Amendments, the Credit Parties pledged substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Credit Agreement. Assets of Pulitzer and its subsidiaries, TNI, the Company's ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

### **Interest Payments**

Debt under the A Term Loan, which has a balance of \$737,425,000 at June 28, 2009, and the \$375,000,000 revolving credit facility bear interest, at the Company's 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 (i) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (ii) 0.5% in excess of the overnight federal funds rate at such time; or (iii) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: For revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon the Company's leverage ratio at such time.

---

## **Table of Contents**

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively, are also in effect. At the June 28, 2009 leverage level, the Company's debt under the Credit Agreement will be priced at a LIBOR margin of 400 basis points.

Under the 2009 Amendments, contingent, non-cash payment-in-kind interest expense of 1.0% to 2.0% will be accrued in a quarterly period only in the event the Company's leverage level exceeds 7.5:1 at the end of the previous quarter. At June 28, 2009, this provision is not applicable. Such non-cash charges, if any, will be added to the principal amount of debt and will be reversed, in whole or in part, in the event the Company's total leverage ratio is below 6.0:1 in September 2011 or the Company refinances the Credit Agreement in advance of its April 2012 maturity.

### **Principal Payments**

The Company may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit 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. The Company is required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in the 39 weeks ended June 28, 2009 and 2008 were \$81,950,000 and \$26,625,000, respectively. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. Remaining payments in 2009 total \$22,100,000 and were made in July 2009. Payments in 2010 and 2011 total \$77,800,000 and \$65,000,000, respectively. Payments in 2012 prior to the April 2012 maturity total \$70,000,000. The scheduled payment at maturity is \$502,525,000, plus the balance of the revolving credit facility outstanding at that time.

In addition to the scheduled payments, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires the Company to apply the net proceeds from asset sales to repayment of the A Term Loan. Repayments in 2008 met required repayments related to its sales transactions. In July 2009, the Company made a \$440,000 payment related to this provision.

The Credit Agreement also requires the Company to accelerate future payments under the A Term Loan in the amount of 75% of its excess cash flow, as defined, beginning in 2008. The Company had excess cash flow of approximately \$62,000,000 in 2008 and, as a result, paid \$46,325,000 originally due under the A Term Loan in March and June 2009. The acceleration of such payments due to asset sales or excess cash flow does not change the due dates of other A Term Loan payments.

### **Covenants and Other Matters**

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At June 28, 2009, the Company was in compliance with such covenants. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals \$1,188,375,000 at June 28, 2009, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI.

The 2009 Amendments amended the Company's covenants to take into account economic conditions and the changes to amortization of debt noted above. The Company's total leverage ratio at June 28, 2009 was 6.7:1. Under the 2009 Amendments, the Company's total leverage ratio limit will increase from 8.25:1 in June 2009 to 8.75:1 in December 2009, decrease to 8.5:1 in June 2010, decrease to 7.75:1 in September 2010, decrease to 7.5:1 in December 2010, decrease to 7.25:1 in March 2011 and decrease to 7.0:1 in June 2011. Each change in the leverage ratio limit noted above is effective on the last day of the quarter.

The Credit Agreement also includes a minimum interest expense coverage ratio, as defined. The Company's interest expense coverage ratio at June 28, 2009 was 2.37:1. The minimum interest expense coverage ratio is 1.85:1 in June 2009, will decrease thereafter to 1.6:1 through September 2009, decrease thereafter to 1.4:1 through March 2010 and increase periodically thereafter until it reaches 2.25:1 in March 2012.

The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases through April 2012. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 2009 Amendments modify other covenants, including restricting the Company's ability to make additional investments and acquisitions without the consent of the Lenders, limiting



## **Table of Contents**

additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Credit Parties may hold to a maximum of \$10,000,000 for a five day period. Such covenants ensure that substantially all future cash flows of the Company are required to be directed toward debt reduction. Finally, the 2009 Amendments eliminated an unused incremental term loan facility.

### **Pulitzer Notes**

In conjunction with its formation in 2000, St. Louis Post-Dispatch LLC (PD LLC) borrowed \$306,000,000 (the Pulitzer Notes) from a group of institutional lenders (the Noteholders). The aggregate principal amount of the Pulitzer Notes was payable in April 2009.

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the Notes Amendment). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28, 2008. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 (the Guaranty Agreement) with the Noteholders. The Notes Amendment provides that the obligations under the Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries (excluding Star Publishing and TNI). Also, as a result of the Notes Amendment, Pulitzer and each of its subsidiaries pledged substantially all of its tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Pulitzer Notes. Assets and stock of Star Publishing, the Company's ownership interest in TNI and certain employee benefit plan assets are excluded.

The Notes Amendment increased the rate paid on the outstanding principal balance to 9.05% until April 28, 2010. The interest rate will increase by 0.50% per year thereafter.

Pulitzer may voluntarily prepay principal amounts outstanding or reduce commitments under the Pulitzer Notes 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. The Notes Amendment provides for mandatory scheduled prepayments, including quarterly principal payments of \$4,000,000 beginning on June 29, 2009 and an additional principal payment from restricted cash, if any, of up to \$4,500,000 in October 2010. The \$4,000,000 payment due June 29, 2009 was made in the 13 weeks ended June 28, 2009.

The Notes Amendment establishes a \$9,000,000 (reducing to \$4,500,000 in October 2010) reserve of restricted cash to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements have been eliminated. See Note 13. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the ratio of debt to EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage, as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At June 28, 2009, Pulitzer was in compliance with such covenants.

Further, the Notes Amendment added and amended other covenants including limitations or restrictions on additional debt, distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants ensure that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

The Credit Agreement contains a cross-default provision tied to the terms of the Pulitzer Notes and the Pulitzer Notes have limited cross-default provisions tied to the terms of the Credit Agreement.

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which is recorded as debt in the Consolidated Balance Sheets. This amount will be accreted over the remaining life of the Pulitzer Notes, until April 2012, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due, or reduce the amount of interest to be paid, to the Noteholders.



**Table of Contents****Liquidity**

The Company's continuing ability to operate is dependent, in part, on its ability to remain in compliance with its debt covenants and to refinance or amend the Credit Agreement and Pulitzer Notes when they become due in April 2012, or earlier if available liquidity is consumed. As noted above, the Company is in compliance with its debt covenants at June 28, 2009.

The Company generated cash flows in 2008 sufficient to reduce debt, net of changes in cash, by \$102,225,000, pay dividends totaling \$32,573,000 and acquire shares of its Common Stock in the amount of \$19,483,000. The Company expects to utilize a portion of its capacity under its revolving credit facility to fund a portion of the remaining 2009, 2010, 2011 and 2012 (prior to maturity) principal payments required under the Credit Agreement and Pulitzer Notes. At June 28, 2009, the Company had \$268,950,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, has approximately \$91,822,000 available for future use. Including cash and restricted cash, the Company's liquidity at June 28, 2009 totals \$111,993,000. This liquidity amount excludes any future cash flows. Mandatory principal payments on debt in the 52 weeks ending June 2010 total \$96,900,000.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default, as defined, occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

The 2010 Redemption, as discussed more fully in Note 13, also eliminates the potential requirement for a substantial cash outflow in April 2010. This event also substantially enhances the Company's liquidity.

**Other**

The Company paid fees to the Lenders and Noteholders for the 2009 Amendments and Notes Amendment which, along with the related legal and financial advisory expenses, total \$26,005,000. \$15,500,000 of the fees were capitalized and are being expensed over the remaining term of the Credit Agreement and Pulitzer Notes, until April 2012. At June 28, 2009, the Company has total unamortized financing costs of \$21,360,000.

Debt consists of the following:

	June 28,	September 28,	Interest Rate(s)
(Thousands)	2009	2008	June 28, 2009
<b>Credit Agreement:</b>			
A Term Loan	\$ 737,425	\$ 819,375	5.25-6.00%
Revolving credit facility	268,950	207,000	5.25
<b>Pulitzer Notes:</b>			
Principal amount	182,000	306,000	9.05
Unaccreted fair value adjustment	1,632	5,265	
	1,190,007	1,337,640	
Less current maturities	96,900	1,337,640	
	\$ 1,093,107	\$ -	

At June 28, 2009, the Company's weighted average cost of debt (including the effect of interest rate swaps and collars) was 6.76%.

Aggregate maturities of debt for each of the 52 week periods ending June 2012 are \$96,900,000, \$76,000,000, and \$1,015,475,000, respectively. The Company has classified in the June 28, 2009 Consolidated Balance Sheet, all amounts outstanding under the Credit Agreement and Pulitzer Notes based on their scheduled maturity dates, as determined under the 2009 Amendments and the Notes Amendment, respectively. Balances as of September 28, 2008 have not been adjusted.





**Table of Contents****7 INTEREST RATE EXCHANGE AGREEMENTS**

At June 28, 2009, the Company has outstanding interest rate swaps in the notional amount of \$125,000,000. The interest rate swaps have original terms of four to five years, carry interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fix the Company's interest rate on debt in the amounts, and for the time periods, of such instruments.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars have a two year term and limit LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limit the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

At June 28, 2009 and September 28, 2008, the Company recorded a liability of \$4,663,000 and \$3,337,000, respectively, related to the fair value of such instruments. The change in this fair value is recorded in other comprehensive income, net of income taxes.

At June 28, 2009, after consideration of the interest rate swaps described above, approximately 74% of the principal amount of the Company's debt is subject to floating interest rates. The interest rate collars described above limit the Company's exposure to interest rates on an additional 13% of the principal amount of its debt.

The Company's interest rate exchange agreements at June 28, 2009 consist of the following:

(Thousands) Notional Amount	Start Date	Maturity Date	Rate(s)	Fair Value
<b>VARIABLE TO FIXED RATE SWAPS</b>				
\$ 50,000	November 30, 2005	November 30, 2009	4.315%	\$ (788)
50,000	November 30, 2005	November 30, 2009	4.325	(796)
25,000	November 30, 2005	November 30, 2010	4.395	(1,196)
\$125,000				\$(2,780)
<b>COLLARS</b>				
\$ 75,000	November 30, 2007	November 30, 2009	3.53-5.00%	\$ (922)
75,000	November 30, 2007	November 30, 2009	3.61-5.00	(961)
\$150,000				\$(1,883)

**8 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT DEFINED BENEFIT PLANS**

The Company and its subsidiaries have several noncontributory defined benefit pension plans that together cover a significant number of *St. Louis Post-Dispatch* and selected other employees. Benefits under the plans are generally based on salary and years of service. The Company's liability and related expense for benefits under the plans are recorded over the service period of active employees based upon annual actuarial calculations. Plan funding strategies are influenced by tax regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, and cash.

In addition, the Company provides retiree medical and life insurance benefits under postretirement plans at several of its operating locations. The level and adjustment of participant contributions vary depending on the specific plan. In addition, PD LLC provides postemployment disability benefits to certain employee groups prior to retirement at the *St. Louis Post-Dispatch*. The Company's liability and related expense for benefits under the postretirement plans are recorded over the service period of active employees based upon annual actuarial calculations. The Company accrues postemployment disability benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid.

The Company uses a June 30 measurement date for all of its pension and postretirement medical plan obligations.

**Table of Contents**

The net periodic cost (benefit) components of the Company's pension and postretirement medical plans are as follows:

(Thousands)	Pension Plans			
	13 Weeks Ended		39 Weeks Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Service cost for benefits earned during the period	\$ 269	\$ 375	\$ 807	\$ 1,125
Interest cost on projected benefit obligation	2,388	2,334	7,164	7,002
Expected return on plan assets	(2,917)	(3,436)	(8,751)	(10,308)
Amortization of net gain	(295)	(424)	(885)	(1,272)
Amortization of prior service cost	(34)	(33)	(102)	(99)
	\$ (589)	\$ (1,184)	\$ (1,767)	\$ (3,552)

  

Postretirement Medical Plans				
Service cost for benefits earned during the period	\$ 65	\$ 525	\$ 592	\$ 1,575
Interest cost on projected benefit obligation	981	1,653	3,843	4,959
Expected return on plan assets	(600)	(549)	(1,805)	(1,647)
Amortization of net gain	(979)	(158)	(2,115)	(474)
Amortization of prior service cost	(808)	(58)	(1,564)	(174)
	\$ (1,341)	\$ 1,413	\$ (1,049)	\$ 4,239

\$30,000 and \$60,000 in the 13 weeks ended June 28, 2009 and June 29, 2008, respectively, and \$90,000 and \$180,000 in the 39 weeks ended June 28, 2009 and June 29, 2008, respectively, of net periodic pension benefit was allocated to TNI.

Based on its forecast at June 28, 2009, the Company expects to contribute \$2,600,000 to its postretirement medical plans in 2009.

Subsequent to the June 30, 2008 measurement date, the fair value of pension plan assets declined from \$151,801,000 to \$111,877,000 at June 30, 2009. The decline in the value of plan assets is related to declines in worldwide equity and debt markets. In the event the value of plan assets does not recover to the June 30, 2008 level, the Company's future pension expense and funding requirements may increase if the same level of benefits is maintained and is not offset by other changes in plan assumptions.

**2009 Changes to Plans**

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account-based structure. The changes will reduce annual net periodic postretirement medical cost, based on current assumptions, by approximately \$5,700,000, beginning in January 2009, and reduced the benefit obligation by \$23,000,000, effective in January 2009.

**9 INCOME TAXES**

The provision for income taxes includes deferred taxes and is based upon estimated annual effective tax rates in the tax jurisdictions in which the Company operates.

The effective tax rate for the 39 weeks ended June 28, 2009, differs from the statutory rate due to goodwill impairment charges that are partially non-deductible. In addition, in 2008, the Company substantially increased its valuation allowance for deferred tax assets, due to the uncertainty certain of such assets would be realized. In the 39 weeks ended June 28, 2009, the Company reduced the valuation allowance by \$16,030,000.

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

The Company estimates that it is reasonably possible that up to \$2,131,000 of uncertain tax benefits associated with state income tax return issues could be recognized in the 52 weeks ending June 2010 as a result of the expiration of various state statutes of limitations.

**Table of Contents**

The Company files income tax returns with the IRS and various state tax jurisdictions. From time to time, the Company is subject to routine audits by those agencies, and those audits may result in proposed adjustments. The Company has considered the alternative interpretations that may be assumed by the various taxing agencies, believes its positions taken regarding its filings are valid, and that adequate tax liabilities have been recorded to resolve such matters. However, the actual outcome cannot be determined with certainty and the difference could be material, either positively or negatively, to the Consolidated Statements of Operations and Comprehensive Income (Loss) in the periods in which such matters are ultimately determined. The Company does not believe the final resolution of such matters will be material to its consolidated financial position or cash flows.

The IRS has completed its review of the Company's income tax returns, or the related statute of limitations has expired, through 2005 and is presently examining income tax returns of Pulitzer for 2003, 2004 and 2005. The Company has various state income tax examinations ongoing and at various stages of completion, but generally the state income tax returns have been audited or closed to audit through 2002.

**10 EARNINGS (LOSS) PER COMMON SHARE**

The following table sets forth the computation of basic and diluted earnings (loss) per common share. Per share amounts may not add due to rounding.

	13 Weeks Ended		39 Weeks Ended	
	June 28,	June 29,	June 28,	June 29
<i>(Thousands, Except Per Share Data)</i>	2009	2008	2009	2008
<b>Income (loss) applicable to Common Stock:</b>				
Continuing operations	\$ (24,512)	\$ 2,884	\$ (124,941)	\$ (688,364)
Discontinued operations	-	(52)	(5)	285
	\$ (24,512)	\$ 2,832	\$ (124,946)	\$ (688,079)
Weighted average common shares	44,918	45,010	44,962	45,608
Less non-vested restricted Common Stock	465	745	527	637
Basic average common shares	44,453	44,265	44,435	44,971
Dilutive stock options and restricted Common Stock	-	288	-	-
Diluted average common shares	44,453	44,553	44,435	44,971
<b>Earnings (loss) per common share:</b>				
<b>Basic:</b>				
Continuing operations	\$ (0.55)	\$ 0.07	\$ (2.81)	\$ (15.31)
Discontinued operations	-	-	-	0.01
	\$ (0.55)	\$ 0.06	\$ (2.81)	\$ (15.30)
<b>Diluted:</b>				
Continuing operations	\$ (0.55)	\$ 0.06	\$ (2.81)	\$ (15.31)
Discontinued operations	-	-	-	0.01
	\$ (0.55)	\$ 0.06	\$ (2.81)	\$ (15.30)

For the 13 weeks and 39 weeks ended June 28, 2009 and June 29, 2008, the Company has 229,000 and 1,119,000, weighted average shares, respectively, subject to issuance under its stock option plan that have no intrinsic value and are not considered in the computation of diluted earnings per common share.

**Table of Contents****11 STOCK OWNERSHIP PLANS****Restricted Common Stock**

The following table summarizes restricted Common Stock activity during the 39 weeks ended June 28, 2009:

<i>(Thousands, Except Per Share Data)</i>	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 28, 2008	746	\$21.60
Vested	(113)	39.53
Forfeited	(168)	15.68
Outstanding, June 28, 2009	465	\$19.37

The fair value of restricted Common Stock vested during the 39 weeks ended June 28, 2009 totals \$171,000.

Total unrecognized compensation expense for unvested restricted Common Stock as of June 28, 2009 is \$2,838,000, which will be recognized over a weighted average period of 1.1 years.

**Stock Options**

A summary of activity related to the Company's stock option plan is as follows:

<i>(Thousands, Except Per Share Data)</i>	Shares	Weighted Average Exercise Price	Weighted Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 28, 2008	263	\$ 34.69		
Cancelled	(34)	34.78		
Outstanding, June 28, 2009	229	\$ 34.67	5.7	\$ -
Exercisable, June 28, 2009	191	\$ 35.86	5.3	\$ -

Total unrecognized compensation expense for unvested stock options as of June 28, 2009 is \$77,000, which will be recognized over a weighted average period of 0.4 years.

**12 FAIR VALUE MEASUREMENTS**

The Company adopted FASB Statement 157, *Fair Value Measurements* (Statement 157), in 2009. Statement 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement 157 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable and consists of the following levels:

## Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table summarizes the financial instruments measured at fair value in the accompanying Consolidated Financial Statements as of June 28, 2009:

<i>(Thousands)</i>	Level 2	Total
Interest rate swaps and collars	\$4,663	\$4,663

**Table of Contents**

In the 39 weeks ended June 28, 2009, the Company reduced the carrying value of property and equipment no longer in use by \$3,199,000, based on estimates of the related fair value in the current market.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short maturity of those instruments. At June 28, 2009, the Company had \$4,919,000 of investments in a money market fund classified as restricted cash, cash equivalents and investments in its Consolidated Balance Sheet. The fund has quoted market prices that are generally equivalent to par. The carrying value of other investments, consisting of debt and equity securities in a deferred compensation trust, is carried at fair value based upon quoted market prices. Investments totaling \$8,608,000, consisting primarily of the Company's 17% ownership of the nonvoting common stock of TCT are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. The Company's fixed rate debt consists of the \$182,000,000 principal amount of Pulitzer Notes, as discussed more fully in Note 6, which is not traded on an active market and is held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists in the current recession, the Company is unable, as of June 28, 2009, to determine the fair value of such debt. The value, if determined, would likely be less than the carrying amount.

**13 COMMITMENTS AND CONTINGENT LIABILITIES****Capital Expenditures**

At June 28, 2009, the Company has construction and equipment purchase commitments totaling approximately \$686,000.

**Redemption of PD LLC Minority Interest**

In 2000, Pulitzer and The Herald Company Inc. (Herald Inc.) completed the transfer of their respective interests in the assets and operations of the *St. Louis Post-Dispatch* and certain related businesses to a new joint venture, known as PD LLC. Pulitzer is the managing member of PD LLC. Under the terms of the related Operating Agreement, Pulitzer and another subsidiary held a 95% interest in the results of operations of PD LLC and The Herald Publishing Company, LLC (Herald), as successor to Herald Inc., held a 5% interest. Until February 2009, Herald's 5% interest was reported as minority interest in the Consolidated Statements of Operations and Comprehensive Income (Loss) at historical cost, plus accumulated earnings since the acquisition of Pulitzer.

Also, under the terms of the Operating Agreement, Herald Inc. received on May 1, 2000 a cash distribution of \$306,000,000 from PD LLC. This distribution was financed by the Pulitzer Notes. Pulitzer's investment in PD LLC was treated as a purchase for accounting purposes and a leveraged partnership for income tax purposes.

The Operating Agreement provided Herald a one-time right to require PD LLC to redeem its interest in PD LLC, together with its interest, if any, in STL Distribution Services (DS LLC) (the 2010 Redemption). The 2010 Redemption price for Herald's interest was to be determined pursuant to a formula. The Company recorded the present value of the remaining amount of this potential liability in its Consolidated Balance Sheet in 2008, with the offset primarily to goodwill in the amount of \$55,594,000, and the remainder recorded as a reduction of retained earnings. Between March 2008 and February 2009, the Company accrued increases in the liability totaling \$10,304,000, which increased net loss available to common stockholders. The present value of the 2010 Redemption in February 2009, was approximately \$73,602,000.

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and DS LLC owned by Herald pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest (the Herald Value) will be settled, at a date determined by Herald between April 2013 and April 2015, based on a calculation of 10% of the fair market value of PD LLC and DS LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any. The Company has recorded a liability of \$2,300,000 at June 28, 2009 as an estimate of the amount of the Herald Value to be disbursed. The actual amount of the Herald Value will depend on such variables as future cash flows of PD LLC and DS LLC, market valuations of newspaper properties and the timing of the request for redemption.

The Redemption Agreement also terminates Herald's right to exercise its rights under the 2010 Redemption. As a result, the Company reversed substantially all of its liability for the 2010 Redemption in the 13 weeks ended March 29, 2009. The reversal reduced liabilities by \$71,302,000 and increased comprehensive income by \$58,522,000 and stockholders' equity by \$68,826,000.





## **Table of Contents**

The redemption of Herald's interest in PD LLC and DS LLC is expected to generate significant tax benefits to the Company as a consequence of the resulting increase in the tax basis of the assets owned by PD LLC and DS LLC and the related depreciation and amortization deductions. The increase in basis to be amortized for income tax purposes over a 15 year period beginning in February 2009 is approximately \$258,000,000.

Pursuant to an Indemnity Agreement dated May 1, 2000 (Indemnity Agreement) between Herald Inc. and Pulitzer, Herald agreed to indemnify Pulitzer for any payments that Pulitzer may make under the Guaranty Agreement. The Indemnity Agreement and related obligations of Herald to indemnify Pulitzer were also terminated pursuant to the Redemption Agreement.

## **Legal Proceedings**

The Company is involved in a variety of legal actions that arise in the normal course of business. Insurance coverage mitigates potential loss for certain of these matters. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's Consolidated Financial Statements, taken as a whole.

In April 2008, a group of newspaper carriers filed suit against the Company in the United States District Court for the Southern District of California, claiming to be employees and not independent contractors of the Company. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. Since the suit is still in the initial phase, the Company is unable to predict whether the ultimate economic outcome, if any, could have a material effect on the Company's Consolidated Financial Statements, taken as a whole. The Company denies the allegations of employee status, consistent with past practices of the Company and the industry, and intends to vigorously contest the action, which is not covered by insurance.

## **14 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2006, the FASB issued Statement 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends Statements 87, 88, 106 and 132(R). The Company adopted the recognition and disclosure provision of Statement 158 as of September 30, 2007.

Statement 158 will also require the Company to change its measurement date to the last day of the fiscal year from a date three months prior to the end of the fiscal year, beginning in 2009. The change in measurement date will require a one-time adjustment to retained earnings, the effect of which cannot be determined at this time. None of the changes required will impact the Company's results of operations or cash flows.

In 2008, the FASB issued Statement 141(R), *Business Combinations*, and Statement 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. Statement 141(R) establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interests. For the Company, the provisions of Statement 141(R) are effective for business combinations occurring in 2010. Statement 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. Statement 160 is effective for the Company in 2010. The Company has not completed its evaluation of the effects of Statements 141(R) and 160 on its Consolidated Financial Statements.

In 2008, the FASB issued Statement 161, *Disclosures About Derivative Instruments and Hedging Activities*, an amendment of FASB Statement 133. Statement 161 requires disclosure regarding the objectives and strategies for using derivative instruments and the credit-risk-related features. Statement 161 also requires disclosure of the fair value amounts and the gains and losses on derivative instruments in tabular form. Statement 161 is effective for the Company in 2010.

In 2009, the FASB issued FASB Staff Position 107-1 and Accounting Principles Board Opinion 28-1 (FSP 107-1 and APB 28-1 respectively), *Interim Disclosures about Fair Value of Financial Instruments*. FSP 107-1 and APB 28-1 require disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. The Company adopted the disclosure provisions of FSP 107-1 and APB 28-1 as of June 28, 2009.



**Table of Contents**

In 2009, the FASB issued Statement 165, *Subsequent Events*, which defines the period after the balance sheet date that subsequent events should be evaluated and provides guidance in determining if the event should be reflected in the current financial statements. Statement 165 also requires disclosure regarding the date through which subsequent events have been evaluated. The Company adopted the provisions of Statement 165 as of June 28, 2009. See Note 1.

In 2009, the FASB issued Statement 168, *The FASB Accounting Standard Codification and the Hierarchy of Generally Accepted Accounting Principles*, which replaces Statement 162 and becomes the source of accounting principles to be applied in the preparation of financial statements for nongovernmental agencies. Statement 168 is effective for the Company as of September 27, 2009. Statement 168 will not have any impact on the Company's Consolidated Financial Statements since it was not intended to change existing Generally Accepted Accounting Principles.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion includes comments and analysis relating to the Company's results of operations and financial condition as of and for the 13 weeks and 39 weeks ended June 28, 2009. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and the Company's 2008 Annual Report on Form 10-K.

**NON-GAAP FINANCIAL MEASURES**

No non-GAAP financial measure should be considered as a substitute for any related financial measure under accounting principles generally accepted in the United States of America (GAAP). However, the Company believes the use of non-GAAP financial measures provides meaningful supplemental information with which to evaluate its financial performance, or assist in forecasting and analyzing future periods. The Company also believes such non-GAAP financial measures are alternative indicators of performance used by investors, lenders, rating agencies and financial analysts to estimate the value of a publishing business or its ability to meet debt service requirements.

**Operating Cash Flow and Operating Cash Flow Margin**

Operating cash flow, which is defined as operating income (loss) before depreciation, amortization, impairment of goodwill and other assets, and equity in earnings of associated companies, and operating cash flow margin (operating cash flow divided by operating revenue) represent non-GAAP financial measures that are used in the analysis below. The Company believes these measures provide meaningful supplemental information because of their focus on the Company's results of operations before depreciation, amortization, impairment charges and earnings from equity investments.

Reconciliations of operating cash flow and operating cash flow margin to operating income (loss) and operating income (loss) margin, the most directly comparable measures under GAAP, are included in the tables below:

	13 Weeks Ended	Percent of	13 Weeks Ended	Percent of
(Thousands)	June 28, 2009	Revenue	June 29, 2008	Revenue
Operating cash flow	\$ 44,691	21.9%	\$ 53,796	21.0%
Less depreciation and amortization	19,652	9.6	21,966	8.6
Less impairment of goodwill and other assets	29,665	NM	10,360	NM
Plus equity in earnings of associated companies	838	0.4	2,549	1.0
Less reduction of investment in TNI	10,000	NM	3,000	NM
Operating income (loss)	\$ (13,788)	NM	\$ 21,019	8.2%

	39 Weeks Ended	Percent of	39 Weeks Ended	Percent of
(Thousands)	June 28, 2009	Revenue	June 29, 2008	Revenue
Operating cash flow	\$ 126,484	19.6%	\$ 170,370	21.7%
Less depreciation and amortization	60,551	9.4	68,682	8.8
Less impairment of goodwill and other assets	244,572	NM	851,365	NM
Plus equity in earnings of associated companies	4,250	0.7	8,658	1.1
Less reduction of investment in TNI	19,951	NM	93,384	NM
Operating loss	\$ (194,340)	NM	\$ (834,403)	NM

**Adjusted Net Income and Adjusted Earnings Per Common Share**

Adjusted net income and adjusted earnings per common share, which are defined as net income (loss) available to common stockholders and earnings (loss) per common share adjusted to exclude unusual matters and those of a substantially non-recurring nature, are non-GAAP financial measures that are used in the analysis below. The Company believes these measures provide meaningful supplemental information by identifying matters that are not indicative of core business operating results or are of a substantially non-recurring nature.

## Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

Reconciliations of adjusted net income and adjusted earnings per common share to net income (loss) available to common stockholders and earnings (loss) per common share, respectively, the most directly comparable measures under GAAP, are set forth below under the caption Overall Results .

---

**Table of Contents**

**SAME PROPERTY COMPARISONS**

Certain information below, as noted, is presented on a same property basis, which is exclusive of acquisitions and divestitures consummated in the current or prior year. The Company believes such comparisons provide meaningful supplemental information for an understanding of changes in its revenue and operating expenses. Same property comparisons exclude TNI and MNI. The Company owns 50% of TNI and also owns 50% of the capital stock of MNI, both of which are reported using the equity method of accounting. Same property comparisons also exclude corporate office costs.

**CRITICAL ACCOUNTING POLICIES**

The Company's discussion and analysis of its results of operations and financial condition are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's critical accounting policies include the following:

- Goodwill and other intangible assets
- Pension, postretirement and postemployment benefit plans
- Income taxes
- Revenue recognition
- Uninsured risks

Additional information regarding these critical accounting policies can be found under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2008 Annual Report on Form 10-K and the Notes to Consolidated Financial Statements, included herein.

**IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2006, the FASB issued Statement 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends Statements 87, 88, 106 and 132(R). The Company adopted the recognition and disclosure provision of Statement 158 as of September 30, 2007.

Statement 158 will also require the Company to change its measurement date to the last day of the fiscal year from a date three months prior to the end of the fiscal year, beginning in 2009. The change in measurement date will require a one-time adjustment to retained earnings, the effect of which cannot be determined at this time. None of the changes required will impact the Company's results of operations or cash flows.

In 2008, the FASB issued Statement 141(R), *Business Combinations*, and Statement 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. Statement 141(R) establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interests. For the Company, the provisions of Statement 141(R) are effective for business combinations occurring in 2010. Statement 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. Statement 160 is effective for the Company in 2010. The Company has not completed its evaluation of the effects of Statements 141(R) and 160 on its Consolidated Financial Statements.

In 2008, the FASB issued Statement 161, *Disclosures About Derivative Instruments and Hedging Activities*, an amendment of FASB Statement 133. Statement 161 requires disclosure regarding the objectives and strategies for using derivative instruments and the credit-risk-related features. Statement 161 also requires disclosure of the fair value amounts and the gains and losses on derivative instruments in tabular form. Statement 161 is effective for the Company in 2010.

## Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

In 2009, the FASB issued FASB Staff Position 107-1 and Accounting Principles Board Opinion 28-1 (FSP 107-1 and APB 28-1 respectively), *Interim Disclosures about Fair Value of Financial Instruments*. FSP 107-1 and APB 28-1 require disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. The Company adopted the disclosure provisions of FSP 107-1 and APB 28-1 as of June 28, 2009.

---

## **Table of Contents**

In 2009, the FASB issued Statement 165, *Subsequent Events*, which defines the period after the balance sheet date that subsequent events should be evaluated and provides guidance in determining if the event should be reflected in the current financial statements. Statement 165 also requires disclosure regarding the date through which subsequent events have been evaluated. The Company adopted the provisions of Statement 165 as of June 28, 2009. See Note 1 to the Consolidated Financial Statements included herein.

In 2009, the FASB issued Statement 168, *The FASB Accounting Standard Codification and the Hierarchy of Generally Accepted Accounting Principles*, which replaces Statement 162 and becomes the source of accounting principles to be applied in the preparation of financial statements for nongovernmental agencies. Statement 168 is effective for the Company as of September 27, 2009. Statement 168 will not have any impact on the Company's Consolidated Financial Statements since it was not intended to change existing Generally Accepted Accounting Principles.

## **EXECUTIVE OVERVIEW**

The Company is a premier provider of local news, information and advertising in primarily midsize markets, with 49 daily newspapers and a joint interest in four others, rapidly growing online sites and more than 300 weekly newspapers and specialty publications in 23 states.

In 2005, the Company acquired Pulitzer. Pulitzer published 14 daily newspapers, including the *St. Louis Post-Dispatch*, and more than 100 weekly newspapers and specialty publications. Pulitzer also owned a 50% interest in TNI. The acquisition of Pulitzer increased the Company's circulation by more than 50% to more than 1.6 million daily and 1.9 million Sunday, and revenue, on an annualized basis, by more than 60% at that time. In 2006, the Company sold the assets of *The Daily News* in Rhinelander, Wisconsin, the smallest of these newspapers. In 2008, the Company sold the assets of *The Daily Chronicle* in DeKalb, Illinois.

The Company is focused on six key strategic priorities. They are to:

- Grow revenue creatively and rapidly;
- Deliver strong local news and information;
- Maximize its local online strength;
- Continue expanding its print and online audiences;
- Nurture employee development and achievement; and
- Exercise careful cost control.

Certain aspects of these priorities are discussed below.

Approximately 73% of the Company's revenue is derived from advertising. The Company's strategies are to increase its share of local advertising through increased sales activities in its existing markets and, over time, to increase its print and online audiences through internal expansion into existing and contiguous markets and enhancement of online offerings.

## **ECONOMIC CONDITIONS**

The United States economy has been in a recession since December 2007, according to the National Bureau of Economic Research, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. 2008 and 2009 revenue, operating results and cash flows were significantly impacted by the recession. The duration and depth of an economic recession in markets in which the Company operates may further reduce its future advertising and circulation revenue, operating results and cash flows.

## **IMPAIRMENT OF GOODWILL**

In the 13 weeks ended December 28, 2008 and March 29, 2009, the Company, based on its most recent analysis and in conjunction with its ongoing requirement to assess the carrying value and estimated useful lives of goodwill and identified intangible assets, concluded that the carrying value of goodwill exceeded its fair value. As a result, the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$67,781,000 and \$107,115,000, in the 13 weeks ended December 28, 2008 and March 29, 2009, respectively. The Company also recorded pretax, non-cash charges of \$17,884,000 and \$18,928,000 to reduce the value of nonamortized and amortizable intangible assets, respectively, in the 13 weeks ended March 29, 2009.



## Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

Additional pretax, non-cash charges of \$9,951,000 were recorded to reduce the carrying value of TNI in the 13 weeks ended March 29, 2009. These charges resulted in recognition of a significant loss per share for the 26 weeks ended March 29, 2009, and will result in a loss for the 52 weeks ending September 27, 2009.

## **Table of Contents**

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 pretax, non-cash charges of \$18,575,000 to reduce the carrying value of goodwill. The Company also recorded additional, non-cash pretax charges of \$14,920,000 to reduce the carrying value of amortizable intangible assets and reduced previously recorded charges for nonamortized intangible assets by \$3,829,000. \$10,000,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company recorded \$11,720,000 of income tax benefits related to these charges in the 13 weeks ended June 28, 2009.

## **DEBT AND LIQUIDITY**

As discussed more fully in Note 6 to the Consolidated Financial Statements, included herein, in February 2009, the Company completed a comprehensive restructuring of its Credit Agreement and a refinancing of its Pulitzer Notes debt, substantially enhancing its liquidity and operating flexibility until April 2012. The Company disclosed in its 2008 Annual Report on Form 10-K, in part, that the ability to extend or refinance the Pulitzer Notes as they become due and to delay the acceleration of debt maturities upon the expiration of existing waivers of default under both the Credit Agreement and the Pulitzer Notes, were factors that raised significant uncertainty about the Company's ability to continue as a going concern. The restructuring of the Credit Agreement and refinancing of the Pulitzer Notes resolve these issues.

KPMG's auditors' report on the Company's 2008 Consolidated Financial Statements included an explanatory paragraph, which raised substantial doubt about the Company's ability to continue as a going concern. KPMG has not reissued its 2008 Report removing the explanatory paragraph and has informed the Company that it does not expect to reevaluate its conclusion until the 2009 audit of the Consolidated Financial Statements is completed.

The Company's ability to operate as a going concern is dependent on its ability to remain in compliance with debt covenants and to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed.

## **EQUITY CAPITAL**

As of December 24, 2008, the Company's Common Stock traded at an average 30-day closing market price of less than \$1 per share. The Company's equity market capitalization may also fall under the \$15,000,000 minimum requirement of the NYSE at some future date. Under the NYSE listing standards, if the Company's Common Stock fails to maintain an adequate per share price and total market capitalization, the Company's Common Stock could be removed from the NYSE and traded in the over the counter market. In a letter dated December 30, 2008 the NYSE notified the Company that it does not meet the NYSE continued listing standard due to its failure to maintain a minimum share price. The Company has until December 3, 2009 to cure the deficiency relating to that listing standard. If share trading prices in early August 2009 remain above the NYSE minimum, the Company expects to cure such compliance deficiency at the end of August 2009. All of these factors, along with otherwise volatile equity market conditions, could limit the Company's ability to raise new equity capital in the future.

**Table of Contents****13 WEEKS ENDED JUNE 28, 2009**

Results, as reported in the Consolidated Financial Statements, are summarized below:

	13 Weeks Ended		Percent Change	
	June 28, 2009	June 29, 2008	Total	Same Property
<i>(Thousands, Except Per Share Data)</i>				
Advertising revenue:				
Retail	\$ 85,489	\$106,723	(19.9)%	(19.9)%
Classified:				
Daily newspapers:				
Employment	5,840	15,099	(61.3)	(61.3)
Automotive	7,607	11,797	(35.5)	(35.5)
Real estate	7,324	11,009	(33.5)	(33.5)
All other	12,580	11,927	5.5	5.5
Other publications	7,384	11,115	(33.6)	(34.6)
Total classified	40,735	60,947	(33.2)	(33.3)
Online	10,350	14,636	(29.3)	(29.3)
National	8,305	9,375	(11.4)	(11.4)
Niche publications	3,155	3,821	(17.4)	(17.5)
Total advertising revenue	148,034	195,502	(24.3)	(24.3)
Circulation	45,320	48,344	(6.3)	(6.3)
Commercial printing	3,497	4,433	(21.1)	(21.1)
Online services and other	6,954	8,115	(14.3)	(14.3)
Total operating revenue	203,805	256,394	(20.5)	(20.5)
Compensation	80,703	103,984	(22.4)	(22.4)
Newsprint and ink	15,752	26,859	(41.4)	(35.2)
Other operating expenses	61,118	71,211	(14.2)	(14.2)
Workforce adjustment and transition costs	1,541	544	NM	NM
Total operating expenses, excluding depreciation and amortization	159,114	202,598	(21.5)	(21.0)
Operating cash flow	44,691	53,796	(16.9)	(19.0)
Depreciation and amortization	19,652	21,966	(10.5)	
Impairment of goodwill and other assets	29,665	10,360	NM	
Equity in earnings of associated companies	838	2,549	(67.1)	
Reduction of investment in TNI	10,000	3,000	NM	
Operating income (loss)	(13,788)	21,019	NM	
Non-operating expense, net	(20,534)	(14,995)	36.9	
Income (loss) from continuing operations before income taxes	(34,322)	6,024	NM	
Income tax expense (benefit)	(9,830)	2,372	NM	
Minority interest	20	113	(82.3)	
Income (loss) from continuing operations	(24,512)	3,539	NM	
Discontinued operations, net	-	(52)	NM	
Net income (loss)	(24,512)	3,487	NM	
Change in redeemable minority interest	-	(655)	NM	
Net income (loss) available to common stockholders	\$(24,512)	\$ 2,832	NM	
Earnings (loss) per common share:				
Basic	\$ (0.55)	\$ 0.06	NM	
Diluted	(0.55)	0.06	NM	

For the 13 weeks ended June 28, 2009, total same property operating revenue decreased \$52,627,000, or 20.5%, compared to the 13 weeks ended June 29, 2008.

**Table of Contents****Advertising Revenue**

Same property advertising revenue decreased \$47,508,000, or 24.3%, for the 13 weeks ended June 28, 2009 compared to the prior year period. Despite declines in advertising revenue, the Company's total advertising results have historically benchmarked favorably to industry statistics reported by the Newspaper Association of America.

The table below combines print and online advertising revenue and reclassifies certain print retail revenue to classified based on the primary business of the advertiser.

(Thousands, Same Property)	13 Weeks Ended		Percent Change
	June 28, 2009	June 29, 2008	
Retail	\$88,592	\$108,500	(18.3)%
Classified:			
Employment	\$ 9,241	\$ 23,323	(60.4)%
Automotive	11,114	16,257	(31.6)
Real estate	9,518	14,632	(35.0)
Other	17,693	19,417	(8.9)
Total classified revenue	\$47,566	\$ 73,629	(35.4)%

On a combined basis, same property print and online retail advertising revenue decreased 18.3% in the 13 weeks ended June 28, 2009. Same property print retail revenue decreased \$21,186,000, or 19.9%. Same property average retail rate, excluding preprint insertions, decreased 13.2%. Same property daily newspaper retail preprint insertion revenue decreased 10.9%.

On a combined basis, same property print and online classified revenue decreased 35.4%. Same property print classified advertising revenue decreased \$20,300,000, or 33.3%, for the 13 weeks ended June 28, 2009. Higher rate print employment advertising at the daily newspapers decreased 61.3% for the period on a same property basis, reflecting rising unemployment nationally. Same property print automotive advertising decreased 35.5% amid an industry-wide decline. Same property print real estate advertising decreased 33.5% in a weak housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Other daily newspaper print classified advertising increased 5.5% on a same property basis. Same property classified advertising rates decreased 17.8%.

Advertising lineage, as reported on a same property basis for the Company's daily newspapers only, consisted of the following:

(Thousands of Inches)	13 Weeks Ended		Percent Change
	June 28, 2009	June 29, 2008	
Retail	2,673	3,181	(16.0)%
National	113	144	(21.5)
Classified	2,990	3,774	(20.8)
	5,776	7,099	(18.6)%

Online advertising revenue decreased 29.3% on a same property basis, due to a 45.8% decrease in online classified revenue and a 1.7% decrease in online retail revenue.

National advertising decreased \$1,070,000, or 11.4%, on a same property basis due to a 21.5% decline in lineage offset by a 5.5% increase in average national rate. Advertising in niche publications decreased 17.5% on a same property basis.

**Circulation and Other Revenue**

Circulation revenue decreased \$3,024,000, or 6.3%, in the 13 weeks ended June 28, 2009, partially as a result of elimination of less profitable delivery areas. The Company's unaudited average daily newspaper circulation units, including TNI and MNI, decreased 7.5% and Sunday circulation decreased 8.0% for the 13 weeks ended June 28, 2009, compared to the prior year period. Results for both periods exclude *The Capital Times* in Madison, WI and the *South Idaho Press* in Burley, ID, which ceased daily publication in 2008. Company research in its larger markets indicates it is reaching an increasingly larger audience in these

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

markets through modest growth in newspaper readership and rapid online growth, as well as through its specialty and niche publications.

---

**Table of Contents**

Same property commercial printing revenue decreased \$934,000, or 21.1%, in the 13 weeks ended June 28, 2009. Same property online services and other revenue decreased \$1,163,000, or 14.3%, in the 13 weeks ended June 28, 2009.

**Operating Expenses**

Costs other than depreciation, amortization and unusual costs decreased \$44,481,000, or 22.0%, in the 13 weeks ended June 28, 2009, and decreased \$41,544,000, or 21.2%, on a same property basis.

Compensation expense decreased \$23,281,000, or 22.4%, in the 13 weeks ended June 28, 2009 and same property compensation expense decreased 22.4% driven primarily by a decline in same property average full time equivalent employees of 17.0%. Bonus programs and employee benefits have also been substantially reduced and stock compensation grants have been suspended.

Newsprint and ink costs decreased \$11,107,000, or 41.4%, in the 13 weeks ended June 28, 2009 due primarily to decreased usage from lower advertising, reduced page sizes, lighter weight paper and some reduction of content. Costs decreased 35.2% on a same property basis and volume decreased 36.4% on a same property basis. See Item 3, *Commodities*, included herein.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation, amortization, or unusual costs or cost reductions, decreased \$10,093,000, or 14.2%, in the 13 weeks ended June 28, 2009 and decreased 14.2% on a same property basis.

Reductions in staffing resulted in workforce adjustment costs totaling \$786,000 and \$544,000 in the 13 weeks ended June 28, 2009 and June 29, 2008, respectively. The Company also incurred \$755,000 in transition costs related to discontinuation of print publication of the *Tucson Citizen*.

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account based structure. The changes are expected to reduce annual net periodic postretirement medical cost by approximately \$5,700,000, beginning in January 2009, and reduced the benefit obligation by \$23,000,000, effective in January 2009.

The Company is engaged in various efforts to continue to reduce its operating expenses in 2009 and beyond, including staff reductions and newsprint conservation. The Company expects its operating expenses, excluding depreciation, amortization and unusual costs and cost reductions, to decline approximately 17% in 2009, a decrease of approximately \$140,000,000.

**Results of Operations**

As a result of the above, operating cash flow decreased \$9,105,000, or 16.9%, in the current year period. Operating cash flow margin increased to 21.9% from 21.0% in the prior year period. Same property operating cash flow margin increased to 23.7%, from 23.3% in the prior year period.

Depreciation and amortization expense decreased \$2,314,000, or 10.5%, due to impairment charges and reduced levels of capital expenditures in 2008 and 2009.

The Company recorded pretax, non-cash charges in the 13 weeks ended December 28, 2008 and March 29, 2009 to reduce the carrying value of goodwill by \$67,781,000 and \$107,115,000, respectively. The Company also recorded pretax, non-cash charges of \$17,884,000 and \$18,928,000 to reduce the value of nonamortized and amortizable intangible assets, respectively, in the 13 weeks ended March 29, 2009. Additional pretax, non-cash charges of \$9,951,000 were recorded to reduce the carrying value of TNI in the 13 weeks ended March 29, 2009. The Company recorded \$13,460,000 and \$39,139,000 of income tax benefits related to these charges in the 13 weeks ended December 28, 2008 and March 29, 2009, respectively.

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 pretax, non-cash charges of \$18,575,000 to reduce the carrying value of goodwill. The Company also recorded additional, non-cash pretax charges of \$14,920,000 to reduce the carrying value



**Table of Contents**

of amortizable intangible assets and reduced previously recorded charges for nonamortized intangible assets by \$3,829,000. \$10,000,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company recorded \$11,720,000 of income tax benefits related to these charges in the 13 weeks ended June 28, 2009.

Equity in earnings of associated companies decreased to \$838,000 in the current year period, compared to \$2,549,000 in the prior year. In April 2008, one of MNI's daily newspapers, *The Capital Times*, decreased print publication from six days per week to one day.

In May 2009, Citizen discontinued print publication of the *Tucson Citizen*. The change resulted in workforce adjustment and other transition costs of \$1,093,000, which were recorded by TNI in the 13 weeks ended June 28, 2009.

The above resulted in an operating loss of \$13,788,000 in the 13 weeks ended June 28, 2009, compared to operating income of \$21,019,000 in the prior year period.

**Nonoperating Income and Expense**

Nonoperating expense increased \$5,539,000 due to an increase in debt financing costs and higher LIBOR spreads, which were partially offset by lower levels of debt and lower LIBOR rates. LIBOR has decreased substantially from its prior year levels.

Amendments to the Company's Credit Agreement consummated in 2009 will increase financial expense in 2009 in relation to LIBOR. The Company is now subject to minimum LIBOR levels, which are currently in excess of actual LIBOR. The maximum rate has been increased to LIBOR plus 450 basis points, and the Company could also be subject to additional non-cash payment-in-kind interest if leverage increases above specified levels. At the June 2009 leverage level, the Company's debt under the Credit Agreement will be priced at the applicable LIBOR minimum plus 400 basis points. The interest rate on the Pulitzer Notes, the balance of which was reduced \$4,000,000 in the 13 weeks ended June 28, 2009, increased 1% to 9.05% in February 2009, until April 2010. The interest rate will increase by 0.5% per year thereafter.

**Overall Results**

Income tax benefit was 28.6% of loss from continuing operations before income taxes in the current year period and 39.4% of income from continuing operations before income taxes in the prior year. The effective tax rates differ from the expected rate due primarily to non-deductible goodwill impairment charges.

As a result of all of the above, the Company recorded a loss per diluted common share of \$0.55 compared to earnings of \$0.06 per share in the prior year period. As detailed in the table below, diluted earnings per common share, as adjusted, were \$0.12 for the 13 weeks ended June 28, 2009 compared to earnings per common share of \$0.30 for the 13 weeks ended June 29, 2008. Per share amounts may not add due to rounding.

	13 Weeks Ended			
	June 28, 2009		June 29, 2008	
(Thousands, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Net loss available to common stockholders, as reported	\$ (24,512)	\$(0.55)	\$ 2,832	\$0.06
Adjustments:				
Impairment of goodwill and other assets, including TNI Partners	39,665		13,360	
Debt financing costs	784		877	
Other, net	2,088		707	
	42,537		14,944	
Income tax benefit of adjustments, net	(12,737)		(5,287)	
	29,800	0.67	9,657	0.22
Net income (loss) available to common stockholders, as adjusted	5,288	0.12	12,489	0.28
Change in redeemable minority interest	-	-	655	0.01
Net income (loss), as adjusted	\$ 5,288	\$ 0.12	\$13,144	\$0.30





**Table of Contents****39 WEEKS ENDED JUNE 28, 2009**

Results, as reported in the Consolidated Financial Statements, are summarized below:

<i>(Thousands, Except Per Share Data)</i>	39 Weeks Ended		Percent Change	
	June 28, 2009	June 29, 2008	Total	Same Property
Advertising revenue:				
Retail	\$ 278,276	\$333,445	(16.5)%	(16.5)%
Classified:				
Daily newspapers:				
Employment	20,939	46,166	(54.6)	(54.6)
Automotive	23,711	34,421	(31.1)	(31.1)
Real estate	22,764	33,082	(31.2)	(31.2)
All other	32,572	31,720	2.7	2.7
Other publications	23,293	32,581	(28.5)	(29.8)
Total classified	123,279	177,970	(30.7)	(31.0)
Online	31,890	41,605	(23.4)	(23.3)
National	30,747	34,190	(10.1)	(10.1)
Niche publications	9,954	11,995	(17.0)	(17.0)
Total advertising revenue	474,146	599,205	(20.9)	(20.9)
Circulation	139,962	147,236	(4.9)	(4.9)
Commercial printing	10,008	12,413	(19.4)	(19.4)
Online services and other	22,088	25,121	(12.1)	(12.1)
Total operating revenue	646,204	783,975	(17.6)	(17.6)
Compensation	259,481	317,753	(18.3)	(18.5)
Newsprint and ink	61,570	76,311	(19.3)	(15.5)
Other operating expenses	193,939	218,587	(11.3)	(10.9)
Workforce adjustment and transition costs	4,730	954	NM	NM
Total operating expenses, excluding depreciation and amortization	519,720	613,605	(15.3)	(14.9)
Operating cash flow	126,484	170,370	(25.8)	(26.1)
Depreciation and amortization	60,551	68,682	(11.8)	
Impairment of goodwill and other assets	244,572	851,365	NM	
Equity in earnings of associated companies	4,250	8,658	(50.9)	
Reduction of investment in TNI	19,951	93,384	NM	
Operating loss	(194,340)	(834,403)	NM	
Non-operating expense, net	(66,857)	(51,329)	30.3	
Loss from continuing operations before income taxes	(261,197)	(885,732)	NM	
Income tax benefit	(79,353)	(206,215)	NM	
Minority interest	152	709	(78.6)	
Loss from continuing operations	(181,996)	(680,226)	NM	
Discontinued operations, net	(5)	285	NM	
Net loss	(182,001)	(679,941)	NM	
Change in redeemable minority interest	57,055	(8,138)	NM	
Net loss available to common stockholders	\$(124,946)	\$(688,079)	NM	
Loss per common share:				
Basic	\$ (2.81)	\$ (15.30)	NM	
Diluted	(2.81)	(15.30)	NM	

For the 39 weeks ended June 28, 2009, total same property operating revenue decreased \$137,807,000, or 17.6%, compared to the 39 weeks ended June 29, 2008.



**Table of Contents****Advertising Revenue**

Same property advertising revenue decreased \$125,104,000, or 20.9%, for the 39 weeks ended June 28, 2009 compared to the prior year. Despite declines in advertising revenue, the Company's total advertising results have historically benchmarked favorably to industry statistics reported by the Newspaper Association of America.

The table below combines print and online advertising revenue and reclassifies certain print retail revenue to classified based on the primary business of the advertiser.

(Thousands, Same Property)	39 Weeks Ended		Percent Change
	June 28, 2009	June 29, 2008	
Retail	\$286,717	\$336,522	(14.8)%
Classified:			
Employment	\$ 32,655	\$ 70,384	(53.6)%
Automotive	34,576	47,973	(27.9)
Real estate	29,693	43,841	(32.3)
Other	48,648	53,629	(9.3)
Total classified revenue	\$145,572	\$215,827	(32.6)%

On a combined basis, same property print and online retail advertising revenue decreased 14.8% in the 39 weeks ended June 28, 2009. Same property print retail revenue decreased \$54,839,000, or 16.5%. Same property average retail rate, excluding preprint insertions, decreased 9.3%. Same property daily newspaper retail preprint insertion revenue decreased 10.8%.

On a combined basis, same property print and online classified revenue decreased 32.6%. Same property print classified advertising revenue decreased \$55,073,000, or 31.0%, for the 39 weeks ended June 28, 2009. Higher rate print employment advertising at the daily newspapers decreased 54.6% for the period on a same property basis reflecting rising unemployment nationally. Same property print automotive advertising decreased 31.1% amid an industry-wide decline. Same property print real estate advertising decreased 31.2% in a weak housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Other daily newspaper print classified advertising increased 2.7% on a same property basis. Same property classified advertising rates decreased 16.7%.

Advertising lineage, as reported on a same property basis for the Company's daily newspapers only, consisted of the following:

(Thousands of Inches)	39 Weeks Ended		Percent Change
	June 28, 2009	June 29, 2008	
Retail	8,433	9,671	(12.8)%
National	372	484	(23.1)
Classified	8,654	10,686	(19.0)
	17,459	20,841	(16.2)%

Online advertising revenue decreased 23.3% on a same property basis, due to a 40.8% decrease in online classified revenue, partially offset by a 9.6% increase in online retail revenue.

National advertising decreased \$3,443,000, or 10.1%, on a same property basis due to a 23.1% decline in lineage offset by a 13.8% increase in average national rate. Advertising in niche publications decreased 17.0% on a same property basis.

**Circulation and Other Revenue**

Circulation revenue decreased \$7,274,000, or 4.9%, in the 39 weeks ended June 28, 2009, partially as a result of elimination of less profitable delivery areas. The Company's unaudited average daily newspaper circulation units, including TNI and MNI, decreased 6.1% and Sunday circulation decreased 5.3% for the 39 weeks ended June 28, 2009, compared to the prior year period. Results in both periods exclude *The Capital Times* in Madison, WI and the *South Idaho Press* in Burley, ID, which ceased daily

## Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

publication in 2008. Company research in its larger markets indicates it is reaching an increasingly larger audience in these markets through modest growth in newspaper readership and rapid online growth, as well as through its specialty and niche publications.

Same property commercial printing revenue decreased \$2,405,000, or 19.4%, in the 39 weeks ended June 28, 2009. Same property online services and other revenue decreased \$3,032,000, or 12.1%, in the 39 weeks ended June 28, 2009.

---

**Table of Contents**

**Operating Expenses**

Costs other than depreciation, amortization and unusual costs decreased \$97,661,000, or 15.9%, in the 39 weeks ended June 28, 2009, and decreased \$91,589,000, or 15.4%, on a same property basis.

Compensation expense decreased \$58,272,000, or 18.3%, in the 39 weeks ended June 28, 2009 and same property compensation expense decreased 18.5% driven primarily by a decline in same property average full time equivalent employees of 14.7%. Bonus programs and employee benefits have also been substantially reduced and stock compensation grants have been suspended.

Newsprint and ink costs decreased \$14,741,000, or 19.3%, in the 39 weeks ended June 28, 2009 due to decreased usage from lower advertising, reduced page sizes, lighter weight paper and some reduction of content, which were partially offset by higher unit prices. Costs decreased 15.5% on a same property basis and volume decreased 30.5% on a same property basis. See Item 3, *Commodities* , included herein.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation, amortization, or unusual costs or cost reductions, decreased \$24,648,000, or 11.3%, in the 39 weeks ended June 28, 2009 and decreased 10.9% on a same property basis.

Reductions in staffing resulted in workforce adjustment costs totaling \$3,975,000 and \$954,000 in the 39 weeks ended June 28, 2009 and June 29, 2008, respectively. The Company also incurred \$755,000 in transition costs related to discontinuation of print publication of the *Tucson Citizen*.

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account based structure. The changes are expected to reduce annual net periodic postretirement medical cost by approximately \$5,700,000, beginning in January 2009, and reduced the benefit obligation by \$23,000,000, effective in January 2009.

The Company is engaged in various efforts to continue to reduce its operating expenses in 2009 and beyond, including staff reductions and newsprint conservation. The Company expects its operating expenses, excluding depreciation, amortization and unusual costs and cost reductions, to decline approximately 17% in 2009, a decrease of approximately \$140,000,000.

**Results of Operations**

As a result of the above, operating cash flow decreased \$43,886,000, or 25.8%, in the current year period. Operating cash flow margin decreased to 19.6% from 21.7% in the prior year period. Same property operating cash flow margin decreased to 21.6%, from 24.1% in the prior year period.

Depreciation and amortization expense decreased \$8,131,000, or 11.8%, due to impairment charges and reduced levels of capital expenditures in 2008 and 2009.

In the 39 weeks ended June 28, 2009, the Company, based on its most recent analysis and in conjunction with its ongoing requirement to assess the carrying value and estimated useful lives of goodwill and identified intangible assets, concluded that the carrying value of goodwill exceeded its fair value. As a result, the Company recorded a pretax, non-cash charge to reduce the carrying value of goodwill by \$193,471,000. The Company also recorded pretax, non-cash charges of \$14,055,000 and \$33,848,000 to reduce the value of nonamortized and amortizable intangible assets, respectively. Additional pretax charges of \$19,951,000 were recorded to reduce the carrying value of TNI. The Company also recorded \$64,319,000 of income tax benefits related to these charges. These charges resulted in recognition of a significant loss per share for the 39 weeks ended June 28, 2009, and will result in a loss for the 52 weeks ending September 27, 2009.

In May 2009, Citizen discontinued print publication of the *Tucson Citizen*. The change resulted in workforce adjustment and other transition costs of approximately \$1,093,000, which were recorded by TNI in the 13 weeks ended June 28, 2009.

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

The above resulted in an operating loss of \$194,340,000 in the 39 weeks ended June 28, 2009, compared to an operating loss of \$834,403,000 in the prior year period.

**Table of Contents****Nonoperating Income and Expense**

Nonoperating expense increased \$15,528,000 due to an increase in the debt financing costs and higher LIBOR spreads, which were partially offset by lower levels of debt and lower LIBOR rates. LIBOR has decreased substantially from its prior year levels.

Amendments to the Company's Credit Agreement consummated in 2009 will increase financial expense in 2009 in relation to LIBOR. The Company is now subject to minimum LIBOR levels, which are currently in excess of actual LIBOR. The maximum rate has been increased to LIBOR plus 450 basis points, and the Company could also be subject to additional non-cash payment-in-kind interest if leverage increases above specified levels. At the June 2009 leverage level, the Company's debt under the Credit Agreement will be priced at the applicable LIBOR minimum plus 400 basis points. The interest rate on the Pulitzer Notes, the balance of which was reduced to \$182,000,000 in the 39 weeks ended June 28, 2009, increased 1% to 9.05% in February 2009, until April 2010. The interest rate will increase by 0.5% per year thereafter.

**Overall Results**

Income tax benefit was 30.4% of loss from continuing operations before income taxes in the current year period and 23.3% of loss from continuing operations before income taxes in the prior year. In the current year period, the Company reduced the valuation allowance for deferred tax assets by \$16,030,000. The tax impact of non-deductible goodwill impairment charges lowered the effective rate in both years.

Recording of the liability for the 2010 Redemption resulted in an increase in net loss available to common stockholders for the 39 weeks ended June 29, 2008, of \$8,138,000. The Company reversed substantially all of its liability for the 2010 Redemption in the 39 weeks ended June 28, 2009. The reversal decreased liabilities by \$71,302,000, and increased comprehensive income by \$58,522,000 and stockholders' equity by \$68,826,000.

As a result of all of the above, the Company recorded a loss per diluted common share of \$2.81 compared to a loss of \$15.30 per share in the prior year period. As detailed in the table below, diluted earnings per common share, as adjusted, were \$0.29 for the 39 weeks ended June 28, 2009 compared to earnings per common share of \$0.89 for the 39 weeks ended June 29, 2008. Per share amounts may not add due to rounding.

	39 Weeks Ended			
	June 28, 2009		June 29, 2008	
<i>(Thousands, Except Per Share Data)</i>	Amount	Per Share	Amount	Per Share
Net loss available to common stockholders, as reported	\$(124,946)	\$(2.81)	\$(688,079)	\$(15.30)
Adjustments:				
Impairment of goodwill and other assets, including TNI Partners	264,523		944,749	
Debt financing costs	15,634		2,629	
Other, net	4,753		1,643	
	284,910		949,021	
Income tax benefit of adjustments, net, change in deferred tax valuation allowance and impact on minority interest	(89,867)		(228,931)	
	195,043	4.39	720,090	16.01
Net income available to common stockholders, as adjusted	70,097	1.58	32,011	0.71
Change in redeemable minority interest	(57,055)	(1.28)	8,138	0.18
Net income, as adjusted	\$ 13,042	\$ 0.29	\$ 40,149	\$ 0.89



---

**Table of Contents**

**LIQUIDITY AND CAPITAL RESOURCES**

**Operating Activities**

Cash provided by operating activities of continuing operations was \$59,443,000 in the 39 weeks ended June 28, 2009, and \$85,981,000 in the 39 weeks ended June 29, 2008. Losses from continuing operations in the 39 weeks ended June 28, 2009 and June 29, 2008 were caused primarily by non-cash charges for the impairment of goodwill and other assets, net of the related income tax effect. Changes in operating assets and liabilities and the timing of income tax payments accounted for the bulk of the remainder of the change in both years.

**Investing Activities**

Cash provided by investing activities totaled \$113,023,000 in the 39 weeks ended June 28, 2009 and required \$26,132,000 in the 39 weeks ended June 29, 2008. The Company liquidated a substantial amount of its restricted cash and investments in the 39 weeks ended June 28, 2009 in order to fund a \$120,000,000 reduction in the balance of the Pulitzer Notes. Capital spending totaled \$10,686,000 in the 39 weeks ended June 28, 2009, and \$17,498,000 in the 39 weeks ended June 29, 2008.

The Company anticipates that funds necessary for capital expenditures, which are expected to total less than \$15,000,000 in 2009, and other requirements, will be available from internally generated funds, or availability under its existing Credit Agreement. The 2009 Amendments to the Credit Agreement, as discussed more fully below, limit capital expenditures to \$20,000,000 in 2009.

**Financing Activities**

Cash required for financing activities totaled \$180,668,000 in the 39 weeks ended June 28, 2009 and \$70,808,000 in the 39 weeks ended June 29, 2008. Debt reduction accounted for the majority of the usage of funds in both years. Financing costs related to the 2009 Amendments also increased cash required in the current year period. The annual dividend declared was \$0.76 per share in 2008 and the final 2008 dividend was paid in October 2008. The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases through April 2012.

**Credit Agreement**

In 2006, the Company entered into the Credit Agreement with the Lenders. The Credit Agreement provided for aggregate borrowing of up to \$1,435,000,000 and replaced a \$1,550,000,000 credit agreement consummated in 2005. In February 2009, the Company completed a comprehensive restructuring of the Credit Agreement, which supplemented amendments consummated earlier in 2009.

**Security**

The Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by the Credit Parties; provided however, that Pulitzer and its subsidiaries will not become Credit Parties for so long as their doing so would violate the terms of the Pulitzer Notes discussed more fully below. The Credit Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

As a result of the 2009 Amendments, the Credit Parties pledged substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Credit Agreement. Assets of Pulitzer and its subsidiaries, TNI, the Company's ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

**Interest Payments**

Debt under the A Term Loan, which has a balance of \$737,425,000 at June 28, 2009, and the \$375,000,000 revolving credit facility bear interest, at the Company's 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 (i) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (ii) 0.5% in excess of the overnight federal funds rate at such time; or (iii) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: For revolving loans and A Term Loans maintained as base rate loans: 1.625% to

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon the Company's leverage ratio at such time.

---

## **Table of Contents**

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively, are also in effect. At the June 28, 2009 leverage level, the Company's debt under the Credit Agreement will be priced at a LIBOR margin of 400 basis points.

Under the 2009 Amendments, contingent, non-cash payment-in-kind interest expense of 1.0% to 2.0% will be accrued in a quarterly period only in the event the Company's leverage level exceeds 7.5:1 at the end of the previous quarter. At June 28, 2009, this provision is not applicable. Such non-cash charges, if any, will be added to the principal amount of debt and will be reversed, in whole or in part, in the event the Company's total leverage ratio is below 6.0:1 in September 2011 or the Company refinances the Credit Agreement in advance of its April 2012 maturity.

### **Principal Payments**

The Company may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit 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. The Company is required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in the 39 weeks ended June 28, 2009 and June 29, 2008 were \$81,950,000 and \$26,625,000, respectively. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. Remaining payments in 2009 total \$22,100,000 and were made in July 2009. Payments in 2010 and 2011 total \$77,800,000 and \$65,000,000, respectively. Payments in 2012 prior to the April 2012 maturity total \$70,000,000. The scheduled payment at maturity is \$502,525,000, plus the balance of the revolving credit facility outstanding at that time.

In addition to the scheduled payments, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires the Company to apply the net proceeds from asset sales to repayment of the A Term Loan. Repayments in 2008 met required repayments related to its sales transactions. In July 2009, the Company made a \$440,000 payment related to this provision.

The Credit Agreement also requires the Company to accelerate future payments under the A Term Loan in the amount of 75% of its excess cash flow, as defined, beginning in 2008. The Company had excess cash flow of approximately \$62,000,000 in 2008 and, as a result, paid \$46,325,000 originally due under the A Term Loan in March and June 2009. The acceleration of such payments due to asset sales or excess cash flow does not change the due dates of other A Term Loan payments. The Company does not expect payments based on excess cash flow will be required for 2009.

### **Covenants and Other Matters**

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At June 28, 2009, the Company was in compliance with such covenants. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals \$1,188,375,000 at June 28, 2009, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI.

The 2009 Amendments amended the Company's covenants to take into account economic conditions and the changes to amortization of debt noted above. The Company's total leverage ratio at June 28, 2009 was 6.7:1. Under the 2009 Amendments, the Company's total leverage ratio limit will increase from 8.25:1 in June 2009 to 8.75:1 in December 2009, decrease to 8.5:1 in June 2010, decrease to 7.75:1 in September 2010, decrease to 7.5:1 in December 2010, decrease to 7.25:1 in March 2011 and decrease to 7.0:1 in June 2011. Each change in the leverage ratio limit noted above is effective on the last day of the quarter.

The Credit Agreement also includes a minimum interest expense coverage ratio, as defined. The Company's interest expense coverage ratio at June 28, 2009 was 2.37:1. The minimum interest expense coverage ratio is 1.85:1 in June 2009, will decrease thereafter to 1.6:1 through September 2009, decrease thereafter to 1.4:1 through March 2010 and increase periodically thereafter until it reaches 2.25:1.

The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases through April 2012. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 2009 Amendments modify other covenants, including restricting the Company's ability to make additional investments and acquisitions without the consent of the Lenders, limiting additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Credit Parties may hold to a maximum of

Edgar Filing: LEE ENTERPRISES, INC - Form 10-Q

\$10,000,000 for a five day period. Such covenants ensure that substantially all future cash flows of the Company are required to be directed toward debt reduction. Finally, the 2009 Amendments eliminated an unused incremental term loan facility.

---

**Table of Contents**

**Pulitzer Notes**

In conjunction with its formation in 2000, PD LLC borrowed \$306,000,000 (the Pulitzer Notes) from the Noteholders. The aggregate principal amount of the Pulitzer Notes was payable in April 2009.

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended by the Notes Amendment. Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28, 2008. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 with the Noteholders. The Notes Amendment provides that the obligations under the Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries (excluding Star Publishing and TNI). Also, as a result of the Notes Amendment, Pulitzer and each of its subsidiaries pledged substantially all of its tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Pulitzer Notes. Assets and stock of Star Publishing, the Company's ownership interest in TNI and certain employee benefit plan assets are excluded.

The Notes Amendment increased the rate paid on the outstanding principal balance to 9.05% until April 28, 2010. The interest rate will increase by 0.50% per year thereafter.

Pulitzer may voluntarily prepay principal amounts outstanding or reduce commitments under the Pulitzer Notes 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. The Notes Amendment provides for mandatory scheduled prepayments, including quarterly principal payments of \$4,000,000 beginning on June 29, 2009 and an additional principal payment from restricted cash, if any, of up to \$4,500,000 in October 2010. The \$4,000,000 payment due June 29, 2009 was made in the 13 weeks ended June 28, 2009.

The Notes Amendment establishes a \$9,000,000 (reducing to \$4,500,000 in October 2010) reserve of restricted cash to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements have been eliminated. See Note 13 of the Notes to Consolidated Financial Statements, included herein. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the ratio of debt to EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage, as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At June 28, 2009, Pulitzer was in compliance with such covenants.

Further, the Notes Amendment added and amended other covenants including limitations or restrictions on additional debt, distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants ensure that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

The Credit Agreement contains a cross-default provision tied to the terms of the Pulitzer Notes and the Pulitzer Notes have limited cross-default provisions tied to the terms of the Credit Agreement.

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which is recorded as debt in the Consolidated Balance Sheets. This amount will be accreted over the remaining life of the Pulitzer Notes, until April 2012, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due, or reduce the amount of interest to be paid, to the Noteholders.

---

## **Table of Contents**

### **Liquidity**

The Company's continuing ability to operate is dependent, in part, on its ability to remain in compliance with its debt covenants and to refinance or amend the Credit Agreement and Pulitzer Notes when they become due in April 2012, or earlier if available liquidity is consumed. As noted above, the Company is in compliance with its debt covenants at June 28, 2009, and expects to remain in compliance with such covenants.

The Company generated cash flows in 2008 sufficient to reduce debt, net of changes in cash, by \$102,225,000, pay dividends totaling \$32,573,000 and acquire shares of its Common Stock in the amount of \$19,483,000. The Company expects to utilize a portion of its capacity under its revolving credit facility to fund a portion of the remaining 2009, 2010, 2011 and 2012 (prior to maturity) principal payments required under the Credit Agreement and Pulitzer Notes. At June 28, 2009, the Company had \$268,950,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, has approximately \$91,822,000 available for future use. Including cash and restricted cash, the Company's liquidity at June 28, 2009 totals \$111,993,000. This liquidity amount excludes any future cash flows. Mandatory principal payments on debt in the 52 weeks ending June 2010 total \$96,900,000. The Company expects substantially all principal payments due in the 52 weeks ending June 2010 will be satisfied by the Company's continuing cash flows.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default, as defined, occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

The 2010 Redemption also eliminates the potential requirement for a substantial cash outflow in April 2010. This event also substantially enhances the Company's liquidity.

### **Interest Rate Exchange Agreements**

At June 28, 2009, the Company had outstanding interest rate swaps in the notional amount of \$125,000,000. The interest rate swaps have original terms of four to five years, carry interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fix the Company's interest rate on debt in the amount, and for the time periods, of such instruments.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars have a two year term and limit LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limit the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

The Company's interest rate collars and substantially all of its interest rate swaps expire in November 2009.

### **Discontinued Operations and Other Matters**

Cash required by discontinued operations totaled \$5,000 in the 39 weeks ended June 28, 2009 and provided \$15,170,000 in the 39 weeks ended June 29, 2008. Cash proceeds from the sales of discontinued operations and cash generated from operations were the primary sources of funds in the prior year period.

Cash and cash equivalents decreased \$8,207,000 in the 39 weeks ended June 28, 2009, and increased \$4,211,000 in the 39 weeks ended June 29, 2008.

### **INFLATION**

The Company anticipates that changing costs of newsprint, its basic raw material, may impact future operating costs. Energy costs have also become more volatile, and may increase in the future as a result of carbon emissions legislation currently being debated in the United States Congress. Price increases (or decreases) for the Company's products are implemented when deemed appropriate by management. The Company continuously evaluates price increases, productivity improvements, sourcing efficiencies and other cost reductions to mitigate the impact of inflation.



---

## **Table of Contents**

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk stemming from changes in interest rates and commodity prices. Changes in these factors could cause fluctuations in earnings and cash flows. In the normal course of business, exposure to certain of these market risks is managed as described below.

#### **INTEREST RATES**

##### **Restricted Cash and Investments**

Interest rate risk in the Company's restricted cash and investments is managed by investing only in short-term securities.

##### **Debt**

The Company's debt structure and interest rate risk are managed through the use of fixed and floating rate debt. The Company's primary exposure is to LIBOR. A 100 basis point increase to LIBOR, to the extent such increase exceeds the applicable LIBOR floor, would decrease income from continuing operations before income taxes on an annualized basis by approximately \$7,314,000, based on \$731,375,000 of floating rate debt outstanding at June 28, 2009, after consideration of the interest rate swaps described below, and excluding debt subject to interest rate collars described below. Such interest rates may also decrease. Based on interest rates at the end of July 2009, LIBOR would need to increase approximately 100 to 150 basis points before the Company's borrowing cost would begin to be impacted.

At June 28, 2009, the Company has outstanding interest rate swaps in the notional amount of \$125,000,000. The interest rate swaps have original terms of four to five years, carry interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fix the Company's interest rate on debt in the amount, and for the time periods, of such instruments.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars have a two year term and limit LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limit the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

At June 28, 2009, after consideration of the interest rate swaps described above, approximately 74% of the principal amount of the Company's debt is subject to floating interest rates. The interest rate collars described above limit the Company's exposure to interest rates on an additional 13% of the principal amount of its debt.

The Company's interest rate collars and substantially all of its interest rate swaps expire in November 2009.

Certain of the Company's interest-earning assets, including those in employee benefit plans, also function as a natural hedge against fluctuations in interest rates on debt.

#### **COMMODITIES**

Certain materials used by the Company are exposed to commodity price changes. The Company manages this risk through instruments such as purchase orders and non-cancelable supply contracts. The Company is a participant in a buying cooperative with other publishing companies, primarily for acquisition of newsprint. The Company is also involved in continuing programs to mitigate the impact of cost increases through identification of sourcing and operating efficiencies. Primary commodity price exposures are newsprint and, to a lesser extent, ink and energy costs.

Unprecedented declines in newsprint demand are expected to continue throughout 2009 as newsprint consumption is suppressed by economic conditions, newsprint conservation programs, and the reduction of inventories. Many newsprint conservation programs were initiated in response to 2008 increases in newsprint pricing and are playing a role in cost containment during the current economic down cycle. Newsprint manufacturers are struggling to balance supply capacity with current financial demands. They are likely to continue to implement extensive production curtailment programs, including permanent, indefinite, and temporary capacity shutdowns. As a result, newsprint pricing has declined on a monthly basis in calendar 2009 because of reduced usage and lower order volumes from newsprint consumers. This trend may continue in calendar 2009 until newsprint producers permanently remove enough production capacity to balance supply with demand or until market pricing falls below cash production costs. The final extent of changes in price, if any, is subject to negotiation between such manufacturers and the Company.





**Table of Contents**

A \$10 per metric ton price decline for 27 pound newsprint would result in an annualized increase in income before income taxes of approximately \$1,000,000 based on anticipated consumption rates in 2009, excluding consumption of MNI and TNI and the impact of LIFO accounting. Such prices may also increase.

**SENSITIVITY TO CHANGES IN VALUE**

The Company's fixed rate debt consists of the Pulitzer Notes, which are not traded on an active market and held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists in the current recession, the Company is unable, as of June 28, 2009, to measure the maximum potential impact on fair value of fixed rate debt of the Company in one year from adverse changes in market interest rates under normal market conditions. The change in value, if determined, could be significant.

Changes in the value of interest rate swaps and interest rate collars from movements in interest rates are not determinable, due to the number of variables involved in the pricing of such instruments. However, increases in interest rates would generally result in increases in the fair value of such instruments.

**Item 4. Controls and Procedures**

In order to ensure that the information that must be disclosed in filings with the Securities and Exchange Commission is recorded, processed, summarized and reported in a timely manner, the Company has disclosure controls and procedures in place. The chief executive officer, Mary E. Junck, and chief financial officer, Carl G. Schmidt, have reviewed and evaluated the disclosure controls and procedures as of June 28, 2009, and have concluded that such controls and procedures are effective.

There have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, such controls during the 13 weeks ended June 28, 2009.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

In April 2008, a group of newspaper carriers filed suit against the Company in the United States District Court for the Southern District of California, claiming to be employees and not independent contractors of the Company. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. Since the suit is still in the initial phase, the Company is unable to predict whether the ultimate economic outcome, if any, could have a material effect on the Company's Consolidated Financial Statements, taken as a whole. The Company denies the allegations of employee status, consistent with past practices of the Company and the industry, and intends to vigorously contest the action, which is not covered by insurance.

**Item 2(c). Issuer Purchases of Equity Securities**

During the 13 weeks ended June 28, 2009, the Company purchased shares of Common Stock, as noted in the table below, in transactions with participants in its 1990 Long-Term Incentive Plan. The transactions resulted from the withholding of shares to pay taxes related to the restricted stock vesting.

	Shares	Average Price
Month	Purchased	Per Share
May	189	\$1.30

**Item 6. Exhibits**

Number	Description
31.1	Rule 13a-14(a)/15d-14(a) certification
31.2	Rule 13a-14(a)/15d-14(a) certification
32	Section 1350 certification

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEE ENTERPRISES, INCORPORATED

/s/ Carl G. Schmidt

Date: August 7, 2009

Carl G. Schmidt

Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)