

LEE ENTERPRISES, INC
Form 10-K
December 14, 2012

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

FORM 10-K

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

For The Fiscal Year Ended September 30, 2012

OR

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

Commission File Number 1-6227

LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware

42-0823980

(State of incorporation)

(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

Title of Each Class

Name of Each Exchange On Which Registered

Securities registered pursuant to Section 12(b) of the Act:

Common Stock - \$0.01 par value

New York Stock Exchange

Preferred Share Purchase Rights

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class B Common Stock - \$2 par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter. Based on the closing price of the Registrant's Common Stock on the New York Stock Exchange on March 25, 2012, such aggregate market value is approximately \$57,507,000. For purposes of the foregoing calculation only, as required, the Registrant has included in the shares owned by affiliates the beneficial ownership of Common Stock of officers and directors of the Registrant and members of their families, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of November 30, 2012. Common Stock, \$0.01 par value, 52,296,241 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Lee Enterprises, Incorporated Definitive Proxy Statement to be filed in January 2013 are incorporated by reference in Part III of this Form 10-K.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated and subsidiaries (the "Company"). References to 2012, 2011, 2010 and the like refer to the fiscal years ended the last Sunday in September.

FORWARD-LOOKING STATEMENTS

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

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

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

PART I

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

On January 23, 2012, the Bankruptcy Court approved our Second Amended Joint Prepackaged Plan of Reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from the Chapter 11 Proceedings. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. Implementation of the Plan resulted primarily in a comprehensive refinancing of our debt. The Chapter 11 Proceedings did not adversely affect employees, vendors, contractors, customers or any aspect of Company operations. Stockholders retained their interest in the Company, subject to modest dilution.

We experienced significant net losses in 2012, 2011, 2009 and 2008, due primarily to reorganization costs in 2012 and non-cash charges for impairment of goodwill and other assets in 2011, 2009 and 2008. Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our

debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at September 30, 2012. The information included herein should be evaluated in that context. See Item 1A, "Risk Factors", and Notes 4 and 5 of the Notes to Consolidated Financial Statements, included herein, for additional information.

ITEM 1. BUSINESS

We are a leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. With the exception

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of St. Louis, Missouri, our 51 markets, across 23 states, are principally midsize or small. Through our print and digital platforms, we reach an overwhelming majority of adults in our markets.

Our platforms include:

- 51 daily and 39 Sunday newspapers with circulation totaling 1.2 million and 1.4 million, respectively, for the six months ended September 2012, read by nearly four million people in print;
- Websites and mobile and tablet products in all of our markets that complement our newspapers and attracted 22.8 million unique visitors in September 2012 with 192.6 million page views; and
- Nearly 300 weekly newspapers and classified and niche publications.

Our markets have established retail bases, and most are regional shopping hubs. We are located in four state capitals. Six of our top ten markets by revenue include major universities, and seven are home to major corporate headquarters. Based on data from the Bureau of Labor of Statistics as of October 2012, the unemployment rate in all of our top ten markets by revenue was lower than the national average. We believe that all of these factors have had a positive impact on advertising revenue.

We do not face significant competition from other local daily newspapers in most of our markets, although there is significant competition for readers and viewers in those markets from other media. In our top ten markets by revenue, only two have significant local daily print competition. In the balance of our markets, we have little or no local daily print competition.

Lee Enterprises, Incorporated was founded in 1890, incorporated in 1950, and listed on the New York Stock Exchange ("NYSE") in 1978. Until 2001, we also operated a number of network-affiliated and satellite television stations. We have acquired and divested a number of businesses since 2001. The acquisition of Pulitzer Inc., the most significant of these transactions, is discussed more fully below.

STRATEGIC INITIATIVES

We are focused on five broad strategic initiatives:

Build On Our Position As A Leading Source Of Local News And Information, And A Major Platform For Advertising, In Attractive, Geographically Diverse, Midsize And Small Markets

We are a leading provider of local news and information, and a major platform for advertising, in our markets and have been for many years. Our brands are well known in our markets. We believe we have more journalists than any other local news and information source in our markets and, in many cases, more than all of our local competitors combined. We believe our brand strength and the size of our news staff allow us to provide more comprehensive coverage of local news than our competitors in our markets.

We believe our longstanding commitment to our markets, leading news staffs and close relationships with advertisers in our markets serve as a platform from which to thrive in the future.

Drive Revenue

Revenue is a key imperative among our top priorities. We pursue revenue opportunities by gaining new local advertisers, introducing new products and increasing our share of advertising spending from existing clients. Our sales force is larger, and we believe of higher quality, than any local competitor, and we invest heavily in training, especially with respect to our expanding array of digital products. As a result of our focus on revenue, our advertising revenue since 2000 has outperformed the industry average in 43 of the last 47 quarters, as measured by the Newspaper Association of America ("NAA").

Expand Our Audiences

The number of customers we reach in our markets is critical to our value to advertisers. As measured in 11 of our top markets by independent, third-party research, we deliver unduplicated reach of print and digital readers and users of print products of an average of 81.5% of all adults over a seven-day period through our print and digital platforms. Our 2012 combined print and digital readership in percentage terms is comparable to 2007, the first time it was measured. Among those 18-29 years old, we reach an average of 83.7% of readers and users. We believe our non-daily print

publications further expand our audiences.

We continually strive to increase our reach by creatively and energetically improving our content across print and digital platforms. Increasingly, we are also using various forms of social media to enhance our audiences.

Seize Digital Opportunities

We offer advertisers a wide array of digital products, including video, digital couponing, behavioral targeting, banner ads and social networking. Digital advertising revenue increased 9.7% in 2012 and we expect that digital revenue will continue to grow.

On our digital sites, we provide news stories 24 hours a day and post continual updates of developing stories, often including video. Customers access our stories digitally on websites, mobile devices and tablets. As a result, our digital audience has grown rapidly. In September 2012, unique visitors to our digital sites increased 10.1% from September 2011 to 22.8 million.

We have developed mobile sites in all of our markets as well as separate smart phone applications in all markets, and, as a result, we have enjoyed significant audience growth, with mobile page views increasing 146% in September 2012 from September 2011. In most of our markets, our websites are the leading local digital news source. As with mobile, we have moved quickly to develop applications for tablets, including the iPad, and with our mobile audience growth and high advertiser interest we expect mobile and tablet advertising revenue to increase in the next few years. As new digital technologies emerge, we expect to move rapidly to make our content available on them.

In 2011, we began to implement charges for digital access to our content in certain of our markets using a metered model. By December 2012, that program will be rolled out in most of our markets, and is contributing to our circulation revenue.

Aggressively Control Costs

Throughout the recent economic downturn, we have aggressively transformed our business model and carefully managed our costs to maintain our margins and profitability. Since 2007, we reduced cash costs of our continuing operations (i.e., compensation, newsprint and ink, other operating expenses and workforce adjustments) by \$256 million, or 32%. We regionalized staff functions, selectively consolidated and/or outsourced printing, discontinued unprofitable niche publications, reduced newsprint volume 52%, and sharpened our focus on cost control in all areas. We have reduced personnel while protecting our strengths in news, sales and digital products.

Our cost actions allowed us to maintain significant cash flows and reduce debt, despite declining revenues. While future cost reductions will be more difficult to accomplish as a result of the significant reductions to our cost structure that we have achieved, we remain committed to maintaining strong cash flows. We expect 2013 operating expenses, excluding depreciation, amortization and unusual matters, to decrease 3.0-4.0% from their 2012 level.

PULITZER ACQUISITION

In 2005, we acquired Pulitzer Inc. (“Pulitzer”). Pulitzer published 14 daily newspapers and more than 100 weekly newspapers and specialty publications. Pulitzer also owned a 50% interest in TNI Partners (“TNI”), as discussed more fully below. The acquisition of Pulitzer increased our paid circulation by more than 50% and revenue by more than 60% at that time. The acquisition was financed primarily with debt.

Pulitzer newspaper operations include St. Louis, Missouri, where its subsidiary, St. Louis Post-Dispatch LLC (“PD LLC”), publishes the St. Louis Post-Dispatch, the only major daily newspaper serving the greater St. Louis

metropolitan area, and a variety of specialty publications, and supports its related digital products. St. Louis newspaper operations also include the Suburban Journals of Greater St. Louis, a group of weekly newspapers and niche publications that focus on separate communities within the metropolitan area.

Pulitzer and its subsidiaries and affiliates currently publish 12 daily newspapers and support the related digital products, as well as publish approximately 75 weekly newspapers, shoppers and niche publications that serve markets in the Midwest, Southwest and West.

TNI Partners

As a result of the acquisition of Pulitzer, we own a 50% interest in TNI, the Tucson, Arizona newspaper partnership. TNI, acting as agent for our subsidiary, Star Publishing Company (“Star Publishing”), and the owner of the remaining 50%, Citizen Publishing Company (“Citizen”), a subsidiary of Gannett Co., Inc., (“Gannett”), is responsible for printing, delivery, advertising and circulation of the Arizona Daily Star and, until May 2009, the Tucson Citizen, as well as their related digital products and specialty publications. In May 2009, Citizen discontinued print publication of the Tucson Citizen.

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. Under the amended and restated operating agreement between Star Publishing and Citizen, the Arizona Daily Star remains the separate property of Star Publishing. Results of TNI are accounted for using the equity method. Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

Until the May 2009 discontinuation of print publication of the Tucson Citizen, TNI was subject to the provisions of the Newspaper Preservation Act of 1970, which permits joint operating agreements between newspapers under certain circumstances without violation of the Federal antitrust laws. Agency agreements generally allow newspapers operating in the same market to share certain printing and other facilities and to pool certain revenue and expenses in order to decrease aggregate expenses and thereby allow the continuing operation of multiple newspapers in the same market.

The TNI agency agreement (“Agency Agreement”), which remains in effect, has governed the operation since 1940. Both the Company and Citizen incur certain administrative costs and capital expenditures that are reported by their individual companies. The Agency Agreement expires in 2015, but contains an option, which may be exercised by either party, to renew the agreement for successive periods of 25 years each. Star Publishing and Citizen also have a reciprocal right of first refusal to acquire the 50% interest in TNI owned by Citizen and Star Publishing, respectively, under certain circumstances.

MADISON NEWSPAPERS

We own 50% of the capital stock of Madison Newspapers, Inc. (“MNI”) and 17% of the nonvoting common stock of The Capital Times Company (“TCT”). TCT owns the remaining 50% of the capital stock of MNI. MNI publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and supports their related digital products. MNI conducts business under the trade name Capital Newspapers. We have a contract to furnish the editorial and news content for the Wisconsin State Journal, which is published by MNI, and periodically provide other services to MNI. Results of MNI are accounted for using the equity method. Net income or loss of MNI (after income taxes) is allocated equally to the Company and TCT.

ADVERTISING

Approximately 70% of our 2012 revenue was derived from advertising. Our strategies are to increase our share of local advertising through increased sales activities in our existing markets and, over time, to increase our print and digital audiences through internal expansion into existing and contiguous markets and enhancement of digital products. Our advertising results since 2000 have benchmarked favorably to industry averages compiled by the NAA in 43 of the last 47 quarters.

Several of our businesses operate in geographic groups of publications, or “clusters,” which provide operational efficiencies and extend sales penetration. Operational efficiencies are obtained through consolidation of sales forces, back office operations such as finance, human resources, management and/or production of the publications. Sales

penetration can improve if the sales effort is successful in cross-selling advertising into multiple publications and digital products. A table under the caption “Daily Newspapers and Markets” in Item 1, included herein, identifies those groups of our newspapers operating in clusters.

Our newspapers, classified and specialty publications, and digital products compete with newspapers having national or regional circulation, magazines, radio, network, cable and satellite television, other advertising media such as outdoor, mobile, and movie theater promotions, other classified and specialty publications, direct mail, yellow pages directories, as well as other information content providers such as digital sites. Competition for advertising is based on audience size and composition, circulation levels, readership demographics, distribution and display mechanisms, price and advertiser results. In addition, several of our daily and Sunday newspapers compete with other local daily

or weekly newspapers. We believe we capture a substantial share of the total advertising dollars spent in each of our markets.

The number of competitors in any given market varies. However, all of the forms of competition noted above exist to some degree in our markets, including those listed in the table under the caption “Daily Newspapers and Markets” in Item 1, included herein.

The following broadly define major categories of advertising revenue:

Retail advertising is revenue earned from sales of display advertising space in the publication, or for preprinted advertising inserted in the publication, to local accounts or regional and national businesses with local retail operations.

Classified advertising, which includes employment, automotive, real estate for sale or rent, legal and other categories, is revenue earned from sales of advertising space in the classified section of the publication or from publications consisting primarily of such advertising. Classified publications are periodic advertising publications available in racks or delivered free, by carriers or third-class mail, to all, or selected, households in a particular geographic area. Classified publications offer advertisers a cost-effective local advertising vehicle and are particularly effective in larger markets with higher media fragmentation.

National advertising is revenue earned from display advertising space, or for preprinted advertising inserted in the publication, to national accounts, if there is no local retailer representing the account in the market.

Digital advertising consists of display, banner, behavioral targeting, search, rich media, directories, classified or other advertising on websites or mobile devices associated and integrated with our print publications, other digital applications, or on third party affiliated websites, such as Yahoo! Inc. (“Yahoo!”). Digital advertising is reported in combination with print advertising in the retail, classified and national categories.

Niche publications are specialty publications, such as lifestyle, business, health or home improvement publications that contain significant amounts of advertising.

The advertising environment is influenced by the state of the overall economy, including unemployment rates, inflation, energy prices and consumer interest rates. Our enterprises are primarily located in midsize and small markets. Historically these markets have been more stable than major metropolitan markets during downturns in advertising spending but may not experience increases in such spending as significant as those in major metropolitan markets in periods of economic improvement.

DIGITAL ADVERTISING AND SERVICES

Our digital activities include websites supporting each of our daily newspapers and certain of our other publications. Certain of our website content is also available through output to mobile devices, including telephones and tablet devices. In addition, we also support a number of discrete mobile applications, such as for high school, college and professional sports. Digital activities of the newspapers are reported and managed as a part of our publishing operations.

In 2007, in conjunction with several other major publishing organizations (“Consortium”), we entered into a strategic alliance with Yahoo!, in which the Consortium offered its classified employment advertising customer base the opportunity to also post job listings and other employment products on Yahoo!'s HotJobs national platform. The HotJobs platform was acquired in 2010 by Monster Worldwide, Inc., which has assumed the relationship with the Consortium under an amended contract. In addition, the Consortium and Yahoo! have worked together to provide new

behavioral targeting, search, content and local applications across the newspapers' digital products, further enhancing the value of these sites as a destination for digital users. The Consortium currently includes more than 30 companies and more than 800 local newspapers across the United States.

We also own 82.5% of an Internet service company, INN Partners, L.C. (doing business as TownNews.com), which provides digital infrastructure and digital publishing services for nearly 1,500 daily and weekly newspapers and shoppers, including those of the Company.

Our digital businesses experienced rapid growth in the second half of 2010 and again in 2011 and 2012 after recession-related declines in 2008 and 2009. Digital advertising represented 13.0% of total advertising revenue in the 14 weeks

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ended September 30, 2012.

AUDIENCES

Based on independent research, we estimate that, in an average week, our newspapers and digital products reach approximately 81.5% of adults in our larger markets. Scarborough Research from 2011 ranks the St. Louis Post-Dispatch and STLtoday.com as the market with the 5th highest combination of newspaper and web reach of the 25 most populated U.S. markets. Readership by young adults is also significant in our larger markets. We are maintaining large audiences in our markets through the combination of rapid digital audience growth and strong newspaper readership, as illustrated in the table below, as well as through additional specialty and niche publications. In 2010, for the first time, we measured use of our daily newspapers by non-readers ("print users").

Audience reach is summarized as follows:

	All Adults						Age 18-29					
(Percent, Past Seven Days)	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012