LEE ENTERPRISES, INC
Form 10-Q
August 03, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For The Quarterly Period Ended June 24, 2018

OR

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

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

201 N. Harrison Street, Suite 600, Davenport, Iowa 52801
(Address of principal executive offices)

(563) 383-2100
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of " large accelerated filer", "accelerated filer", "small reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]		Accelerated filer	[X]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[ ]
		Emerging growth company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ]   No [X]

As of July 31, 2018 57,079,578 shares of Common Stock of the Registrant were outstanding.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the "Company"). References to "2018", "2017" 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;
•Our ability to comply with the financial covenants in our credit facilities;
•Our ability to refinance our debt as it comes due;
•That the warrants issued in our refinancing will not be exercised;
•The impact and duration of adverse conditions in certain aspects of the economy affecting our business;
•Changes in advertising and subscription demand;
•Changes in technology that impact our ability to deliver digital advertising;
•Potential changes in newsprint, other commodities and energy costs;
•Interest rates;
•Labor costs;
•Legislative and regulatory rulings, including the 2017 Tax Act;
•Our ability to achieve planned expense reductions;
•Our ability to maintain employee and customer relationships;
•Our ability to manage increased capital costs;
•Our ability to maintain 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”, “believes”, “expects”, “anticipates”, “intends”, “plans”, “projects”, “considers” and similar expressions) generally sho 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, except as required by law.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	June 24 2018	September 24 2017
ASSETS		
Current assets:		
Cash and cash equivalents	16,029	10,621
Accounts receivable, net	45,960	49,469
Income taxes receivable	246	—
Inventories	5,145	3,616
Other	5,608	4,132
Total current assets	72,988	67,838
Investments:		
Associated companies	27,876	29,181
Other	10,757	9,949
Total investments	38,633	39,130
Property and equipment:		
Land and improvements	19,503	20,424
Buildings and improvements	168,766	172,138
Equipment	276,159	278,880
Construction in process	2,864	752
	467,292	472,194
Less accumulated depreciation	362,680	357,998
Property and equipment, net	104,612	114,196
Goodwill	246,426	246,426
Other intangible assets, net	123,995	136,302
Medical plan assets, net	15,342	15,392
Other	2,814	1,566
Total assets	604,810	620,850

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

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(Thousands of Dollars and Shares, Except Per Share Data)	June 24 2018	September 24 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	18,006	30,182
Accounts payable	17,757	17,027
Compensation and other accrued liabilities	19,030	22,423
Accrued interest	10,736	1,512
Income taxes payable	—	183
Unearned revenue	26,860	26,881
Total current liabilities	92,389	98,208
Long-term debt, net of current maturities	463,505	496,379
Pension obligations	41,116	43,537
Postretirement and postemployment benefit obligations	2,973	5,004
Deferred income taxes	35,546	53,397
Income taxes payable	6,540	5,497
Warrants and other	11,010	10,041
Total liabilities	653,079	712,063
Equity (deficit):		
Stockholders' equity (deficit):		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, $0.01 par value; authorized 120,000 shares; issued and outstanding: June 24, 2018: 57,080 shares; September 24, 2017: 56,712 shares	571	567
Class B Common Stock, $2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	252,963	251,790
Accumulated deficit	(286,824)	(328,524)
Accumulated other comprehensive loss	(16,050)	(16,068)
Total stockholders' deficit	(49,340)	(92,235)
Non-controlling interests	1,071	1,022
Total deficit	(48,269)	(91,213)
Total liabilities and deficit	604,810	620,850

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

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LEE ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 24 2018	June 25 2017	June 24 2018	June 25 2017
Operating revenue:				
Advertising and marketing services	73,538	81,247	229,751	251,815
Subscription	48,165	47,410	142,405	141,306
Other	10,915	10,698	32,052	33,610
Total operating revenue	132,618	139,355	404,208	426,731
Operating expenses:				
Compensation	47,862	51,577	147,428	159,047
Newsprint and ink	6,442	6,123	17,920	19,216
Other operating expenses	49,159	48,571	148,830	150,109
Depreciation	3,606	4,011	11,048	12,090
Amortization of intangible assets	4,298	6,285	12,925	18,903
Loss (gain) on sales of assets and other, net	101	(61)	(1,197)	(3,777)
Restructuring costs	1,865	3,902	4,150	6,372
Total operating expenses	113,333	120,408	341,104	361,960
Equity in earnings of associated companies	1,578	1,616	5,569	6,034
Operating income	20,863	20,563	68,673	70,805
Non-operating income (expense):				
Interest expense	(12,913)	(14,331)	(39,837)	(43,919)
Debt financing and administrative costs	(1,747)	(1,438)	(4,061)	(3,463)
Other, net	519	3,336	1,045	10,935
Total non-operating expense, net	(14,141)	(12,433)	(42,853)	(36,447)
Income before income taxes	6,722	8,130	25,820	34,358
Income tax expense (benefit)	1,972	1,843	(16,791)	9,253
Net income	4,750	6,287	42,611	25,105
Net income attributable to non-controlling interests	(292)	(292)	(911)	(809)
Income attributable to Lee Enterprises, Incorporated	4,458	5,995	41,700	24,296
Other comprehensive income, net of income taxes	27	55	18	1,004
Comprehensive income attributable to Lee Enterprises, Incorporated	4,485	6,050	41,718	25,300
Earnings per common share:				
Basic:	0.08	0.11	0.76	0.45
Diluted:	0.08	0.11	0.75	0.44

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

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LEE ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Thousands of Dollars)	39 Weeks Ended June 24 2018	June 25 2017
Cash provided by (required for) operating activities:		
Net income	42,611	25,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,973	30,989
Curtailment gains	(2,031)	(3,741)
Stock compensation expense	1,441	1,564
Distributions greater than earnings of MNI	477	504
Deferred income taxes	(17,834)	8,056
Debt financing and administrative costs	4,060	3,463
Pension contributions	(780)	—
Other, net	162	(801)
Changes in operating assets and liabilities:		
Decrease in receivables	3,509	2,569
Decrease (increase) in inventories and other	(2,584)	253
Increase in accounts payable and other accrued liabilities	5,983	2,067
Decrease in pension and other postretirement and postemployment benefit obligations	(1,590)	(2,691)
Change in income taxes payable	614	77
Other, including warrants	(978)	(7,981)
Net cash provided by operating activities	57,033	59,433
Cash required for investing activities:		
Purchases of property and equipment	(4,281)	(3,232)
Proceeds from sales of assets	3,117	1,830
Distributions greater (less) than earnings of TNI	829	(156)
Other, net	(1,741)	(798)
Net cash required for investing activities	(2,076)	(2,356)
Cash required for financing activities:		
Payments on long-term debt	(48,573)	(48,687)
Debt financing costs paid	(432)	(371)
Common stock transactions, net	(544)	(31)
Net cash required for financing activities	(49,549)	(49,089)
Net increase in cash and cash equivalents	5,408	7,988
Cash and cash equivalents:		
Beginning of period	10,621	16,984
End of period	16,029	24,972

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

LEE ENTERPRISES, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited, interim, Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports. 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 24, 2018 and our 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 2017 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 24, 2018 are not necessarily indicative of the results to be expected for the full year.

References to “we”, “our”, “us” and the like throughout the Consolidated Financial Statements refer to the Company. References to “2018”, “2017” and the like refer to the fiscal years ended the last Sunday in September.

The Consolidated Financial Statements include our accounts and those of our subsidiaries, all of which are wholly-owned, except for our 50% interest in TNI Partners (“TNI”), 50% interest in Madison Newspapers, Inc. (“MNI”) and 82.5% interest in INN Partners, L.C. ("TownNews.com").

Investments in TNI and MNI are accounted for using the equity method and are reported at cost, plus our share of undistributed earnings since acquisition less, for TNI, amortization of intangible assets.

On June 30, 2017, in the Company's fourth fiscal quarter of 2017, we purchased the assets of the Dispatch-Argus serving Moline and Rock Island, Illinois for $7,150,000 plus an adjustment for working capital. The purchase included one daily newspaper, a weekly publication, two niche publications as well as the related digital platforms. The purchase was funded with cash on the balance sheet. Operating results of the Dispatch-Argus were consolidated beginning in the 13 weeks ended September 24, 2017.

On June 26, 2018, in the Company's fourth fiscal quarter, we entered into an agreement with BH Media Group, Inc. ("BH Media") to manage Berkshire Hathaway's newspaper and digital operations in 30 markets, beginning July 2, 2018 (the "Management Agreement"). The Company will operate BH Media consistent with how it manages its own newspaper and digital operations. Among other decisions, Berkshire Hathaway will be responsible for approving operating and capital budgets. The Management Agreement extends for a term of five years and may be extended thereafter for successive one-year terms on such terms as may be mutually agreed to by the Company and Berkshire Hathaway. The Management Agreement provides for the Company to be paid a fixed annual fee of $5 million, payable quarterly in arrears, and a variable fee based on the financial performance of BH Media. The variable fees are payable annually in arrears.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates and judgments on an ongoing basis.

We base our 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.

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New accounting pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued a new standard that gives entities the option to reclassify the tax effects related to items in accumulated other comprehensive income as a result of tax reform to retained earnings. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

In March 2017, the FASB issued a new standard to improve the presentation of pension and postretirement benefit expense. The new standard requires that the service cost component of pension and postretirement benefits expense is recognized as compensation expense, while the remaining components of the expense (benefit) are presented outside of operating income. The current presentation includes all components of the expense (benefit) as Compensation in our Consolidated Statements of Income and Comprehensive Income for the periods presented. The adoption of the new standard is required in fiscal 2019. If adopted in fiscal year 2018, compensation expense would have increased $2,776,000 on an annual basis.

In August 2016, the FASB issued a new standard to conform the presentation in the statement of cash flows for certain transactions, including cash distribution from equity method investments, among others. The adoption of the new standard is required in fiscal year 2020. The adoption of this standard will reclassify certain cash receipts within the Consolidation Statements of Cash Flows.

In March 2016, the FASB issued a new standard with improvements to the accounting for employee share-based payments. The new standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this new standard in 2018, as required, and the adoption did not have a material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued a new standard for the accounting treatment of leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. We currently anticipate adopting the new lease standard in the first quarter of our fiscal year 2020. To date we have made progress in our assessment of the new lease standard. We are currently evaluating the provisions of the updated guidance and assessing the impact on our Consolidated Financial Statements.

In May 2014, the FASB issued a new revenue recognition standard which prescribes a single comprehensive model for entities to use to account for revenue arising from contracts with customers. The new guidance will supersede virtually all existing revenue guidance under U.S. GAAP and is effective for our fiscal year 2019. The core principle contemplated by this new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers are also required. In April and May 2016, the FASB also issued clarifying updates to the new standard specifically to address certain core principles including the identification of performance obligations, licensing guidance, the assessment of the collectability criterion, the presentation of taxes collected from customers, noncash considerations, contract modifications, and completed contracts at transition.

We currently anticipate adopting the new revenue recognition standard using the modified retrospective approach in the fiscal year beginning October 1, 2018. This approach consists of recognizing the cumulative effect, if any, of initially applying the standard as an adjustment to opening retained earnings.

We are currently evaluating the impact that the new revenue recognition standard will have on our financial statements and related disclosures. As part of the implementation process, we are holding regular meetings with key stakeholders to discuss the impact of the standard across our organization. We are continuing to review our customer contracts, identifying contractual provisions that may result in a change in the timing or the amount of revenue recognized and assessing the enhanced disclosure requirements of the new guidance. We do expect material impacts to the content and structure of our financial statements in the form of additional disclosures. We expect to complete our assessment in the fourth quarter of fiscal year 2018.

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No other new accounting pronouncement issued or effective during the fiscal year had, or is expected to have, a material impact on our Consolidated Financial Statements.

2 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

In Tucson, Arizona, TNI, acting as agent for our subsidiary, Star Publishing Company ("Star Publishing"), and Citizen Publishing Company ("Citizen"), a subsidiary of Gannett Co. Inc., is responsible for printing, delivery, advertising, and subscription activities of the Arizona Daily Star as well as the related digital platforms and specialty publications. TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspaper and other media.

Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.