

LEE ENTERPRISES, INC  
Form 10-Q  
August 09, 2006

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 30, 2006

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

42-0823980  
(I.R.S. Employer Identification No.)

incorporation or organization)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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As of June 30, 2006, 39,274,267 shares of Common Stock and 6,608,533 shares of Class B Common Stock of the Registrant were outstanding.

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TABLE OF CONTENTS	PAGE
<u>FORWARD LOOKING STATEMENTS</u>	1
<b>PART I</b> <u>FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	
<u>Consolidated Statements of Income and Comprehensive Income - Three months and nine months ended June 30, 2006 and 2005</u>	2
<u>Consolidated Balance Sheets - June 30, 2006 and September 30, 2005</u>	3
<u>Consolidated Statements of Cash Flows - Nine months ended June 30, 2006 and 2005</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>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	27
<b>PART II</b> <u>OTHER INFORMATION</u>	
Item 2(c). <u>Issuer Purchases of Equity Securities</u>	27
Item 6. <u>Exhibits</u>	27
<u>SIGNATURES</u>	27

## **FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides a "Safe Harbor" for forward-looking statements. This report contains information that may be deemed forward-looking that is based largely on the Company's 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 are changes in advertising demand, newsprint prices, energy costs, interest rates, labor costs, legislative and regulatory rulings and other results of operations or financial conditions, difficulties in integration of acquired businesses or maintaining employee and customer relationships and increased capital and other costs. The words "may," "will," "would," "could," "believes," "expects," "anticipates," "intends," "plans," "projects," "considers" and similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. The Company does not undertake to publicly update or revise its forward-looking statements.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## LEE ENTERPRISES, INCORPORATED

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30	June 30	June 30	June 30
	2006	2005	2006	2005
<i>(Thousands, Except Per Common Share Data)</i>				
Operating revenue:				
Advertising	\$ 234,441	\$ 166,709	\$ 682,434	\$ 431,610
Circulation	51,849	38,040	154,790	102,298
Other	14,809	13,106	42,283	36,726
Total operating revenue	301,099	217,855	879,507	570,634
Operating expenses:				
Compensation	112,585	85,173	341,209	227,856
Newsprint and ink	32,324	21,478	93,716	54,371
Depreciation	8,854	6,387	25,450	16,497
Amortization of intangible assets	19,437	9,067	47,421	22,037
Other operating expenses	71,939	48,845	213,646	129,767
Early retirement program	-	-	8,654	-
Transition costs	1,677	1,439	2,830	1,542
Total operating expenses	246,816	172,389	732,926	452,070
Equity in earnings of associated companies	4,847	3,276	16,167	7,156
Operating income	59,130	48,742	162,748	125,720
Non-operating income (expense):				
Financial income	1,579	1,009	4,545	1,476
Financial expense	(23,567)	(9,044)	(71,298)	(14,630)
Loss on early extinguishment of debt	-	(11,181)	-	(11,181)
Other, net	-	7	-	(58)
Total non-operating expense, net	(21,988)	(19,209)	(66,753)	(24,393)
Income before income taxes	37,142	29,533	95,995	101,327
Income tax expense	14,056	10,691	35,187	37,410
Minority interest	369	145	892	145
Net income	22,717	18,697	59,916	63,772
Other comprehensive income (expense), net	1,179	(1,157)	4,255	(1,157)
Comprehensive income	\$ 23,896	\$ 17,540	\$ 64,171	\$ 62,615
Earnings per common share:				
Basic	\$ 0.50	\$ 0.41	\$ 1.32	\$ 1.41
Diluted	0.50	0.41	1.32	1.41
Dividends per common share	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.54

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

## LEE ENTERPRISES, INCORPORATED

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(Thousands, Except Per Share Data)</i>	June 30 2006	September 30 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,681	\$ 7,543
Accounts receivable, net	117,403	122,325
Income taxes receivable	-	19,439
Receivable from associated companies	-	1,563
Inventories	20,134	22,099
Other	12,760	11,901
Total current assets	162,978	184,870
Investments	222,986	227,280
Restricted cash and investments	92,310	81,060
Property and equipment, net	334,452	340,494
Goodwill	1,547,521	1,547,042
Other intangible assets	999,035	1,042,342
Other	28,985	22,112
Total assets	\$ 3,388,267	\$3,445,200
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 47,500	\$10,000
Accounts payable	32,432	33,275
Compensation and other accrued liabilities	62,521	71,945
Income taxes payable	10,645	-
Dividends payable	6,528	6,407
Unearned revenue	40,720	38,036
Total current liabilities	200,346	159,663
Long-term debt, net of current maturities	1,556,168	1,706,024
Pension obligations	39,176	33,236
Postretirement and postemployment benefit obligations	97,336	95,237
Deferred items	499,144	508,720
Other	7,585	5,910
Total liabilities	2,399,755	2,508,790
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:	78,548	76,818
June 30, 2006 39,274 shares;		
September 30, 2005 38,409 shares		
Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding:		
June 30, 2006 6,609 shares;	13,218	14,168
September 30, 2005 7,084 shares		
Additional paid-in capital	121,708	109,959
Retained earnings	769,279	733,961
Accumulated other comprehensive income	5,759	1,504
Total stockholders equity	988,512	936,410
Total liabilities and stockholders equity	\$ 3,388,267	\$3,445,200

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



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

(Unaudited)

	Nine Months Ended	
	June 30	
<i>(Thousands)</i>	2006	2005
Cash provided by (required for) operating activities:		
Net income	\$ 59,916	\$ 63,772
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,871	38,534
Stock compensation expense	5,924	5,437
Amortization of debt fair value adjustment	(5,356)	(633)
Loss on early extinguishment of debt	-	11,181
Distributions less than current earnings of associated companies	(44)	(345)
Other, net	29,330	(6,540)
Net cash provided by operating activities	162,641	111,406
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(19,782)	(13,221)
Acquisitions, net	(4,235)	(1,299,304)
Purchases of marketable securities	(42,288)	-
Sales of marketable securities	50,056	54,842
Increase in restricted cash	(18,664)	(3,750)
Other, net	5,290	833
Net cash required for investing activities	(29,623)	(1,260,600)
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	21,000	1,502,000
Payments on long-term debt	(128,000)	(263,600)
Common stock transactions, net	6,408	4,241
Cash dividends paid	(24,474)	(24,189)
Financing costs	(2,814)	(28,839)
Termination of interest rate swaps	-	2,100
Net cash provided by (required for) financing activities	(127,880)	1,191,713
Net increase in cash and cash equivalents	5,138	42,519
Cash and cash equivalents:		
Beginning of period	7,543	8,010
End of period	\$ 12,681	\$ 50,529

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



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**LEE ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1 BASIS OF PRESENTATION**

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the Company) as of June 30, 2006 and its results of operations and cash flows for the periods presented. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2005 Annual Report on Form 10-K, as amended.

In June 2005, the Company acquired Pulitzer Inc. (Pulitzer). This acquisition has a significant impact on the Consolidated Financial Statements. Because of this and other acquisitions, and seasonal and other factors, the results of operations for the three months and nine months ended June 30, 2006 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 Madison Newspapers, Inc. (MNI), 83% interest in INN Partners, L.C. (INN), 36% interest in CityXpress Corp. (CityXpress) and Pulitzer's (together with another subsidiary) 95% interest in St. Louis Post-Dispatch LLC (PD LLC) and STL Distribution Services LLC (DS LLC), a distribution company serving the St. Louis market, and 50% interest in the results of operations of TNI Partners (TNI), the Tucson, Arizona newspaper partnership.

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

References to 2005 and the like mean the fiscal year ended September 30.

**2 ACQUISITIONS AND DIVESTITURES**

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

**Acquisition of Pulitzer**

On June 3, 2005, the Company and LP Acquisition Corp., an indirect, wholly-owned subsidiary (the Purchaser), consummated an Agreement and Plan of Merger (the Merger Agreement) dated as of January 29, 2005 with Pulitzer. The Merger Agreement provided for the Purchaser to be merged with and into Pulitzer (the Merger), with Pulitzer as the surviving corporation. Each share of Pulitzer's Common Stock and Class B Common Stock outstanding immediately prior to the effective time of the Merger was converted into the right to receive from the Company or the surviving corporation in cash, without interest, an amount equal to \$64 per share. The aggregate purchase price paid by the Company, including fees and expenses totaling \$11,436,000, was \$1,461,777,000. Pulitzer publishes fourteen daily newspapers, including the *St. Louis Post-Dispatch*, and more than 100 weekly newspapers and specialty publications. Pulitzer also owns a 50% interest in TNI. See Note 3.

The Merger effected a change of control of Pulitzer. At the effective time of the Merger and as a result of the Merger, Pulitzer became an indirect, wholly-owned subsidiary of the Company.

The unaudited pro forma consolidated statement of income information for the three months and nine months ended June 30, 2005, set forth below, presents the Company's results of operations as if the acquisition of Pulitzer had occurred at the beginning of the periods presented and is not necessarily indicative of future results or actual results that would have been achieved had the acquisition occurred as of the beginning of such periods. Other acquisitions described below are excluded as the amounts are not significant.

<i>(Thousands, Except Per Common Share Data)</i>	Three Months Ended June 30, 2005	Nine Months Ended June 30, 2005
Operating revenue	\$297,341	\$874,400
Net income	18,098	60,369
<b>Earnings per common share:</b>		
Basic	\$ 0.40	\$ 1.34
Diluted	0.40	1.33

### Other Acquisitions

In October 2005, the Company purchased a minority interest in INN in exchange for the forgiveness of certain notes receivable with a carrying value of \$75,000. In January 2006, the Company purchased a weekly newspaper at a cost of \$412,000. In March 2006, INN purchased a web-hosting business and national advertising network at a cost of \$3,800,000.

In October 2004, the Company purchased two specialty publications at a cost of \$309,000, made final working capital payments of \$301,000 related to a specialty publication purchased in July 2004 and exchanged an Internet service provider business for a weekly newspaper. In December 2004, the Company purchased eight specialty publications at a cost of \$3,908,000. In January 2005, the Company received final working capital payments of \$78,000 from purchased specialty publications. These other acquisitions did not have a material effect on the Consolidated Financial Statements.

## 3 INVESTMENTS IN ASSOCIATED COMPANIES

### TNI Partners

In Tucson, Arizona, TNI, acting as agent for the Company's subsidiary, Star Publishing Company (Star Publishing), and Citizen Publishing Company (Citizen), a subsidiary of Gannett Co. Inc., is responsible for printing, delivery, advertising, and circulation of the *Arizona Daily Star* and *Tucson Citizen* as well as the related online sites and specialty publications. TNI collects all receipts and income and pays all operating expenses incident to the partnership's operations and publication of the newspapers. Each newspaper is solely responsible for its own news and editorial content. Net pretax income or loss of TNI is allocated equally to Star Publishing and Citizen.

Summarized financial information of TNI is as follows:

<i>(Thousands)</i>	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Operating revenue	\$30,051	\$8,689	\$92,606	\$8,689
Operating expenses, excluding depreciation and amortization	20,935	6,093	63,184	6,093
Operating income	\$ 9,116	\$2,596	\$29,422	\$2,596
Company's 50% share of operating income	\$ 4,558	\$1,298	\$14,711	\$1,298
Less amortization of intangible assets	1,937	300	4,402	300
Equity in earnings of TNI	\$ 2,621	\$ 998	\$10,309	\$ 998

Star Publishing's depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses in the Company's Consolidated



Statements of Income and Comprehensive Income. In aggregate, these amounts totaled \$511,000 and \$197,000 for the three months ended June 30, 2006 and 2005 respectively, and \$1,457,000 and \$197,000 for the nine months ended June 30, 2006 and 2005, respectively.

**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 the related online sites. MNI conducts its business under the trade name Capital Newspapers.

Summarized financial information of MNI is as follows:

(Thousands)	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Operating revenue	\$31,043	\$30,968	\$90,938	\$91,193
Operating expenses, excluding depreciation and amortization	22,652	22,196	68,189	65,697
Depreciation and amortization	1,218	1,212	3,758	3,855
Operating income	7,173	7,560	18,991	21,641
Net income	4,452	4,556	11,716	13,078
Company's 50% share of net income	\$ 2,226	\$ 2,278	\$ 5,858	\$ 6,539

Debt of MNI totaled \$11,778,000 and \$13,273,000 at June 30, 2006 and September 30, 2005, respectively.

**4 GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the carrying amount of goodwill are as follows:

(Thousands)	Nine Months Ended June 30, 2006
Goodwill, beginning of period	\$1,547,042
Goodwill related to acquisitions	479
Goodwill, end of period	\$1,547,521

Identified intangible assets consist of the following:

(Thousands)	June 30 2006	September 30 2005
<b>Nonamortized intangible assets:</b>		
Mastheads	\$ 73,957	\$ 78,896
<b>Amortizable intangible assets:</b>		
Customer and newspaper subscriber lists	1,095,407	1,091,308
Less accumulated amortization	170,681	128,390
	924,726	962,918
Noncompete and consulting agreements	28,679	28,664
Less accumulated amortization	28,327	28,136
	352	528
	\$ 999,035	\$1,042,342

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The Company, based on its most recent analysis and in conjunction with its ongoing requirement to assess the estimated useful lives of intangible assets, has concluded that the period of economic benefit of certain identified intangible assets related to the Pulitzer acquisition has decreased. As a result, the weighted-average useful life of customer lists will be decreased prospectively from approximately 21 years to 17 years.

The change in estimated useful life of such assets resulted in recognition of additional amortization expense of \$462,000 in the three months ended June 30, 2006, of which \$117,000 is recorded in equity in earnings of associated companies. The Company expects amortization expense to increase by approximately \$1,386,000 in the three months ending September 2006 and \$5,544,000 in its fiscal year ending September 2007. This change in non-cash amortization expense has no impact on the Company's cash flows or debt covenants.

In the three months ended June 30, 2006, the Company also recorded a separate non-cash charge of \$5,526,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,939,000 is recorded in amortization expense and \$587,000 is recorded in equity in earnings of associated companies. The Company uses a royalty approach to value such assets. Lower than expected revenue growth resulted in the change in value.

Annual amortization of intangible assets for the five years ending June 2011 is estimated to be \$60,679,000, \$60,331,000, \$59,567,000, \$59,517,000 and \$58,947,000, respectively.

## **5 DEBT**

### **Credit Agreement**

In December 2005, the Company entered into an amended and restated credit agreement (the Credit Agreement) with a syndicate of financial institutions. The Credit Agreement provides for aggregate borrowings of up to \$1,435,000,000 and consists of a \$950,000,000 A Term Loan, \$35,000,000 B Term Loan and \$450,000,000 revolving credit facility. The Credit Agreement also provides the Company with the right, with the consent of the administrative agent, to request at certain times prior to June 2012 that one or more lenders provide incremental term loan commitments of up to \$500,000,000, subject to certain requirements being satisfied at the time of the request. The Credit Agreement matures in June 2012 and amends and replaces a \$1,550,000,000 credit agreement (the Old Credit Agreement) consummated in June 2005. Interest rate margins under the Credit Agreement are generally lower than under the Old Credit Agreement. Other conditions of the Credit Agreement are substantially the same as the Old Credit Agreement.

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%; provided however, that Pulitzer and its subsidiaries will not be required to enter into such guaranty for so long as their doing so would violate the terms of the Pulitzer Notes described more fully below. The Credit Agreement is secured by first priority security interests in the stock and other equity interests owned by the Company and each guarantor in their respective subsidiaries. Both the guaranties and the collateral that secures them will be released in their entirety at such time as the Company achieves a total leverage ratio of 4:25:1 for two consecutive quarterly periods.

Debt under the A Term Loan and 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 the prime lending rate of Deutsche Bank Trust Company Americas at such time and 0.5% in excess of the overnight federal funds rate at such time. The margin applicable is a percentage determined according to the following: For revolving loans and A Term Loans, maintained as base rate loans, 0%, and maintained as Eurodollar loans, 0.625% to 1% (0.875% at June 30, 2006) depending, in each instance, upon the Company's leverage ratio at such time. All loans at June 30, 2006 are Eurodollar-based.

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 beginning in September 2006. In addition to the scheduled payments noted above, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. The Company repaid the B Term Loan in 2006.

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum leverage ratio (6:1 at June 30, 2006) and minimum interest coverage ratio of 2.5:1. None of the covenants included in the Credit Agreement is considered by the

Company to be restrictive to normal operations or historical amounts of stockholder dividends. At June 30, 2006, the Company is in compliance with such covenants.

### Pulitzer Notes

In conjunction with its formation, PD LLC borrowed \$306,000,000 (the Pulitzer Notes) from a group of institutional lenders (the Lenders). The aggregate principal amount of the Pulitzer Notes is payable in April 2009 and bears interest at an annual rate of 8.05%. The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 (the Guaranty Agreement) with the Lenders. In turn, pursuant to an Indemnity Agreement dated May 1, 2000 (the Indemnity Agreement) between The Herald Company, Inc. (Herald) and Pulitzer, Herald agreed to indemnify Pulitzer for any payments that Pulitzer may make under the Guaranty Agreement.

The terms of the Pulitzer Notes, as amended, contain certain covenants and conditions including the maintenance, by Pulitzer, of EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. In addition, the Pulitzer Notes and the Operating Agreement with Herald (Operating Agreement) require that PD LLC maintain a minimum reserve balance, consisting of cash and investments in U.S. government securities, totaling approximately \$92,310,000 at June 30, 2006. The Pulitzer Notes and the Operating Agreement provide for a \$3,750,000 quarterly increase in the minimum reserve balance through May 1, 2010, when the amount will total \$150,000,000. See Note 11.

The 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 2009, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due to, or reduce the amount of interest to be paid to, the Lenders.

Debt consists of the following:

<i>(Thousands)</i>	June 30 2006	September 30 2005	Interest Rate(s) June 30, 2006
<b>Credit Agreement:</b>			
A Term Loan	\$ 950,000	\$ -	6.10-6.31%
Revolving credit facility	325,000	-	6.24-6.31
Old Credit Agreement	-	1,382,000	
<b>Pulitzer Notes:</b>			
Principal amount	306,000	306,000	8.05
Unaccreted fair value adjustment	22,668	28,024	
	1,603,668	1,716,024	
<b>Less current maturities</b>	<b>47,500</b>	<b>10,000</b>	
	<b>\$1,556,168</b>	<b>\$1,706,024</b>	

Aggregate maturities of debt during the five years ending June 2011 are \$47,500,000, \$47,500,000, \$448,500,000, \$142,500,000 and \$237,500,000, respectively.

### 6 INTEREST RATE EXCHANGE AGREEMENTS

In April 2005, the Company executed interest rate swaps in the notional amount of \$350,000,000 with a forward starting date of November 30, 2005. The interest rate swaps have terms of two to five years, carry interest rates from 4.2% 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. At June 30, 2006, the Company recorded an asset of \$9,695,000 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 30, 2006, after consideration of the interest rate swaps described above, approximately 59% of the principal amount of the Company's debt is subject to floating interest rates.

**7 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 postretirement 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.

The cost components of the Company's pension and postretirement medical plans are as follows:

(Thousands)	Pension Plans	
	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2006
Service cost for benefits earned during the period	\$1,287	\$4,131
Interest cost on projected benefit obligation	2,289	6,867
Expected return on plan assets	(3,112)	(9,384)
Costs for special termination benefits	-	4,523
Curtailment gain	-	(102)
	\$ 464	\$6,035

  

(Thousands)	Postretirement Medical Plans	
	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2006
Service cost for benefits earned during the period	\$ 844	\$2,533
Interest cost on projected benefit obligation	1,647	4,941
Expected return on plan assets	(518)	(1,554)
Costs for special termination benefits	-	659
	\$1,973	\$6,579

The Company recognized pension and postretirement medical plan expense totaling \$879,000 for the period from June 3, 2005 through June 30, 2005 related to the plans described above. Due to timing of the acquisition of Pulitzer, actuarial valuations of the plans had not yet been completed.

Based on its forecast at June 30, 2006, the Company expects to contribute \$610,000 to its pension plans and \$2,600,000 to its postretirement medical plans in 2006.

## 8 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.

**9 EARNINGS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted earnings per common share:

<i>(Thousands, Except Per Share Data)</i>	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
<b>Income applicable to common stock:</b>				
Net income	\$22,717	\$18,697	\$59,916	\$63,772
Weighted average common shares	45,836	45,436	45,721	45,365
Less non-vested restricted stock	348	280	341	275
Basic average common shares	45,488	45,156	45,380	45,090
Dilutive stock options and restricted stock	114	218	129	221
Diluted average common shares	45,602	45,374	45,509	45,311
<b>Earnings per common share:</b>				
Basic	\$ 0.50	\$ 0.41	\$ 1.32	\$ 1.41
Diluted	0.50	0.41	1.32	1.41

In the three months ended June 30, 2006 and 2005, the Company had 917,700 and 377,500 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 earnings per common share. In the nine months ended June 30, 2006 and 2005, the weighted average shares not considered in the computation of earnings per common share were 628,000 and 171,000, respectively.

**10 STOCK OWNERSHIP PLANS****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 Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 30, 2005	981	\$37.76		
Granted	177	39.56		
Exercised	(112)	33.02		
Cancelled	(87)	45.34		
Outstanding, June 30, 2006	959	\$37.96	6.9	\$45
Exercisable, June 30, 2006	635	\$35.58	6.0	\$45

Options to purchase 1,002,000 shares of Common Stock with a weighted average exercise price of \$37.61 per share were outstanding at June 30, 2005.

Total unrecognized compensation expense for unvested stock options as of June 30, 2006 is \$2,272,000, which will be recognized over a weighted average period of 1.4 years.

The exercise of stock options during the nine months ended June 30, 2006 and 2005 resulted in cash proceeds of \$3,694,000 and \$1,664,000, respectively, and income tax benefits of \$214,000 and \$320,000, respectively.

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The intrinsic value of options exercised during the nine months ended June 30, 2006 and 2005 is \$549,000 and \$822,000, respectively.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions for options granted during the nine months ended June 30, 2006 and 2005.

	Nine Months Ended June 30	
	2006	2005
Dividend yield	1.7%	1.5%
Volatility	21.7%	24.3%
Risk-free interest rate	4.4%	3.6%
Expected life (years)	4.7	4.7
Estimated fair value	\$8.74	\$11.01

The risk-free interest rate is based on the implied yield available on U.S. Treasury zero coupon issues with an equivalent remaining term. The expected life is based on historical experience. Expected price volatility is based on historical volatility of the Company's stock that correlates with the expected term of the options.

### Restricted Common Stock

The following table summarizes restricted stock activity during the nine months ended June 30, 2006:

<i>(Thousands, Except Per Share Data)</i>	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 30, 2005	279	\$44.98
Granted	165	40.73
Vested	(84)	41.74
Forfeited	(14)	42.44
Outstanding, June 30, 2006	346	\$43.85

The fair value of restricted shares vested during the nine months ended June 30, 2006 totaled \$3,391,000.

Total unrecognized compensation expense for unvested restricted stock as of June 30, 2006 is \$7,265,000, which will be recognized over a weighted average period of 1.7 years.

### Stock Purchase Plan

The Employee Stock Purchase Plan (ESPP) provides for the sale of Common Stock to Company employees at a purchase price that is the lower of 85% of the market value at the date of grant or the exercise date, which is one year from the date of grant. During the nine months ended June 30, 2006, participants under the ESPP purchased 131,000 shares. The purchase price of these shares was \$26.11 and the market value on the purchase date was \$30.80.

The Company also has a Supplemental Employee Stock Purchase Plan (SPP) for which the purchase price is 85% of the market price on the last business day of each calendar quarter during the offering period. For the nine months ended June 30, 2006, participants under the SPP purchased 17,000 shares. The weighted average purchase price of these shares was \$27.12 and the weighted average market value on the purchase date was \$31.91.

During the nine months ended June 30, 2006, \$785,000 in compensation expense related to the ESPP and SPP was recognized.

## 11 COMMITMENTS AND CONTINGENT LIABILITIES

**Capital Commitments**

At June 30, 2006, the Company had construction and equipment purchase commitments totaling approximately \$10,726,000.

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### **St. Louis Post-Dispatch Early Retirement Program**

In November 2005, the Company announced that the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. Approximately 130 employees volunteered to take advantage of the offer, which includes enhanced pension and insurance benefits and lump sum cash payments based on continuous service. The cost totaled \$17,778,000 before income tax benefit, with \$9,124,000 recognized in 2005, and \$8,654,000 in 2006. Approximately \$7,000,000 of the cost represented cash payments, with the remainder due primarily to enhancements of pension and other postretirement benefits.

### **PD LLC Operating Agreement**

On May 1, 2000, Pulitzer and Herald 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 (the Venture), known as PD LLC. Pulitzer is the managing member of PD LLC. Under the terms of the operating agreement governing PD LLC (the Operating Agreement), Pulitzer and another subsidiary hold a 95% interest in the results of operations of PD LLC and Herald holds a 5% interest. Herald's 5% interest is reported as minority interest in the Consolidated Statements of Income and Comprehensive Income. Also, under the terms of the Operating Agreement, Herald received on May 1, 2000 a cash distribution of \$306,000,000 from PD LLC (the Initial Distribution). This distribution was financed by the Pulitzer Notes. Pulitzer's entry into the Venture was treated as a purchase for accounting purposes.

During the first ten years of its term, PD LLC is restricted from making distributions (except under specified circumstances), capital expenditures and member loan repayments unless it has set aside out of its cash flow a reserve equal to the product of \$15,000,000 and the number of years since May 1, 2000, but not in excess of \$150,000,000 (the Reserve). PD LLC is not required to maintain the Reserve after May 1, 2010. On May 1, 2010, Herald will have a one-time right to require PD LLC to redeem Herald's interest in PD LLC, together with Herald's interest, if any, in DS LLC, another limited liability company in which Pulitzer is the managing member and which is engaged in the business of delivering publications and products in the greater St. Louis metropolitan area. The May 1, 2010 redemption price for Herald's interest will be determined pursuant to a formula yielding an amount which will result in the present value to May 1, 2000 of the after tax cash flows to Herald (based on certain assumptions) from PD LLC, including the Initial Distribution and the special distribution described below, if any, and from DS LLC, being equal to \$275,000,000.

In the event the transactions effectuated in connection with either the formation of the Venture and the Initial Distribution or the organization of DS LLC are recharacterized by the Internal Revenue Service (IRS) as a taxable sale by Herald, with the result in either case that the tax basis of PD LLC's assets increases and Herald is required to recognize taxable income as a result of such recharacterization, Herald generally will be entitled to receive a special distribution from PD LLC in an amount that corresponds, approximately, to the present value of the after tax benefit to the members of PD LLC of the tax basis increase. The adverse financial effect of any such special distribution to Herald on PD LLC (and thus Pulitzer and the Company) will be partially offset by the current and deferred tax benefits arising as a consequence of the treatment of the transactions effectuated in connection with the formation of the Venture and the Initial Distribution or the organization of DS LLC as a taxable sale by Herald. The Company has been advised that the IRS, in the course of examining the 2000 consolidated federal income tax return in which Herald was included, has requested certain information and documents relating to the transactions effectuated in connection with the formation of the Venture and the Initial Distribution. The Company is participating in the formulation of Herald's response to this IRS request for information and documents.

Upon termination of PD LLC and DS LLC, which will be on May 1, 2015 (unless Herald exercises the redemption right described above), Herald will be entitled to the liquidating value of its interests in PD LLC and DS LLC, to be paid in cash by Pulitzer. That amount would be equal to the amount of Herald's capital accounts, after allocating the gain or loss that would result from a cash sale of PD LLC and DS LLC's assets for their fair market value at that time. Herald's share of such gain or loss generally will be 5%, but will be reduced (but not below 1%) to the extent that the present value to May 1, 2000 of the after tax cash flows to Herald from PD LLC and from DS LLC, including the Initial Distribution, the special distribution described above, if any, and the liquidation amount (based on certain assumptions), exceeds \$325,000,000.

The actual amount payable to Herald either on May 1, 2010, or upon the termination of PD LLC and DS LLC on May 1, 2015 will depend on such variables as future cash flows, the amounts of any distributions to Herald prior to such payment, PD LLC's and DS LLC's rate of growth and market valuations of newspaper properties. While the amount of such payment cannot be predicted with certainty, the Company currently estimates (assuming a 5% annual growth rate in Herald's capital accounts, no special distribution as described above and consistent newspaper property valuation multiples) that the amount of such payment would not exceed \$100,000,000. The Company further believes that it will be able to finance such payment either from available cash reserves or by accessing the capital markets. The redemption of Herald's interest in PD LLC either on May 1, 2010 or upon termination of PD LLC in 2015 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.

### **Income Taxes**

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 primary issues in audits currently in process or being contested relate to the appropriate determination of gains, and allocation to the various taxing authorities thereof, on businesses sold in 2001. 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 Income and Comprehensive Income 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.

In June 2006, the Company received a notice of deficiency asserting transferee liability for federal income taxes and penalties, excluding interest, totaling \$25,200,000 related to the acquisition of assets by the Company in 2000. The Company has requested information regarding the IRS audit of the former owner of the acquired assets in order to determine the basis upon which it is to be assessed as the transferee of such assets. Based on its knowledge of the transaction, the Company does not believe that the notice of deficiency has merit. The Company is presently evaluating procedural options for contesting the assessment and intends to vigorously contest such assessment.

### **Litigation**

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.

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

In October 2005 the Company adopted Financial Accounting Standards Board (FASB) Statement 123-Revised, *Accounting for Stock-Based Compensation* (Statement 123R) and related FASB staff positions. Statement 123R amends Statement 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as a financing cash inflow rather than a reduction of taxes paid.

Statement 123R also establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods and services (primarily accounting transactions in which an entity obtains employee services in share-based payment transactions, such as stock options). Statement 123R requires a public entity to measure the cost of employee services received in exchange for an equity instrument based on the grant date fair value of the award. In general, the cost will be recognized over the period during which an employee is required to provide the service in exchange for the award (usually the vesting period). The fair value based methods in Statement 123R are similar to the fair value based method in Statement 123 in most respects. The Company adopted Statement 123 in 2003.

In October 2005 the Company adopted FASB Statement 153, *Exchanges of Nonmonetary Assets*. This pronouncement amends APB Opinion 29, *Accounting for Nonmonetary Transactions*. Statement 153 eliminates the exception for nonmonetary exchanges of similar productive assets present in APB Opinion 29

and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance (i.e. transactions that are not expected to result in significant changes in the cash flows of the reported entity).

In October 2005 the Company adopted FASB Interpretation 47, *Accounting for Conditional Asset Retirement Obligations*. Interpretation 47 requires an entity to recognize a liability for a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event. The liability must be recognized if the fair value of the liability can be reasonably estimated.

The adoption of the statements and interpretation discussed above did not have a material impact on the Company's financial position, results of operations, or cash flows.

In May 2005 the FASB issued Statement 154, *Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3*, that changes the requirements for the accounting and reporting of a change in accounting principle. Statement 154 eliminates the requirement to include the cumulative effect of changes in accounting principles in the current period of change and instead, requires that changes in accounting principle be retrospectively applied. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company does not anticipate that the implementation of Statement 154 will have a material impact on its financial position, results of operations, or cash flows.

In July 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which is effective for fiscal years beginning after December 15, 2006. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement 109. Interpretation 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company has not completed its evaluation of the effects of Interpretation 48 on its financial position and results of operations.

## **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 three months and nine months ended June 30, 2006. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and the 2005 Annual Report on Form 10-K, as amended.

### **NON-GAAP FINANCIAL MEASURES**

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

Operating cash flow, which is defined as operating income before depreciation, amortization, 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 that operating cash flow and the related margin percentage are useful measures of evaluating its financial performance because of their focus on the Company's results from operations before depreciation and amortization. The Company also believes that these measures are several of the alternative financial measures of performance used by investors, lenders, rating agencies and financial analysts to estimate the value of a company and evaluate its ability to meet debt service requirements.



A reconciliation of operating cash flow and operating cash flow margin to operating income, the most directly comparable measure under accounting principles generally accepted in the United States of America (GAAP), is included in the table below:

<i>(Thousands)</i>	Three Months Ended June 30, 2006	Percent of Revenue	Three Months Ended June 30, 2005	Percent of Revenue
Operating cash flow	\$82,574	27.4%	\$60,920	28.0%
Depreciation and amortization	28,291	9.4	15,454	7.1
Equity in earnings of associated companies	4,847	1.6	3,276	1.5
Operating income	\$59,130	19.6%	\$48,742	22.4%

  

<i>(Thousands)</i>	Nine Months Ended June 30, 2006	Percent of Revenue	Nine Months Ended June 30, 2005	Percent of Revenue
Operating cash flow	\$219,452	25.0%	\$157,098	27.5%
Depreciation and amortization	72,871	8.3	38,534	6.8
Equity in earnings of associated companies	16,167	1.8	7,156	1.3
Operating income	\$162,748	18.5%	\$125,720	22.0%

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

The Company believes the use of the non-GAAP financial measures of adjusted net income and earnings per common share provide meaningful supplemental information to investors and financial analysts with which to evaluate its financial performance by excluding expenses related to Pulitzer that may not be indicative of its core business operating results and are of a substantially non-recurring nature. The Company also believes that both management and investors benefit from referring to these non-GAAP financial measures in assessing the Company's performance and in forecasting and analyzing future periods that are not likely to include the adjusted items. References to these non-GAAP measures should not, however, be considered a substitute for net income and earnings per common share presented in accordance with GAAP.

**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 information for an understanding of changes in its revenue and operating expenses. Same property comparisons exclude MNI. The Company owns 50% of the capital stock of MNI, which for financial reporting purposes is 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, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to intangible assets and income taxes. 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. Additional information follows with regard to certain of the most critical of the Company's accounting policies.

**Goodwill and Other Intangible Assets**

In assessing the recoverability of its goodwill and other nonamortized intangible assets, the Company makes assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis or more frequently if impairment indicators are present.

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

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useful lives of such intangible assets would increase future amortization expense and decrease future reported operating results and earnings per common share.

### **Pension, Postretirement and Postemployment Benefit Plans**

The Company evaluates its liability for pension, postretirement and postemployment benefit plans based upon computations made by consulting actuaries, incorporating estimates and actuarial assumptions of future plan service costs, future interest costs on projected benefit obligations, rates of compensation increases, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors. If management used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, resulting in recognition of different amounts of expense over future periods.

### **Income Taxes**

Deferred income taxes are provided using the liability method, whereby deferred income tax assets are recognized for deductible temporary differences and loss carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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.

### **Revenue Recognition**

Advertising revenue is recorded when advertisements are placed in the publication or on the related online site. Circulation revenue is recorded as newspapers are distributed over the subscription term. Other revenue is recognized when the related product or service has been delivered. Unearned revenue arises in the ordinary course of business from advance subscription payments for newspapers or advance payments for advertising.

### **Uninsured Risks**

The Company is self-insured for health care, workers compensation and certain long term disability costs of its employees, subject to stop loss insurance, which limits exposure to large claims. The Company accrues its estimated health care costs in the period in which such costs are incurred, including an estimate of incurred but not reported claims. Other insurance carries deductible losses of varying amounts.

The Company's reserve for workers compensation claims is based upon an estimate of the remaining liability for retained losses made by consulting actuaries. The amount has been determined based upon historical patterns of incurred and paid loss development factors from the insurance industry.

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

In October 2005 the Company adopted FASB Statement 123-Revised, *Accounting for Stock-Based Compensation* (Statement 123R) and related FASB staff positions. Statement 123R amends Statement 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as a financing cash inflow rather than a reduction of taxes paid.

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In October 2005 the Company adopted FASB Statement 153, *Exchanges of Nonmonetary Assets*. This pronouncement amends APB Opinion 29, *Accounting for Nonmonetary Transactions*. Statement 153 eliminates



the exception for nonmonetary exchanges of similar productive assets present in APB Opinion 29 and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance (i.e. transactions that are not expected to result in significant changes in the cash flows of the reported entity).

In October 2005 the Company adopted FASB Interpretation 47, *Accounting for Conditional Asset Retirement Obligations*. Interpretation 47 requires an entity to recognize a liability for a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event. The liability must be recognized if the fair value of the liability can be reasonably estimated.

The adoption of the statements and interpretation discussed above did not have a material impact on the Company's financial position, results of operations, or cash flows.

In May 2005 the FASB issued Statement 154, *Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3*, that changes the requirements for the accounting and reporting of a change in accounting principle. Statement 154 eliminates the requirement to include the cumulative effect of changes in accounting principles in the current period of change and instead, requires that changes in accounting principle be retrospectively applied. Statement 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company does not anticipate that the implementation of Statement 154 will have a material impact on its financial position, results of operations, or cash flows.

In July 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which is effective for fiscal years beginning after December 15, 2006. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement 109. Interpretation 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company has not completed its evaluation of the effects of Interpretation 48 on its financial position and results of operations.

## EXECUTIVE OVERVIEW

The Company directly, and through its ownership of associated companies, publishes 58 daily newspapers in 23 states and more than 300 weekly, classified and specialty publications, along with associated and integrated online services. The Company was founded in 1890, incorporated in 1950, and listed on the New York Stock Exchange in 1978. Before 2001, the Company also operated a number of network-affiliated and satellite television stations.

In April 2002, the Company acquired ownership of 15 daily newspapers and a 50% interest in the Sioux City, Iowa daily newspaper (SCN) by purchasing Howard Publications, Inc. (Howard). This acquisition was consistent with the strategy the Company announced in 2000 to buy daily newspapers with circulation of 30,000 or more. In July 2002, the Company acquired the remaining 50% of SCN. These acquisitions increased the Company's circulation by more than 75% and increased its revenue by nearly 50%. In February 2004, two daily newspapers acquired in the Howard acquisition were exchanged for two daily newspapers in Burley, Idaho and Elko, Nevada.

In June 2005, the Company acquired Pulitzer. Pulitzer publishes fourteen daily newspapers, including the *St. Louis Post-Dispatch*, and more than 100 weekly newspapers and specialty publications. Pulitzer also owns a 50% interest in TNI. The acquisition of Pulitzer increased the Company's circulation by more than 50% to almost 1.7 million daily and more than 1.9 million Sunday, and revenue, on an annualized basis, by more than 60%.

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

Grow revenue creatively and rapidly;

Improve readership and circulation;

Emphasize strong local news;

Accelerate online growth;

Nurture employee development and achievement; and

Exercise careful cost controls.

Certain aspects of these priorities are discussed below.

More than 75% of the Company's revenue is derived from advertising. The Company's strategies are to increase its share of local advertising through increased sales pressure in its existing markets and, over time, to increase readership and circulation unit sales through internal expansion into existing and contiguous markets and enhancement of online offerings, augmented by selective acquisitions. Acquisition efforts are focused on newspapers with daily circulation of 30,000 or more, as noted above, and other publications and online businesses that expand the Company's operating revenue.

Increases in same property advertising revenue in the three months and nine months ended June 30, 2006 were more than offset by increases in operating costs. Results for the current year were also significantly influenced by the acquisition of Pulitzer.

### THREE MONTHS ENDED JUNE 30, 2006

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

<i>(Thousands, Except Per Share Data)</i>	Three Months Ended June 30		Percent Change	
	2006	2005	Total	Same Property
<b>Advertising revenue:</b>				
Retail	\$122,019	\$89,778	35.9%	0.9%
National	13,875	7,432	86.7	(8.0)
<b>Classified:</b>				
<b>Daily newspapers:</b>				
Employment	24,041	16,858	42.6	5.7
Automotive	15,975	12,611	26.7	(9.7)
Real estate	16,513	12,199	35.4	(1.6)
All other	10,843	7,925	36.8	3.2
Other publications	16,103	11,497	40.1	(0.5)
Total classified	83,475	61,090	36.6	(0.4)
Online	10,464	5,091	105.5	44.3
Niche publications	4,608	3,318	38.9	19.6
Total advertising revenue	234,441	166,709	40.6	1.8
<b>Circulation</b>				
Commercial printing	6,213	5,464	13.7	2.6
Online services and other	8,596	7,642	12.5	(4.5)
Total operating revenue	301,099	217,855	38.2	1.3
<b>Compensation</b>				
Newsprint and ink	32,324	21,478	50.5	9.1
Other operating expenses	71,939	48,845	47.3	2.9
Transition costs	1,677	1,439	16.5	NM
Total operating expenses, excluding depreciation and amortization	218,525	156,935	39.2	3.2
Operating cash flow	82,574	60,920	35.5	(2.4)
Depreciation and amortization	28,291	15,454	83.1	(4.5)
Equity in earnings of associated companies	4,847	3,276	48.0	
Operating income	59,130	48,742	21.3	
Non-operating expense, net	(21,988)	(19,209)	14.5	
Income before income taxes	37,142	29,533	25.8	
Income tax expense	14,056	10,691	31.5	
Minority interest	369	145	154.5	
Net income	22,717	18,697	21.5	
Other comprehensive income, net	1,179	(1,157)	NM	
Comprehensive income	\$ 23,896	\$17,540	36.2%	
<b>Earnings per common share:</b>				
Basic	\$ 0.50	\$ 0.41	22.0%	
Diluted	0.50	0.41	22.0	





Sundays generate substantially more advertising and circulation revenue than any other day of the week. The three months ended June 30, 2006 had the same number of Sundays as the prior year quarter.

In total, acquisitions and divestitures accounted for \$116,903,000 of operating revenue and \$87,426,000 of operating expenses, other than depreciation and amortization, in the three months ended June 30, 2006. Acquisitions and divestitures accounted for \$36,082,000 of operating revenue and \$27,268,000 of operating expenses other than depreciation and amortization, in the three months ended June 30, 2005. For the three months ended June 30, 2006, total same property operating revenue increased \$2,423,000, or 1.3%.

### Advertising Revenue

Same property advertising revenue increased \$2,467,000, or 1.8% for the three months ended June 30, 2006. Same property retail revenue increased \$656,000, or 0.9%. Same property average retail rate, excluding preprint insertions, increased 1.1%. Same property preprint insertion revenue increased 1.5%.

Same property classified advertising revenue decreased 0.4% for the three months ended June 30, 2006. Higher margin employment advertising at the daily newspapers increased 5.7% on a same property basis, and same property real estate classified revenue decreased 1.6%. Same property automotive classified advertising decreased 9.6% amid a continuing industry-wide decline. Same property average classified rates increased 0.5%.

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

<i>(Thousands of Inches)</i>	Three Months Ended June 30		Percent Change
	2006	2005	
Retail	2,742	2,687	2.0%
National	124	150	(17.3)
Classified	3,127	3,143	(0.5)
	5,993	5,980	0.2%

Online advertising increased 44.3% on a same property basis, due primarily to rate increases and expanded cross-selling with the Company's print publications. Advertising in niche publications increased 19.6% on a same property basis, due in part to new publications in existing markets.

### Circulation and Other Revenue

Same property circulation revenue increased \$128,000, or 0.4%, in the current year quarter. The Company's unaudited average daily newspaper circulation units, including Pulitzer, TNI and MNI, decreased 0.9% and Sunday circulation decreased 1.2% for the three months ended June 2006, compared to the prior year. In spite of modest declines in circulation, the Company is reaching an increasingly larger share of the market through rapid online growth, as well as through additional specialty and niche publications.

Same property commercial printing revenue increased \$137,000, or 2.6%. Same property online services and other revenue decreased \$309,000, or 4.5%.

### Operating Expenses and Results of Operations

Same property compensation expense increased \$1,195,000, or 1.8%, in the current year quarter. Same property full-time equivalent employees decreased 0.8% year over year. Normal salary increases and associated increases in related payroll taxes contributed to the increase. Same property newsprint and ink costs increased \$1,568,000, or 9.1%, in the current year quarter due to newsprint and ink price increases, offset by a decrease in usage. Newsprint prices have been increasing since the summer of 2002. Same property newsprint volume decreased 1.8% due to migration to lighter weight paper and narrower page widths. Same property other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint and ink, depreciation or amortization, increased \$1,097,000, or 2.9%, in the current year quarter. Expenses to maintain circulation, postage and outside printing costs contributed to the growth in other operating expenses.

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Depreciation and amortization expense decreased \$489,000, or 4.5%, on a same property basis, due primarily to the completion of amortization related to certain previous acquisitions. Such costs increased 83.1% overall, due primarily to the acquisition of Pulitzer. The Company, based on its most recent analysis and in conjunction with its ongoing requirement to assess the estimated useful lives of intangible assets, has concluded that the period

of economic benefit of certain identified intangible assets related to the Pulitzer acquisition has decreased. As a result, the weighted-average useful life of customer lists will be decreased prospectively from approximately 21 years to 17 years.

The change in estimated useful life of such assets resulted in recognition of additional amortization expense of \$462,000 in the three months ended June 30, 2006, of which \$117,000 is recorded in equity in earnings of associated companies. The Company expects amortization expense to increase by approximately \$1,386,000 in the three months ending September 2006 and \$5,544,000 in its fiscal year ending September 2007. This change in non-cash amortization expense has no impact on the Company's cash flows or debt covenants.

In the three months ended June 30, 2006, the Company also recorded a separate non-cash charge of \$5,526,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,939,000 is recorded in amortization expense and \$587,000 is recorded in equity in earnings of associated companies.

Transition costs related to the acquisition of Pulitzer totaled \$1,677,000 for the three months ended June 30, 2006 and \$1,439,000 in the prior year quarter. Such costs are not included in same property comparisons. Transition costs are comprised of costs directly related to the acquisition of Pulitzer that are separately identifiable and non-recurring, but not capitalizable under GAAP.

Operating cash flow improved 35.5% to \$82,574,000 in the current year quarter from \$60,920,000 in the prior year. Operating cash flow margin decreased to 27.4% from 28.0% in the prior year quarter due to the inclusion of Pulitzer results, one time costs, and a 2.4% decrease in same property operating cash flow. Same property operating cash flow margin decreased to 31.9%, from 33.1% in the prior year quarter. Equity in earnings of associated companies increased to \$4,847,000 in the current year quarter, compared to \$3,276,000 in the prior year quarter, primarily from inclusion of TNI results, offset by a decrease in MNI results. Operating income increased 21.3% to \$59,130,000. Operating income margin decreased to 19.6% from 22.4% due to the factors noted above, including the reduction in value of intangible assets.

#### Nonoperating Income and Expense

Financial expense increased \$14,523,000 due to debt incurred to fund the Pulitzer acquisition and rising interest rates on floating rate debt, partially offset by \$25,000,000 of debt reduction funded by cash generated from operations. Refinancing of existing debt of the Company as a result of the acquisition of Pulitzer resulted in a pretax loss of \$11,181,000 in the prior year quarter.

#### Overall Results

The Company's effective income tax rate increased to 37.8% from 36.2% in the prior year quarter due primarily to \$1,913,000 of non-deductible pretax compensation related to the acquisition of Pulitzer.

As a result of all of the above, earnings per diluted common share increased 22.0% to \$0.50 per share from \$0.41 per share in the prior year quarter. Excluding unusual costs, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.61 for the three months ended June 30, 2006, compared to \$0.58 in the prior year quarter.

	Three Months Ended June 30			
	2006		2005	
<i>(Thousands, Except Per Share Data)</i>	Amount	Per Share	Amount	Per Share
Net income, as reported	\$22,717	\$0.50	\$18,697	\$0.41
Adjustments to net income:				
Reduction of value of identified intangible assets	5,526		-	
Transition costs	1,677		1,439	
Loss on extinguishment of debt	-		11,181	
	7,203		12,620	
Income tax benefit of adjustments, net	(1,984)		(4,922)	
	5,219	0.11	7,698	0.17
Net income, as adjusted	\$27,936	\$0.61	\$26,395	\$0.58



**NINE MONTHS ENDED JUNE 30, 2006**

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

(Thousands, Except Per Share Data)	Nine Months Ended June 30		Percent Change	
	2006	2005	Total	Same Property
<b>Advertising revenue:</b>				
Retail	\$ 365,489	\$241,882	51.1%	0.6%
National	45,687	19,689	132.0	(4.4)
<b>Classified:</b>				
<b>Daily newspapers:</b>				
Employment	66,984	39,942	67.7	10.0
Automotive	44,790	31,707	41.3	(12.2)
Real estate	46,817	30,174	55.2	1.4
All other	29,237	19,073	53.3	2.5
Other publications	44,335	28,225	57.1	(1.1)
Total classified	232,163	149,121	55.7	0.5
Online	26,433	11,667	126.6	39.1
Niche publications	12,662	9,251	36.9	10.1
Total advertising revenue	682,434	431,610	58.1	1.6
<b>Circulation</b>				
Commercial printing	17,865	15,971	11.9	(3.4)
Online services and other	24,418	20,755	17.6	(0.5)
Total operating revenue	879,507	570,634	54.1	0.8
<b>Compensation</b>				
Newsprint and ink	93,716	54,371	72.4	8.7
Other operating expenses	213,646	129,767	64.6	3.7
Early retirement program	8,654	-	NM	NM
Transition costs	2,830	1,542	83.5	NM
Total operating expenses, excluding depreciation and amortization	660,055	413,536	59.6	3.2
Operating cash flow	219,452	157,098	39.7	(4.2)
Depreciation and amortization	72,871	38,534	89.1	(5.0)
Equity in earnings of associated companies	16,167	7,156	125.9	
Operating income	162,748	125,720	29.5	
Non-operating expense, net	(66,753)	(24,393)	173.7	
Income before income taxes	95,995	101,327	(5.3)	
Income tax expense	35,187	37,410	(5.9)	
Minority interest	892	145	NM	
Net income	59,916	63,772	(6.0)	
Other comprehensive income, net	4,255	(1,157)	NM	
Comprehensive income	\$ 64,171	\$ 62,615	2.5%	
<b>Earnings per common share:</b>				
Basic	\$ 1.32	\$ 1.41	(6.4)%	
Diluted	1.32	1.41	(6.4)	

Sundays generate substantially more advertising and circulation revenue than any other day of the week. The nine months ended June 30, 2006 had the same number of Sundays as the prior year nine month period.

In total, acquisitions and divestitures accounted for \$341,663,000 of operating revenue and \$264,147,000 of operating expenses, other than depreciation and amortization, in the nine months ended June 30, 2006. Acquisitions and divestitures accounted for \$37,260,000 of operating revenue and \$28,434,000 of operating

expenses, other than depreciation and amortization, in the nine months ended June 30, 2005. For the nine months ended June 30, 2006, total same property operating revenue increased \$4,472,000, or 0.8%.

### Advertising Revenue

Same property advertising revenue increased \$6,458,000, or 1.6% for the nine months ended June 30, 2006. Same property retail revenue increased \$1,469,000, or 0.6%. Same property average retail rate, excluding preprint insertions, increased 2.0%. Same property preprint insertion revenue increased 2.5%.

Same property classified advertising revenue increased 0.5% for the nine months ended June 30, 2006. Higher margin employment advertising at the daily newspapers increased 10.0% on a same property basis, and same property real estate classified revenue increased 1.4%. Same property automotive classified advertising decreased 12.2% amid a continuing industry-wide decline. Same property average classified rates increased 2.2%.

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

(Thousands of Inches)	Nine Months Ended June 30		Percent Change
	2006	2005	
Retail	7,994	8,114	(1.5)%
National	388	451	(14.0)
Classified	8,677	8,774	(1.1)
	17,059	17,339	(1.6)

Online advertising increased 39.1% on a same property basis, due primarily to rate increases and expanded cross-selling with the Company's print publications. Advertising in niche publications increased 10.1% on a same property basis, due in part to new publications in existing markets.

### Circulation and Other Revenue

Same property circulation revenue decreased \$1,357,000, or 1.4%, in the current year nine month period. The Company's unaudited total average daily newspaper circulation units, including Pulitzer, TNI and MNI, decreased 0.8% and Sunday circulation decreased 1.4% for the nine months ended June 2006, compared to the prior year. Daily and Sunday circulation of the *St. Louis Post-Dispatch* declined 1.7% and 4.5%, respectively. A planned reduction in lower value distribution outside the St. Louis metropolitan area and an increase in the Sunday single copy price contributed to the decline.

Same property commercial printing revenue decreased \$533,000, or 3.4%. Same property online services and other revenue decreased \$96,000, or 0.5%.

### Operating Expenses and Results of Operations

Same property compensation expense increased \$2,968,000, or 1.5%, in the current year nine month period. Same property full-time equivalent employees decreased 0.5% year over year. Normal salary increases and associated increases in related payroll taxes contributed to the increase. Same property newsprint and ink costs increased \$4,332,000, or 8.7%, in the current year period due to newsprint and ink price increases, offset by a decrease in usage. Newsprint prices have been increasing since the summer of 2002. Same property newsprint volume decreased 1.8% due to migration to lighter weight paper and narrower page widths. Same property other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint and ink, depreciation or amortization, increased \$4,208,000 or 3.7%, in the current year period. Expenses to maintain circulation, postage and outside printing costs contributed to the growth in other operating expenses, as did an accrual for settlement of litigation.

Depreciation and amortization expense decreased \$1,644,000, or 5.0%, on a same property basis, due primarily to the completion of amortization related to certain previous acquisitions. Such costs increased 89.1% overall, due primarily to the acquisition of Pulitzer. The Company, based on its most recent analysis and in conjunction with its ongoing requirement to assess the estimated useful lives of intangible assets, has concluded that the period of economic benefit of certain identified intangible assets related to the Pulitzer acquisition has decreased.



As a result, the weighted-average useful life of customer lists will be decreased prospectively from approximately 21 years to 17 years. The change in estimated useful life of such assets resulted in recognition of additional amortization expense of \$462,000 in the nine months ended June 30, 2006, of which \$117,000 is recorded in equity in earnings of associated companies.

In the nine months ended June 30, 2006, the Company also recorded a separate non-cash charge of \$5,526,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,939,000 is recorded in amortization expense and \$587,000 is recorded in equity in earnings of associated companies.

Transition costs related to the acquisition of Pulitzer totaled \$2,830,000 for the nine months ended June 30, 2006 and \$1,542,000 in the prior year period. Such costs are not included in same property comparisons. Transition costs are comprised of costs directly related to the acquisition of Pulitzer that are separately identifiable and non-recurring, but not capitalizable under GAAP.

In November 2005, the Company announced that the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. Approximately 130 employees volunteered to take advantage of the offer, which included enhanced pension and insurance benefits and lump sum cash payments based on continuous service. The cost totaled \$17,778,000 before income tax benefit, with \$9,124,000 recognized in 2005, and \$8,654,000 in 2006. Approximately \$7,000,000 of the cost represented cash payments, with the remainder due primarily to enhancements of pension and other postretirement benefits.

Operating cash flow improved 39.7% to \$219,452,000 in the current year nine month period from \$157,098,000 in the same period in 2005. Operating cash flow margin decreased to 25.0% from 27.5% in the prior year nine month period due primarily to the inclusion of Pulitzer results, the *St. Louis Post-Dispatch* early retirement program, transition costs and a 4.2% decrease in same property operating cash flow. Same property operating cash flow margin decreased to 30.1%, from 31.7% in the prior year period. Equity in earnings of associated companies increased to \$16,167,000 in the current year period, compared to \$7,156,000 in the prior year period, primarily from inclusion of TNI results, offset by a decrease in MNI results. Operating income increased 29.5% to \$162,748,000. Operating income margin decreased to 18.5% from 22.0% due primarily to the factors noted above, including the reduction in the value of intangible assets.

#### **Nonoperating Income and Expense**

Financial expense increased \$56,668,000 due to debt incurred to fund the Pulitzer acquisition and rising interest rates on floating rate debt, partially offset by \$107,000,000 of debt reduction funded by cash generated from operations. Refinancing of existing debt of the Company as a result of the acquisition of Pulitzer resulted in a pretax loss of \$11,181,000 in the prior nine month period.

#### **Overall Results**

The Company's effective income tax rate decreased to 36.7% from 36.9% in the prior year nine month period due primarily to the implementation of the new Federal manufacturing credit and changes in the mix of the Company's income before income taxes, largely related to the acquisition of Pulitzer.

As a result of all of the above, earnings per diluted common share from continuing operations decreased 6.4% to \$1.32 per share from \$1.41 per share in the prior year nine month period. Excluding unusual costs, as detailed in the table below, diluted earnings per common share, as adjusted, were \$1.57 for the nine months ended June 30, 2006, compared to \$1.58 in the prior year period.



	Nine Months Ended June 30			
	2006		2005	
<i>(Thousands, Except Per Share Data)</i>	Amount	Per Share	Amount	Per Share
Net income, as reported	\$59,916	\$1.32	\$63,772	\$1.41
Adjustments to net income:				
Early retirement program	8,654	-	-	-
Reduction of value of identified intangible assets	5,526	-	-	-
Transition costs	2,830	-	1,542	-
Loss on extinguishment of debt	-	-	11,181	-
	17,010	-	12,723	-
Income tax benefit of adjustments, net	(5,662)	-	(4,939)	-
	11,348	0.25	7,784	0.17
Net income, as adjusted	\$71,264	\$1.57	\$71,556	\$1.58

**LIQUIDITY AND CAPITAL RESOURCES**

Cash provided by operating activities was \$162,641,000 for the nine months ended June 30, 2006, and \$111,406,000 for the same period in 2005. Decreased net income, which was significantly influenced by increased non-cash depreciation and amortization in the current year as well, as the loss on the early retirement of debt in the prior year, was more than offset by changes in working capital, accounting for the change between years.

Cash required for investing activities totaled \$29,623,000 for the nine months ended June 30, 2006, and \$1,260,600,000 in the same period in 2005. Capital expenditures and acquisitions account for substantially all of the usage of funds in both the current year and prior year periods.

The Company anticipates that funds necessary for future capital expenditures, and other requirements, will be available from internally generated funds, its Credit Agreement or, if necessary, by accessing the capital markets.

In December 2005, the Company entered into the Credit Agreement with a syndicate of financial institutions. The Credit Agreement provides for aggregate borrowings of up to \$1,435,000,000, including a \$450,000,000 revolving credit facility. The Credit Agreement also provides the Company with the right, with the consent of the administrative agent, to request at certain times prior to June 2012 that one or more lenders provide incremental term loan commitments of up to \$500,000,000, subject to certain requirements being satisfied at the time of the request. The Credit Agreement matures in June 2012 and amends and replaces the \$1,550,000,000 Old Credit Agreement consummated in June 2005. Interest rate margins under the Credit Agreement are generally lower than under the Old Credit Agreement. Other conditions of the Credit Agreement are substantially the same as the Old Credit Agreement.

In August 2005, the Company filed a Form S-3 shelf registration statement (Shelf) with the SEC, which has been declared effective. The Shelf gives the Company the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of \$500,000,000.

The Shelf enables the Company to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities may be used for general corporate purposes, including repayment or refinancing of debt, working capital, capital expenditures, acquisitions or the repurchase of common stock, subject to conditions of existing debt agreements.

Cash required for financing activities totaled \$127,880,000 during the nine months ended June 30, 2006, and provided \$1,191,713,000 in the prior year. Debt repayments and dividends accounted for the primary usage of funds in the current year. Borrowing related to the acquisition of Pulitzer was the primary source of funds in the prior year.

Cash and cash equivalents increased \$5,138,000 for the nine months ended June 30, 2006, and increased \$42,519,000 for the same period in 2005.

## **INFLATION**

The Company has not been significantly impacted by inflationary pressures over the last several years. The Company anticipates that changing costs of newsprint, its basic raw material, may impact future operating costs. 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.

In June 2006, several major newsprint manufacturers announced price increases of \$40 per metric ton on newsprint, effective for deliveries in August 2006. The final extent of changes in prices, if any, is subject to negotiation between such manufacturers and the Company.

### **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 securities with maturities no later than April 2010, after which time all restrictions on such funds lapse. Only U.S. Government and related securities are permitted. Interest-earning assets, including those in employee benefit plans, also function as a natural hedge against fluctuations in interest rates on debt.

### **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 the London Interbank Offered Rate (LIBOR). A 100 basis point increase to LIBOR would decrease income before income taxes on an annualized basis by approximately \$9,250,000, based on \$925,000,000 of floating rate debt outstanding at June 30, 2006, after consideration of the interest rate swaps described below, and excluding debt of MNI. Such interest rates may also decrease.

In April 2005, the Company executed interest rate swaps in the notional amount of \$350,000,000 with a forward starting date of November 30, 2005. The interest rate swaps have terms of two to five years, carry interest rates from 4.2% 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.

At June 30, 2006, after consideration of the interest rate swaps described above, approximately 59% of the principal amount of the Company's debt is subject to floating interest rates.

## **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 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. A \$10 per metric ton newsprint price increase would result in an annualized reduction in income before income taxes of approximately \$1,931,000 based on anticipated consumption in 2006, excluding consumption of MNI and TNI. Such prices may also decrease.

## **SENSITIVITY TO CHANGES IN VALUE**

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The estimate that follows is intended 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 calculation is not intended to represent the actual loss in fair value that the Company expects to incur. The

estimate does not consider favorable changes in market rates. The position included in the calculation is fixed rate debt, the principal amount of which totals \$306,000,000 at June 30, 2006.

The estimated maximum potential one-year loss in fair value from a 100 basis point movement in interest rates on market risk sensitive investment instruments outstanding at June 30, 2006 is approximately \$8,159,000. There is no impact on reported results or financial condition from such changes in interest rates.

Changes in the fair value of interest rate swaps 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 30, 2006, and have concluded that such controls and procedures are effective.

In June 2005, the Company completed the Pulitzer Merger, and the Company's assessment of internal control over financial reporting as of September 30, 2005 did not include Pulitzer. Nonetheless, the Company has generally maintained disclosure controls and procedures that were in effect prior to the Merger. Subsequent to the Merger, however, the Company's internal control over financial reporting, including the financial closing and reporting process used in the preparation of the Company's Consolidated Financial Statements, was extended to include Pulitzer. The Company is not required to complete, and has not completed, its testing of the design and operating effectiveness of internal control over financial reporting of Pulitzer. Management expects to complete its testing of Pulitzer by September 30, 2006, which will be included in the Company's annual assessment of internal control over financial reporting as of September 30, 2006.

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 three months ended June 30, 2006.

**PART II OTHER INFORMATION**

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

During the three months ended June 30, 2006, the Company did not purchase shares of Common Stock.

**Item 6. Exhibits**

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

**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.

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/s/ Carl G. Schmidt  
Carl G. Schmidt

DATE: August 9, 2006

Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)