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LEE ENTERPRISES, INC  
Form 10-Q  
February 03, 2012

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 December 25, 2011

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of December 25, 2011, 44,957,601 shares of Common Stock of the Registrant were outstanding.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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FINANCIAL INFORMATION

## Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (Thousands of Dollars)          | December 25<br>2011 | September 25<br>2011 |
|---------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                   |                     |                      |
| Current assets:                 |                     |                      |
| Cash and cash equivalents       | 31,428              | 23,555               |
| Accounts receivable, net        | 83,953              | 71,024               |
| Income taxes receivable         | —                   | 1,335                |
| Inventories                     | 7,922               | 7,388                |
| Deferred income taxes           | 967                 | 967                  |
| Other                           | 30,975              | 19,553               |
| Total current assets            | 155,245             | 123,822              |
| Investments:                    |                     |                      |
| Associated companies            | 43,401              | 44,057               |
| Restricted cash and investments | —                   | 4,972                |
| Other                           | 9,319               | 9,199                |
| Total investments               | 52,720              | 58,228               |
| Property and equipment:         |                     |                      |
| Land and improvements           | 27,017              | 27,017               |
| Buildings and improvements      | 191,399             | 191,250              |
| Equipment                       | 310,222             | 317,126              |
| Construction in process         | 4,230               | 2,852                |
|                                 | 532,868             | 538,245              |
| Less accumulated depreciation   | 325,162             | 326,205              |
| Property and equipment, net     | 207,706             | 212,040              |
| Goodwill                        | 247,271             | 247,271              |
| Other intangible assets, net    | 484,585             | 495,509              |
| Postretirement assets, net      | 15,423              | 14,934               |
| Other                           | 4,458               | 6,444                |
| <br>                            |                     |                      |
| Total assets                    | 1,167,408           | 1,158,248            |

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



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| (Thousands of Dollars and Shares, Except Per Share Data)                             | December 25<br>2011 | September 25<br>2011 |   |
|--|---------------------|----------------------|---|
| <b>LIABILITIES AND EQUITY</b>  |                     |                      |   |
| Current liabilities:   |                     |                      |   |
| Current maturities of long-term debt   | —                   | 994,550              |   |
| Accounts payable   | 31,335              | 27,740               |   |
| Compensation and other accrued liabilities   | 29,375              | 35,437               |   |
| Income taxes payable   | 5,672               | —                    |   |
| Unearned revenue   | 37,636              | 36,512               |   |
| Total current liabilities  | 104,018             | 1,094,239            |   |
| Long-term debt, net of current maturities  | —                   | —                    |   |
| Pension obligations  | 72,703              | 73,518               |   |
| Postretirement and postemployment benefit obligations                                | 6,306               | 6,104                |   |
| Deferred income taxes  | 67,516              | 66,204               |   |
| Income taxes payable   | 8,853               | 8,588                |   |
| Other  | 10,100              | 10,489               |   |
| Total liabilities not subject to compromise  | 269,496             | 1,259,142            |   |
| Liabilities subject to compromise  | 983,781             | —                    |   |
| Equity (deficit):  |                     |                      |   |
| Stockholders' equity (deficit):  |                     |                      |   |
| Serial convertible preferred stock, no par value; authorized 500 shares; none issued | —                   | —                    |   |
| Common Stock, \$2 par value; authorized 120,000 shares; issued and outstanding:      | 89,915              | 89,915               |   |
| December 25, 2011; 44,958 shares;  |                     |                      |   |
| September 25, 2011 44,958 shares   |                     |                      |   |
| Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued           | —                   | —                    |   |
| Additional paid-in capital   | 141,133             | 140,887              |   |
| Accumulated deficit  | (311,505)           | (326,062)            | ) |
| Accumulated other comprehensive income   | (5,934)             | (6,086)              | ) |
| Total stockholders' deficit  | (86,391)            | (101,346)            | ) |
| Non-controlling interests  | 522                 | 452                  |   |
| Total deficit  | (85,869)            | (100,894)            | ) |
| Total liabilities and deficit  | 1,167,408           | 1,158,248            |   |

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





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

| (Thousands of Dollars, Except Per Common Share Data) | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 25<br>2011 | December 26<br>2010 |
| Operating revenue:                                   |                     |                     |
| Advertising  | 142,501             | 151,766             |
| Circulation  | 46,697              | 45,478              |
| Other  | 10,363              | 10,424              |
| Total operating revenue                              | 199,561             | 207,668             |
| Operating expenses:                                  |                     |                     |
| Compensation   | 73,577              | 78,020              |
| Newsprint and ink                                    | 14,861              | 15,674              |
| Other operating expenses                             | 57,243              | 59,669              |
| Depreciation   | 6,235               | 6,523               |
| Amortization of intangible assets                    | 10,924              | 11,283              |
| Workforce adjustments                                | 337                 | 192                 |
| Total operating expenses                             | 163,177             | 171,361             |
| Curtailement gain                                    | —                   | 10,172              |
| Equity in earnings of associated companies           | 2,812               | 2,705               |
| Operating income                                     | 39,196              | 49,184              |
| Non-operating income (expense):                      |                     |                     |
| Financial income                                     | 55                  | 59                  |
| Financial expense                                    | (12,752)            | (13,437)            |
| Debt financing costs                                 | (2,024)             | (1,966)             |
| Other, net   | —                   | (453)               |
| Total non-operating expense, net                     | (14,721)            | (15,797)            |
| Income before reorganization costs and income taxes  | 24,475              | 33,387              |
| Reorganization costs                                 | 1,241               | —                   |
| Income before income taxes                           | 23,234              | 33,387              |
| Income tax expense                                   | 8,610               | 14,407              |
| Net income   | 14,624              | 18,980              |
| Net income attributable to non-controlling interests | (70)                | (35)                |
| Income attributable to Lee Enterprises, Incorporated | 14,554              | 18,945              |
| Other comprehensive income, net                      | 152                 | 5,485               |
| Comprehensive income                                 | 14,706              | 24,430              |
| Earnings per common share:                           |                     |                     |
| Basic  | 0.32                | 0.42                |
| Diluted  | 0.32                | 0.42                |

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

| (Thousands of Dollars)  | 13 Weeks Ended      |                     |
|---|---------------------|---------------------|
|   | December 25<br>2011 | December 26<br>2010 |
| Cash provided by (required for) operating activities:                             |                     |                     |
| Net income  | 14,624              | 18,980              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 17,159              | 17,806              |
| Curtailement gain   | —                   | (10,172)            |
| Accretion of debt fair value adjustment   | (124)               | (136)               |
| Stock compensation expense  | 248                 | 518                 |
| Distributions greater (less) than current earnings of MNI                         | 70                  | (436)               |
| Deferred income tax expense   | 1,206               | 5,968               |
| Debt financing and reorganization costs   | 3,265               | 1,966               |
| Changes in operating assets and liabilities:                                      |                     |                     |
| Increase in receivables   | (12,929)            | (11,695)            |
| Decrease (increase) in inventories and other                                      | 1,556               | (207)               |
| Decrease in accounts payable, accrued expenses and unearned revenue               | (7,343)             | (7,318)             |
| Increase (decrease) in pension, postretirement and post employment benefits       | (844)               | 1,614               |
| Change in income taxes receivable or payable                                      | 7,272               | 6,645               |
| Other, net  | (509)               | 119                 |
| Net cash provided by operating activities   | 23,651              | 23,652              |
| Cash provided by (required for) investing activities:                             |                     |                     |
| Purchases of property and equipment   | (1,879)             | (1,105)             |
| Decrease in restricted cash   | 4,972               | 4,500               |
| Proceeds from sales of assets   | 1,324               | 452                 |
| Distributions greater than current earnings of TNI                                | 586                 | 68                  |
| Net cash provided by investing activities   | 5,003               | 3,915               |
| Cash provided by (required for) financing activities:                             |                     |                     |
| Proceeds from long-term debt  | 21,180              | 9,000               |
| Payments on long-term debt  | (31,825)            | (38,650)            |
| Debt financing and reorganization costs paid                                      | (10,136)            | (94)                |
| Common stock transactions, net  | —                   | (238)               |
| Net cash required for financing activities  | (20,781)            | (29,982)            |
| Net increase (decrease) in cash and cash equivalents                              | 7,873               | (2,415)             |
| Cash and cash equivalents:  |                     |                     |
| Beginning of period   | 23,555              | 19,422              |
| End of period   | 31,428              | 17,007              |

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 December 25, 2011 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2011 Annual Report on Form 10-K and amended 2011 Annual Report on Form 10-K/A.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 25, 2011 are not necessarily indicative of the results to be expected for the full year.

References to "we", "our", "us" and the like throughout the Consolidated Financial Statements refer to the Company. References to "2012", "2011" and the like refer to the fiscal years ended the last Sunday in September.

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

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

On January 23, 2012, the Bankruptcy Court approved our Plan of Reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from Chapter 11. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. See Note 4.

2 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

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

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



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Summarized results of TNI are as follows:

| (Thousands of Dollars)   | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 25<br>2011 | December 26<br>2010 |
| Operating revenue  | 16,522              | 17,232              |
| Operating expenses, excluding workforce adjustments, depreciation and amortization | 13,062              | 13,454              |
| Workforce adjustments  | (64                 | ) 232               |
| Operating income   | 3,524               | 3,546               |
| Company's 50% share of operating income  | 1,762               | 1,773               |
| Less amortization of intangible assets   | 180                 | 304                 |
| Equity in earnings of TNI  | 1,582               | 1,469               |

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Income and Comprehensive Income. These amounts totaled \$(105,000) and \$127,000 in the 13 weeks ended December 25, 2011 and December 26, 2010, respectively.

Our impairment analysis resulted in pretax reductions in the carrying value of TNI totaling \$11,900,000 in 2011. See Note 3.

Annual amortization of intangible assets is estimated to be \$723,000 in the 53 week period ending December 2012, \$544,000 in the 52 week period ending December 2013 and \$418,000 in each of the 52 week periods ending December 2014, December 2015 and December 2016.

Madison Newspapers, Inc.

We have a 50% ownership interest in MNI, which publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and operates their related digital platforms. Net income or loss of MNI (after income taxes) is allocated equally to us and The Capital Times Company ("TCT"). MNI conducts its business under the trade name Capital Newspapers.

Summarized results of MNI are as follows:

| (Thousands of Dollars)   | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 25<br>2011 | December 26<br>2010 |
| Operating revenue  | 19,457              | 20,200              |
| Operating expenses, excluding workforce adjustments, depreciation and amortization | 15,094              | 15,685              |
| Workforce adjustments  | 26                  | 16                  |
| Depreciation and amortization  | 424                 | 515                 |
| Operating income   | 3,913               | 3,984               |
| Net income   | 2,460               | 2,472               |
| Equity in earnings of MNI  | 1,230               | 1,236               |



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## 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

| (Thousands of Dollars)        | 13 Weeks Ended<br>December 25<br>2011 |
|-------------------------------|---------------------------------------|
| Goodwill, gross amount        | 1,536,000                             |
| Accumulated impairment losses | 1,288,729                             |
| Goodwill, beginning of period | 247,271                               |
| Goodwill, end of period       | 247,271                               |

Identified intangible assets consist of the following:

| (Thousands of Dollars)                  | December 25<br>2011 | September 25<br>2011 |
|---|---------------------|----------------------|
| Nonamortized intangible assets:         |                     |                      |
| Mastheads                               | 30,795              | 30,795               |
| Amortizable intangible assets:          |                     |                      |
| Customer and newspaper subscriber lists | 881,164             | 881,164              |
| Less accumulated amortization           | 427,379             | 416,457              |
|   | 453,785             | 464,707              |
| Noncompete and consulting agreements    | 28,524              | 28,524               |
| Less accumulated amortization           | 28,519              | 28,517               |
|   | 5                   | 7                    |
|   | 484,585             | 495,509              |

In assessing the recoverability of goodwill and other nonamortized intangible assets, we make a determination of the fair value of our business. Fair value is determined using a combination of an income approach, which estimates fair value based upon future revenue, expenses and cash flows discounted to their present value, and a market approach, which estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the publishing industry. A non-cash impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.

The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by us. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

We analyze goodwill and other nonamortized intangible assets for impairment on an annual basis, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate and operating or cash flow losses related to such assets.

We review our amortizable intangible assets for impairment when indicators of impairment are present. We assess recoverability of these assets by comparing the estimated undiscounted cash flows associated with the asset or asset group with their carrying amount. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

Due primarily to the difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets in 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analysis. We concluded the fair value of our business did not exceed the carrying value of our net assets.

As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill, nonamortized and

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amortizable intangible assets in 2011. Additional pretax, non-cash charges were recorded to reduce the carrying value of TNI in 2011. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment in 2011. We recorded deferred income tax benefits related to these charges.

A summary of impairment charges is included in the table below:

| (Thousands of Dollars)         | 13 Weeks Ended  |                      | Total    |
|--------------------------------|-----------------|----------------------|----------|
|                                | June 26<br>2011 | September 25<br>2011 |          |
| Goodwill                       | 174,125         | 12,156               | 186,281  |
| Nonamortized intangible assets | 13,200          | 759                  | 13,959   |
| Amortizable intangible assets  | —               | 4,199                | 4,199    |
| Property and equipment         | —               | 700                  | 700      |
|                                | 187,325         | 17,814               | 205,139  |
| Investment in TNI              | 12,000          | (100)                | ) 11,900 |
|                                | 199,325         | 17,714               | 217,039  |

Future decreases in our market value, or significant differences in revenue, expenses or cash flows from estimates used to determine fair value, could result in additional impairment charges in the future.

We also periodically evaluate our determination of the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact our cash flows. However, a decrease in the useful lives of such intangible assets would increase future amortization expense and decrease future reported operating results and earnings per common share.

Annual amortization of intangible assets for the 53 week period ending December 2012 and for each of the 52 week periods ending December 2013, December 2014, December 2015 and December 2016 is estimated to be \$41,074,000, \$38,666,000, \$38,527,000, \$37,851,000 and \$36,646,000, respectively.

## 4DEBT

## Credit Agreement

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

## Security

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

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

#### Interest Payments

Debt under the A Term Loan, which has a balance of \$548,155,000 at December 25, 2011, and the \$375,000,000 revolving credit facility, which has a balance of \$307,605,000 at December 25, 2011, bear interest, at our option,

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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 (a) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (b) 0.5% in excess of the overnight federal funds rate at such time; or (c) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: for revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon our total leverage ratio at such time.

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowing for one month, three month and six month periods, respectively, are also in effect. At December 25, 2011, all of our outstanding debt under the Credit Agreement is based on one month borrowing. At the December 25, 2011 leverage level, our debt under the Credit Agreement is priced at 1.25%, plus a LIBOR margin of 3.0%.

## Principal Payments

We 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. We are required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total mandatory A Term Loan payments in the 13 weeks ended December 25, 2011 were \$20,000,000. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan.

In addition to the scheduled payments, we are required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires us to apply the net proceeds from asset sales to repayment of the A Term Loan. We made \$1,180,000 of payments related to this provision in the 13 weeks ended December 25, 2011.

The Credit Agreement also requires us to accelerate future payments under the A Term Loan in the amount of 75% of our annual excess cash flow, as defined. The acceleration of such payments due to future asset sales or excess cash flow does not change the due dates of other A Term Loan payments prior to the April 2012 maturity.

## Covenants and Other Matters

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At December 25, 2011, these covenants were suspended in conjunction with our voluntary, prepackaged Chapter 11 filing. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals \$983,615,000 at December 25, 2011, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI and curtailment gains. The Credit Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the same measure of trailing 12 month operating results noted above.

The 2009 Amendments require us to suspend stockholder dividends and share repurchases through April 2012. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 2009 Amendments modify other covenants, including restricting our ability to make additional investments and acquisitions without the consent of the Lenders, limiting additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Credit Parties may hold to a maximum of \$10,000,000 for a five day period. Such covenants require that substantially all of our future cash flows are required to be directed toward debt reduction. Finally, the 2009 Amendments eliminated an unused incremental term loan facility.

Pulitzer Notes

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

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the "Notes Amendment"). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28,

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2008. The remaining debt balance of \$186,000,000, of which \$127,855,000 remains outstanding at December 25, 2011, was refinanced by the Noteholders until April 2012.

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

The Notes Amendment increased the rate paid on the outstanding principal balance to 9.05% until April 28, 2010, at which time it increased to 9.55%. Effective April 28, 2011, the interest rate increased to 10.05%.

Pulitzer may voluntarily prepay principal amounts outstanding or reduce commitments under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice and consent from the Noteholders and the Lenders, and subject to certain limitations as to minimum amounts of prepayments. The Notes Amendment provides for mandatory scheduled prepayments, including quarterly principal payments of \$4,000,000 beginning on June 29, 2009 and an additional principal payment from restricted cash of \$4,500,000 in October 2010. In 2011, 2010 and 2009, all quarterly payments due were made prior to the end of the previous fiscal quarter.

In addition to the scheduled payments, we are required to make mandatory prepayments under the Pulitzer Notes under certain other conditions. The Notes Amendment requires us to apply the net proceeds from asset sales to repayment of the Pulitzer Notes. In the 13 weeks ended December 25, 2011, we made no payment related to this provision. In January 2011, a payment of \$1,000,000 was made related to this provision.

The Notes Amendment established a reserve of restricted cash of up to \$9,000,000 (which was reduced to \$4,500,000 in October 2010 and eliminated in December 2011) to facilitate the liquidity of the operations of Pulitzer. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the maximum ratio of debt to EBITDA (limit of 3.0:1 at December 25, 2011), as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage (limit of 3.0:1 at December 25, 2011), as defined. At December 25, 2011, these covenants were suspended in conjunction with our voluntary, prepackaged Chapter 11 filing. A separate covenant related to trailing 12 month operating results was instituted as of December 25, 2011. We are in compliance with such covenant.

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

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

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which was recorded as debt in the Consolidated Balance Sheets. At December 25, 2011, the unaccreted balance totals \$166,000. This amount is being accreted over the remaining life of the Pulitzer Notes, until

April 2012, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due, or reduce the amount of interest to be paid, to the Noteholders.

Other

In 2009, we paid fees to the Lenders and Noteholders for the 2009 Amendments and Notes Amendment which, along with the related legal and financial advisory expenses, totaled \$26,061,000. \$15,500,000 of the fees were capitalized and are being expensed over the remaining term of the Credit Agreement and Pulitzer Notes, until April 2012. At December 25, 2011, we have total unamortized financing costs of \$2,527,000.

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Debt is summarized as follows:

| (Thousands of Dollars)            | December 25<br>2011 | September 25<br>2011 | Interest Rates<br>December 25<br>2011 |
|-----------------------------------|---------------------|----------------------|---------------------------------------|
| Credit Agreement:                 |                     |                      |                                       |
| A Term Loan                       | 548,155             | 569,335              | 4.25                                  |
| Revolving credit facility         | 307,605             | 286,425              | 4.25                                  |
| Pulitzer Notes:                   |                     |                      |                                       |
| Principal amount                  | 127,855             | 138,500              | 10.05                                 |
| Unaccreted fair value adjustment  | 166                 | 290                  |                                       |
|                                   | 983,781             | 994,550              |                                       |
| Less current maturities           | —                   | 994,550              |                                       |
| Liabilities subject to compromise | 983,781             | —                    |                                       |

At December 25, 2011, our weighted average cost of debt was 5.0%.

#### Status of Debt Refinancing and Liquidity

In April 2011, we announced a plan to offer to qualified institutional buyers, subject to market conditions, \$680,000,000 of first priority lien senior secured notes due in 2017, \$375,000,000 of second priority lien senior secured notes due in 2018 and up to 8,928,175 shares of Common Stock. The proceeds from the offerings, net of offering costs, would have been used to refinance the Credit Agreement and Pulitzer Notes. As a result of market conditions, we terminated the offering process in May 2011 and charged \$5,120,000 of related debt financing costs to expense in 2011.

In September 2011, we announced a plan to amend our current Credit Agreement and extend the April 2012 maturity in a structure of first and second lien debt. The first lien debt consists of a term loan of \$689,510,000, along with a \$40,000,000 revolving credit facility that was not drawn at closing. The second lien debt is a \$175,000,000 term loan.

The first lien term loan bears interest at LIBOR plus 6.25%, with a LIBOR floor of 1.25%. Principal payments for the first lien term loan are required quarterly beginning in June 2012 and total \$5,000,000 in 2012, \$11,000,000 in 2013, \$12,750,000 in 2014 and \$13,500,000 in 2015. A quarterly cash flow sweep will also be used to reduce first lien debt. Covenants include a minimum interest coverage ratio, maximum total leverage ratio and capital expenditure limitation. The maturity is in December 2015.

Interest on the revolving credit facility, when used, is at LIBOR plus 5.5%, with a LIBOR floor of 1.25%. The revolving credit facility also supports issuance of letters of credit. The maturity is in December 2015. The revolving credit facility replaces our \$40,000,000 debtor-in-possession facility.

The second lien term loan bears interest at 15.0% and matures in April 2017. It requires no amortization, except in March 2017 if required for income tax purposes, and has no affirmative financial covenants. Lenders under the second lien term loan shared in the issuance of 6,743,640 shares of our Common Stock, an amount equal to 13% of outstanding shares on a pro forma basis as of the Effective Date.

As a condition to the refinancing of the Credit Agreement, we were expected to refinance the remaining \$138,000,000 of our current Pulitzer Notes debt with a separate \$175,000,000 loan to be arranged in the leveraged loan or high yield markets. Subsequent credit market conditions did not allow for that debt to be refinanced on acceptable terms, and as a result, we chose to amend the Pulitzer Notes and extend the maturity with the existing Noteholders.

Under the agreement with the Noteholders, which was announced in December 2011, the amended Pulitzer Notes carry an interest rate of 10.55%, increasing 0.75% in January 2013 and January of each year thereafter. Annual mandatory principal payments total \$1,400,000 in 2012 and \$6,400,000 per year thereafter. A quarterly cash flow sweep will also be used to reduce the balance of the Pulitzer Notes. Covenants include a minimum EBITDA ratio

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and capital expenditure limitation. After consideration of unscheduled principal payments totaling \$15,145,000 (of which \$10,145,000 were made in December 2011 and \$5,000,000 in January 2012), offset by \$3,500,000 of non-cash fees paid to the Noteholders in the form of additional Pulitzer Notes debt, the amended Pulitzer Notes have a balance of \$126,355,000 on the Effective Date. The maturity is in December 2015.

Substantially all of our assets secure the debt. Our weighted average cost of debt will increase from 5.0% at December 25, 2011 to approximately 9.2% under the refinanced agreements. Cash payments to the Lenders, Noteholders and legal and professional fees are expected to total approximately \$38,000,000, of which \$6,273,000 was paid in 2011, \$721,000 was charged to expense in 2011 and the remainder of which will be paid and charged to expense in 2012. In addition, previously capitalized financing costs of \$2,527,000 at December 25, 2011 were charged to expense in 2012 prior to, or upon consummation of the transactions. The terms of the amended agreements prohibit stockholder dividends and substantially all share repurchases and require that substantially all future cash flows be directed toward repayment of the Credit Agreement or Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

The Credit Agreement and Pulitzer Notes required 100% Lender or Noteholder approval, respectively, for key changes, including extension of maturities. Because credit market conditions dictated the need to extend the Pulitzer Notes with current Noteholders, we were not able to increase the Pulitzer Notes facility to \$175,000,000 as discussed above. Consequently, we were unable to redeem the interests of the last 3% of non-consenting Lenders under the Credit Agreement for cash.

As a result, we made use of a voluntary, prepackaged filing under Chapter 11 of the U.S. Bankruptcy Code filed on December 12, 2011 to effect the amendments to the Credit Agreement and Pulitzer Notes discussed above. This process did not have an adverse effect on our governance or operations. Immediately upon filing, we requested authority to pay all suppliers and other vendors without delay, which request was approved. All our digital and print products were published as usual and no employees were impacted. Our 50% owned equity interests in Tucson, AZ and Madison, WI were not included in the filing. Lender and Noteholder balloting related to the Chapter 11 process was completed before December 12, 2011 and no objections were filed.

We received confirmation of the plan of reorganization on January 23, 2012 and completed the restructuring process on January 30, 2012.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, as refinanced as of January 30, 2012, if an event of default, as defined, occurs and is not remedied. Many of those consequences are beyond our control, and the control of Pulitzer and PD LLC, respectively. The occurrence of one or more events of default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 25, 2011.

In 2010, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has been declared effective. The Shelf gives us 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 \$750,000,000. In July 2011, the SEC announced changes to the issuer eligibility rules which will require us to have a public float of at least

\$75,000,000 in order to use the Shelf. If the market price of our Common Stock increases sufficiently, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities must be used generally to reduce debt subject to conditions of existing debt agreements.

#### 5 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT DEFINED BENEFIT PLANS

We have several noncontributory defined benefit pension plans that together cover selected employees. Benefits under the plans were generally based on salary and years of service. Effective in 2012 all benefits are frozen and no additional benefits are being accrued. Our liability and related expense for benefits under the plans are recorded



net periodic pension expenses by \$188,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by \$592,000.

In March 2011, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in a non-cash curtailment gain of \$1,991,000 which was recognized in the 13 weeks ended

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March 27, 2011 and reduced the benefit obligation liability at March 27, 2011 by \$3,030,000.

In November 2010, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in a non-cash curtailment gain of \$10,172,000 which was recognized in the 13 weeks ended December 26, 2010, reduced 2011 net periodic postretirement medical cost by \$769,000 beginning in the 13 weeks ended December 26, 2010, and reduced the benefit obligation liability at December 26, 2010 by \$15,065,000.

## 6 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 we operate. Such annualization of effective tax rates can cause distortion in quarterly tax rates.

Income tax expense differs from the amounts computed by applying the U.S. federal income tax rate to income before income taxes. The reasons for these differences are as follows:

| (Percent of Income Before Income Taxes)        | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 25<br>2011 | December 26<br>2010 |
| Computed "expected" income tax expense         | 35.0                | 35.0                |
| State income taxes, net of federal tax benefit | 3.2                 | 3.0                 |
| Restricted Common Stock                        | —                   | 4.2                 |
| Valuation allowance                            | 2.0                 | —                   |
| Resolution of tax matters                      | 1.5                 | 1.0                 |
| Other  | (4.6)               | )—                  |
|  | 37.1                | 43.2                |

## 7 EARNINGS PER COMMON SHARE

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

| (Thousands of Dollars and Shares, Except Per Share Data) | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 25<br>2011 | December 26<br>2010 |
| Income attributable to Lee Enterprises, Incorporated:    | 14,554              | 18,945              |
| Weighted average common shares                           | 44,958              | 44,939              |
| Less non-vested restricted Common Stock                  | —                   | 259                 |
| Basic average common shares                              | 44,958              | 44,680              |
| Dilutive stock options and restricted Common Stock       | —                   | —                   |
| Diluted average common shares                            | 44,958              | 44,680              |
| Earnings per common share:                               |                     |                     |
| Basic  | 0.32                | 0.42                |
| Diluted  | 0.32                | 0.42                |

For the 13 weeks ended December 25, 2011 and December 26, 2010, we have 1,798,000 and 2,027,000 weighted average shares, respectively, subject to issuance under our stock option plan that have no intrinsic value and are not

considered in the computation of diluted earnings per common share.

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## 8 STOCK OWNERSHIP PLANS

## Stock Options

A summary of stock option activity during the 13 weeks ended December 25, 2011 follows:

| (Thousands of Dollars and Shares, Except Per Share Data) | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|--|--------|---------------------------------|---|---------------------------|
| Outstanding, September 25, 2011                          | 1,812  | 5.06                            |   |                           |
| Cancelled  | (41)   | 10.72                           |   |                           |
| Outstanding, December 25, 2011                           | 1,771  | 4.92                            | 7.9   | —                         |
| Exercisable, December 25, 2011                           | 823    | 7.78                            | 7.3   | —                         |

Total unrecognized compensation expense for unvested stock options as of December 25, 2011 is \$1,508,000, which will be recognized over a weighted average period of 1.4 years.

## 9 FAIR VALUE MEASUREMENTS

FASB ASC Topic 820 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable which consists of the following levels:

Level 1 - Quoted prices for identical instruments in active markets;

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

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling \$8,155,000, including our 17% ownership of the nonvoting common stock of TCT, are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. Our fixed rate debt consists of the \$127,855,000 principal amount of Pulitzer Notes, as discussed more fully in Note 4, which is not traded on an active market and is held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists, we are unable, as of December 25, 2011, to determine the fair value of such debt. The value, if determined, may be less than the carrying amount. The determination of the amount of the Herald Value is based on an estimate of fair value using both market and income-based approaches.

The following table summarizes the financial instruments measured at fair value in the accompanying Consolidated Financial Statements:

| (Thousands of Dollars) | December 25<br>2011 | September 25<br>2011 |
|------------------------|---------------------|----------------------|
|------------------------|---------------------|----------------------|

Level 3 - Herald Value - liability

300

300

In 2011, we reduced the Herald Value by \$2,000,000 to \$300,000 based on the most recent estimate of fair value. There were no other realized or unrealized gains or losses, purchases, sales, or transfers related to the Herald Value in the 13 weeks ended December 25, 2011.

In 2011, we reduced the carrying value of equipment no longer in use by \$700,000, based on estimates of the related fair value in the current market. Based on age, condition and marketability we estimated the equipment had no value.

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10 COMMITMENTS AND CONTINGENT LIABILITIES

Redemption of PD LLC Minority Interest

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and STL Distribution Services LLC ("DS LLC") owned by The Herald Publishing Company, LLC ("Herald") pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest (the "Herald Value") will be settled, at a date determined by Herald between April 2013 and April 2015, based on a calculation of 10% of the fair market value of PD LLC and DS LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any. We recorded a liability of \$2,300,000 in 2009 as an estimate of the amount of the Herald Value to be disbursed. In 2011, we reduced the liability related to the Herald Value to \$300,000 based on the current estimate of fair value. The actual amount of the Herald Value will depend on such variables as future cash flows and indebtedness of PD LLC and DS LLC, market valuations of newspaper properties and the timing of the request for redemption. Cash settlement of the Herald Value is limited by the terms of the Credit Agreement.

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

Income Taxes

We file income tax returns with the IRS and various state tax jurisdictions. From time to time, we are subject to routine audits by those agencies, and those audits may result in proposed adjustments. We have considered the alternative interpretations that may be assumed by the various taxing agencies, believe our positions taken regarding our 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. We do not believe the final resolution of such matters will be material to our consolidated financial position or cash flows.

We have various income tax examinations ongoing which are at different stages of completion, but generally our income tax returns have been audited or closed to audit through 2007.

Legal Proceedings

In 2008, a group of newspaper carriers filed suit against us in the United States District Court for the Southern District of California, claiming to be our employees and not independent contractors. The plaintiffs seek relief related to alleged violations of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. After concluding discovery, we filed a motion to reverse the class certification ruling. This motion is currently pending before the trial court. The Company denies the allegations of employee status, consistent with our past practices and industry standards, and will continue to vigorously contest the action, which is not covered by insurance. At this time we are unable to predict whether the ultimate economic outcome, if any, could have a material effect on our Consolidated Financial Statements, taken as a whole.

We are involved in a variety of other legal actions that arise in the normal course of business. Insurance coverage mitigates potential loss for certain of these other matters. While we are unable to predict the ultimate outcome of these

other legal actions, it is our opinion that the disposition of these matters will not have a material adverse effect on our Consolidated Financial Statements, taken as a whole.

#### 11 COMMON STOCK

Under our Plan of Reorganization, the par value of our Common Stock was changed from \$2.00 per share to \$0.01 per share effective January 30, 2012.

Effective January 30, 2012, 6,743,640 shares of Common Stock were issued to lenders under our second lien term loan, amounting to approximately 13% of outstanding shares on a pro forma basis.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks ended December 25, 2011. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, 2011 Annual Report on Form 10-K and amended 2011 Annual Report on Form 10-K/A.

## NON-GAAP FINANCIAL MEASURES

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

## Operating Cash Flow and Operating Cash Flow Margin

Operating cash flow, which is defined as operating income before depreciation, amortization, curtailment gains 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. We believe these measures provide meaningful supplemental information because of their focus on results from operations excluding such non-cash factors.

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

| (Thousands of Dollars)                     | 13 Weeks Ended      |                       |                     |                       |
|--|---------------------|-----------------------|---------------------|-----------------------|
|  | December 25<br>2011 | Percent of<br>Revenue | December 26<br>2010 | Percent of<br>Revenue |
| Operating cash flow                        | 53,543              | 26.8                  | 54,113              | 26.1                  |
| Depreciation and amortization              | (17,159)            | (8.6)                 | (17,806)            | (8.6)                 |
| Curtailment gain                           | —                   | —                     | 10,172              | 4.9                   |
| Equity in earnings of associated companies | 2,812               | 1.4                   | 2,705               | 1.3                   |
| Operating income                           | 39,196              | 19.6                  | 49,184              | 23.7                  |

## Adjusted Net Income and Adjusted Earnings Per Common Share

Adjusted net income and adjusted earnings per common share, which are defined as income attributable to Lee Enterprises, Incorporated and earnings per common share adjusted to exclude both unusual matters and those of a substantially non-recurring nature, are non-GAAP financial measures that are used in the analysis below. We believe these measures provide meaningful supplemental information by identifying matters that are not indicative of core business operating results or are of a substantially non-recurring nature.

Reconciliations of adjusted net income and adjusted earnings per common share to income attributable to Lee Enterprises, Incorporated and earnings per common share, respectively, the most directly comparable measures under GAAP, are set forth below under the caption "Overall Results".

## SAME PROPERTY COMPARISONS

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

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CRITICAL ACCOUNTING POLICIES

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

Our critical accounting policies include the following:

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

Additional information regarding these critical accounting policies can be found under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2011 Annual Report on Form 10-K and the Notes to Consolidated Financial Statements, included herein.

EXECUTIVE OVERVIEW

We are a leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. Our 52 markets, across 23 states, are principally midsize or small. Through our print and digital platforms, we reach an overwhelming majority of adults in our markets.

Our platforms include:

• 52 daily and 39 Sunday newspapers with average total circulation of 1.3 million and 1.7 million, respectively, for the 13 weeks ended December 25, 2011, read by nearly 4 million people in print;

• Websites that complement our newspapers which attracted almost 22 million unique visitors in the month of December 2011, a 10.4% increase from December 2010, with over 202 million page views;

• Mobile sites in all of our markets that attracted over 28 million views in December 2011, a 179% increase from December 2010;

• Smartphone applications in all markets;

• Tablet applications in operation and in development; and

• Nearly 300 weekly newspapers and classified and niche publications.

Our markets have established retail bases, and most are regional shopping hubs. We are located in four state capitals. Six of our top ten markets by revenue include major universities, and seven are home to major corporate headquarters.

Based on data from the Bureau of Labor of Statistics as of November 2011, the unemployment rate in eight of our top ten markets by revenue was lower than the national average. We believe that all of these factors have had a positive impact on advertising revenue.

Unlike many other newspaper publishers, we do not face significant competition from other local daily newspapers in most of our markets, although there is significant competition for readers and viewers in those markets from other media. In our top ten markets by revenue, only two have significant local daily print competition. In the balance of our

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markets, we have little or no local daily print competition.

### ECONOMIC CONDITIONS

According to the National Bureau of Economic Research, the United States economy was in a recession from December 2007 until June 2009. It is widely believed that certain elements of the economy, such as housing, auto sales and employment, were in decline before December 2007, and have still not recovered to pre-recession levels. Revenue, operating results and cash flows from 2008-2011 were significantly impacted by the recession and its aftermath. The duration and depth of an economic recession, and pace of economic recovery, in markets in which we operate may influence our future results.

### IMPAIRMENT OF GOODWILL AND OTHER ASSETS

Due primarily to the difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets in 2008, 2009 and 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analyses. We concluded the fair value of our business did not exceed the carrying value of our net assets.

As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill, nonamortized and amortizable intangible assets in 2008, 2009, and 2011. Additional pretax, non-cash charges were recorded to reduce the carrying value of TNI. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment in 2008, 2009, 2010 and 2011. We recorded deferred income tax benefits related to these charges.

### DEBT AND LIQUIDITY

We have a substantial amount of debt, as discussed more fully (and certain capitalized terms used below defined) in Item 2, "Status of Debt Refinancing and Liquidity" and Note 4 of the Notes to Consolidated Financial Statements, included herein. In February 2009, we completed a comprehensive restructuring of our Credit Agreement and a refinancing of our Pulitzer Notes debt, substantially enhancing our liquidity and operating flexibility. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows.

Substantially all of our debt was scheduled to mature in April 2012. We used a voluntary, prepackaged filing under Chapter 11 of the U.S. Bankruptcy Code to accomplish a comprehensive refinancing that extends the maturity to December 2015 or April 2017. Interest expense will increase as a result of the refinancing and mandatory principal payments will be reduced. Our ability to make payments on our indebtedness will depend on our ability to generate future cash flows. This ability, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 25, 2011.

### EQUITY CAPITAL

As of July 1, 2011, our Common Stock traded at an average 30-day closing market price of less than \$1 per share. Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization, our Common Stock could be removed from the NYSE and traded in the over the counter market. In July 2011, the NYSE first notified us that our Common Stock did not meet the NYSE continued listing standards due

to the failure to maintain an adequate share price. Under the NYSE rules related to the average share price, Lee Common Stock is allowed to continue to be listed during a cure period. Continued listing is subject to ongoing reassessment by the NYSE and the return to compliance with all quantitative listing requirements, which would require an increase in the average closing price to \$1 per share. We are currently operating under an NYSE-approved plan to address those quantitative listing requirements as to which we are non-compliant, and expect those issues to be successfully addressed within the time frames required under the NYSE rules. We may be able to mitigate the effect of a low stock price in the future through implementation of a reverse stock split.



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13 WEEKS ENDED DECEMBER 25, 2011

Operating results, as reported in the Consolidated Financial Statements, are summarized below. Certain prior period amounts have been reclassified to conform with the current year presentation.

| (Thousands of Dollars, Except Per Share Data)        | 13 Weeks Ended      |                     | Percent<br>Change |
|--|---------------------|---------------------|-------------------|
|  | December 25<br>2011 | December 26<br>2010 |                   |
| Advertising revenue:                                 |                     |                     |                   |
| Retail   | 91,717              | 96,910              | (5.4 )            |
| Classified:  |                     |                     |                   |
| Employment   | 8,611               | 8,646               | (0.4 )            |
| Automotive   | 10,335              | 10,775              | (4.1 )            |
| Real estate  | 5,502               | 6,700               | (17.9 )           |
| All other  | 13,176              | 15,525              | (15.1 )           |
| Total classified                                     | 37,624              | 41,646              | (9.7 )            |
| National   | 10,445              | 10,299              | 1.4               |
| Niche publications                                   | 2,715               | 2,911               | (6.7 )            |
| Total advertising revenue                            | 142,501             | 151,766             | (6.1 )            |
| Circulation  | 46,697              | 45,478              | 2.7               |
| Commercial printing                                  | 3,141               | 3,052               | 2.9               |
| Other  | 7,222               | 7,372               | (2.0 )            |
| Total operating revenue                              | 199,561             | 207,668             | (3.9 )            |
| Compensation   | 73,577              | 78,020              | (5.7 )            |
| Newsprint and ink                                    | 14,861              | 15,674              | (5.2 )            |
| Other operating expenses                             | 57,243              | 59,669              | (4.1 )            |
| Workforce adjustments                                | 337                 | 192                 | 75.5              |
|  | 146,018             | 153,555             | (4.9 )            |
| Operating cash flow                                  | 53,543              | 54,113              | (1.1 )            |
| Depreciation and amortization                        | 17,159              | 17,806              | (3.6 )            |
| Curtailement gain                                    | —                   | 10,172              | NM                |
| Equity in earnings of associated companies           | 2,812               | 2,705               | 4.0               |
| Operating income                                     | 39,196              | 49,184              | (20.3 )           |
| Non-operating expense, net                           | (14,721)            | (15,797)            | (6.8 )            |
| Income before reorganization costs and income taxes  | 24,475              | 33,387              | (26.7 )           |
| Reorganization costs                                 | 1,241               | —                   | NM                |
| Income before income taxes                           | 23,234              | 33,387              | (30.4 )           |
| Income tax expense                                   | 8,610               | 14,407              | (40.2 )           |
| Net income   | 14,624              | 18,980              | (23.0 )           |
| Net income attributable to non-controlling interests | (70)                | (35)                | NM                |
| Income attributable to Lee Enterprises, Incorporated | 14,554              | 18,945              | (23.2 )           |
| Other comprehensive income, net                      | 152                 | 5,485               | (97.2 )           |
| Comprehensive income                                 | 14,706              | 24,430              | (39.8 )           |
| Earnings per common share:                           |                     |                     |                   |
| Basic  | 0.32                | 0.42                | (23.8 )           |
| Diluted  | 0.32                | 0.42                | (23.8 )           |

References to the "2012 Quarter" refer to the 13 weeks ended December 25, 2011. Similarly, references to the "2011 Quarter" refer to the 13 weeks ended December 26, 2010.

For the 2012 Quarter, total operating revenue decreased \$8,107,000, or 3.9%, compared to the 2011 Quarter and same property revenue decreased 3.6%. We expect year over year revenue comparisons to improve as economic

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conditions in our markets also improve.

### Advertising Revenue

In the 2012 Quarter, combined print and digital advertising revenue decreased \$9,265,000, or 6.1%. Retail advertising decreased 5.4%. Retail preprint insertion revenue decreased 8.4%. Digital retail advertising increased 26.3%, partially offsetting print declines.

On a combined basis, print and digital classified revenue decreased 9.7% in 2012 Quarter. Employment revenue decreased 0.4% while automotive advertising decreased 4.1%, real estate decreased 17.9% and other classified decreased 15.1%. Digital classified revenue decreased 6.0%.

National advertising increased \$146,000, or 1.4%. Advertising in niche publications decreased 6.7%.

On a stand-alone basis, digital advertising revenue increased 10.4% in the 2012 Quarter representing 11.4% of total advertising revenue. Year-over-year total digital advertising turned positive in the month of December 2009 and has been rising steadily since that time. Print advertising revenue on a stand-alone basis decreased 7.9%.

Despite declines in advertising revenue, our total advertising results have benchmarked favorably to industry averages reported by the Newspaper Association of America each quarter since June 2003.

### Circulation and Other Revenue

Circulation revenue increased \$1,219,000, or 2.7%, in the 2012 Quarter due primarily to selective price increases.

Our unaudited, average daily newspaper circulation units, including TNI and MNI, decreased 6.5% and Sunday circulation decreased 1.0% in the 2012 Quarter compared to the 2011 Quarter.

Our digital sites attracted 21.8 million unique visitors in the month of December 2011, an increase of 10.4% from a year ago, with 202.3 million page views. The number of mobile page views grew 179.2% to 28.3 million in December 2011. Research in our larger markets indicates we are reaching an increasingly larger audience through the combination of rapid digital audience growth and stable newspaper readership.

Commercial printing revenue increased \$89,000, or 2.9%, in the 2012 Quarter. Other revenue decreased \$150,000, or 2.0%, in the 2012 Quarter, primarily due to the sale of a book publishing business in February 2011.

### Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased \$7,682,000, or 5.0%, in the 2012 Quarter.

Compensation expense decreased \$4,443,000, or 5.7%, in the 2012 Quarter, driven by a decline in average full time equivalent employees of 7.2%.

Newsprint and ink costs decreased \$813,000, or 5.2%, in the 2012 Quarter as a result of a reduction in newsprint volume of 5.9%. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, decreased \$2,426,000, or 4.1%, in the 2012 Quarter.

Reductions in staffing resulted in workforce adjustment costs totaling \$337,000 and \$192,000 in the 2012 Quarter and 2011 Quarter, respectively.

We are engaged in various efforts to continue to contain future growth in operating expenses. We expect our operating expenses, excluding depreciation, amortization and unusual matters, to decrease approximately 1.5-2.5% in 2012 on a comparable basis from the 2011 level, excluding a 53rd week of business activity in 2012.

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Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 1.1%, to \$53,543,000, in the 2012 Quarter compared to \$54,113,000 in the 2011 Quarter. Operating cash flow margin increased to 26.8% from 26.1% a year ago reflecting a larger percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased \$288,000, or 4.4%, in the 2012 Quarter and amortization expense decreased \$359,000, or 3.2%, in the 2012 Quarter.

In November 2010, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in a non-cash curtailment gain of \$10,172,000 which was recognized in the 13 weeks ended December 26, 2010, reduced 2011 net periodic postretirement medical cost by \$769,000 beginning in the 13 weeks ended December 26, 2010, and reduced the benefit obligation liability at December 26, 2010 by \$15,065,000.

Increases in participant premium cost-sharing discussed more fully above were treated as negative plan amendments. Curtailment treatment was utilized in situations in which coverage was eliminated. Curtailment gains were calculated by revaluation of plan liabilities after consideration of other plan changes.

Equity in earnings in associated companies increased \$107,000 in the 2012 Quarter.

The factors noted above resulted in operating income of \$39,196,000 in the 2012 Quarter compared to \$49,184,000 in the 2011 Quarter.

Nonoperating Income and Expense

Financial expense, including amortization of debt financing costs, decreased \$627,000, or 4.1%, to \$14,776,000 in the 2012 Quarter due primarily to lower debt balances. Our weighted average cost of debt was 5.0% at the end of the 2012 Quarter, compared to 4.9% at the end of the 2011 Quarter.

Overall Results

We recognized income tax expense of 37.1% and 43.2% of income before income taxes in the 2012 Quarter and 2011 Quarter, respectively. See Note 6 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

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As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated totaled \$14,554,000 in the 2012 Quarter compared to \$18,945,000 in the 2011 Quarter. We recorded earnings per diluted common share of \$0.32 in the 2012 Quarter and \$0.42 in the 2011 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.38 in the 2012 Quarter, compared to \$0.32 in the 2011 Quarter. Per share amounts may not add due to rounding.

| (Thousands of Dollars, Except Per Share Data)                     | 13 Weeks Ended |           | December 26 |           |
|---|----------------|-----------|-------------|-----------|
|   | December 25    |           | 2010        |           |
|   | Amount         | Per Share | Amount      | Per Share |
| Income attributable to Lee Enterprises, Incorporated, as reported | 14,554         | 0.32      | 18,945      | 0.42      |
| Adjustments:  |                |           |             |           |
| Curtailed gain  | —              |           | (10,172)    | )         |
| Debt financing and reorganization costs                           | 3,265          |           | 1,966       |           |
| Other, net  | 318            |           | 313         |           |
|   | 3,583          |           | (7,893)     | )         |
| Income tax effect of adjustments, net                             | (1,251)        | )         | 3,229       |           |
|   | 2,332          | 0.05      | (4,664)     | ) (0.10)  |
| Income attributable to Lee Enterprises, Incorporated, as adjusted | 16,886         | 0.38      | 14,281      | 0.32      |

## LIQUIDITY AND CAPITAL RESOURCES

## Operating Activities

Cash provided by operating activities was \$23,651,000 in the 2012 Quarter and \$23,652,000 in the 2011 Quarter. Net income decreased to \$14,624,000 in the 2012 Quarter from \$18,980,000 in the 2011 Quarter. Depreciation and amortization decreased in the 2012 Quarter as discussed under "Operating Cash Flow and Results of Operations" above. We also recognized a non-cash curtailment gain of \$10,172,000 in the 2011 Quarter. The net change in all of the aforementioned factors, as well as changes in deferred income taxes, accounted for the majority of the change in cash provided between periods. Changes in operating assets and liabilities and the timing of income tax payments accounted for the bulk of the remainder of the change in cash provided by operating activities in both periods.

## Investing Activities

Cash provided by investing activities totaled \$5,003,000 in the 2012 Quarter and \$3,915,000 in the 2011 Quarter. Restricted cash was reduced \$4,972,000 in the 2012 Quarter and \$4,500,000 in the 2011 Quarter. Capital spending totaled \$1,879,000 in the 2012 Quarter and \$1,105,000 in the 2011 Quarter.

We anticipate that funds necessary for capital expenditures, which are expected to total between \$10,000,000 and \$12,000,000 in 2012, and other requirements, will be available from internally generated funds.

## Financing Activities

Cash required for financing activities totaled \$20,781,000 in the 2012 Quarter and \$29,982,000 in the 2011 Quarter. We paid \$10,136,000 of debt financing and reorganization costs in the 2012 Quarter. Debt reduction accounted for the remainder of the usage of funds in the 2012 Quarter and substantially all of the usage of funds in the 2011 Quarter.

The 2009 Amendments require us to suspend stockholder dividends and share repurchases through April 2012.

#### Status of Debt Refinancing and Liquidity

In April 2011, we announced a plan to offer to qualified institutional buyers, subject to market conditions, \$680,000,000 of first priority lien senior secured notes due in 2017, \$375,000,000 of second priority lien senior secured notes due in 2018 and up to 8,928,175 shares of Common Stock. The proceeds from the offerings, net of offering costs, would

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have been used to refinance the Credit Agreement and Pulitzer Notes. As a result of market conditions, we terminated the offering process in May 2011 and charged \$5,120,000 of related debt financing costs to expense in 2011.

In September 2011, we announced a plan to amend our current Credit Agreement and extend the April 2012 maturity in a structure of first and second lien debt. The first lien debt consists of a term loan of \$689,510,000, along with a \$40,000,000 revolving credit facility that was not drawn at closing. The second lien debt is a \$175,000,000 term loan.

The first lien term loan bears interest at LIBOR plus 6.25%, with a LIBOR floor of 1.25%. Principal payments for the first lien term loan are required quarterly beginning in June 2012 and total \$5,000,000 in 2012, \$11,000,000 in 2013, \$12,750,000 in 2014 and \$13,500,000 in 2015. A quarterly cash flow sweep will also be used to reduce first lien debt. Covenants include a minimum interest coverage ratio, maximum total leverage ratio and capital expenditure limitation. The maturity is in December 2015.

Interest on the revolving credit facility, when used, is at LIBOR plus 5.5%, with a LIBOR floor of 1.25%. The revolving credit facility also supports issuance of letters of credit. The maturity is in December 2015. The revolving credit facility replaces our \$40,000,000 debtor-in-possession facility.

The second lien term loan bears interest at 15.0% and matures in April 2017. It requires no amortization, except in March 2017 if required for income tax purposes, and has no affirmative financial covenants. Lenders under the second lien term loan shared in the issuance of 6,743,640 shares of our Common Stock, an amount equal to 13% of outstanding shares on a pro forma basis as of the Effective Date.

As a condition to the refinancing of the Credit Agreement, we were expected to refinance the remaining \$138,000,000 of our current Pulitzer Notes debt with a separate \$175,000,000 loan to be arranged in the leveraged loan or high yield markets. Subsequent credit market conditions did not allow for that debt to be refinanced on acceptable terms, and as a result, we chose to amend the Pulitzer Notes and extend the maturity with the existing Noteholders.

Under the agreement with the Noteholders, which was announced in December 2011, the amended Pulitzer Notes carry an interest rate of 10.55%, increasing 0.75% in January 2013 and January of each year thereafter. Annual mandatory principal payments total \$1,400,000 in 2012 and \$6,400,000 per year thereafter. A quarterly cash flow sweep will also be used to reduce the balance of the Pulitzer Notes. Covenants include a minimum EBITDA ratio and capital expenditure limitation. After consideration of unscheduled principal payments totaling \$15,145,000 (of which \$10,145,000 were made in December 2011 and \$5,000,000 in January 2012), offset by \$3,500,000 of non-cash fees paid to the Noteholders in the form of additional Pulitzer Notes debt, the amended Pulitzer Notes have a balance of \$126,355,000 on the Effective Date. The maturity is in December 2015.

Substantially all of our assets secure the debt. Our weighted average cost of debt will increase from 5.0% at December 25, 2011 to approximately 9.2% under the refinanced agreements. Cash payments to the Lenders, Noteholders and legal and professional fees are expected to total approximately \$38,000,000, of which \$6,273,000 was paid in 2011, \$721,000 was charged to expense in 2011 and the remainder of which will be paid and charged to expense in 2012. In addition, previously capitalized financing costs of \$2,527,000 at December 25, 2011 were charged to expense in 2012 prior to, or upon consummation of the transactions. The terms of the amended agreements prohibit stockholder dividends and substantially all share repurchases and require that substantially all future cash flows be directed toward repayment of the Credit Agreement or Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

The Credit Agreement and Pulitzer Notes required 100% Lender or Noteholder approval, respectively, for key changes, including extension of maturities. Because credit market conditions dictated the need to extend the Pulitzer Notes with current Noteholders, we were not able to increase the Pulitzer Notes facility to \$175,000,000 as discussed



above. Consequently, we were unable to redeem the interests of the last 3% of non-consenting Lenders under the Credit Agreement for cash.

As a result, we made use of a voluntary, prepackaged filing under Chapter 11 of the U.S. Bankruptcy Code filed on December 12, 2011 to effect the amendments to the Credit Agreement and Pulitzer Notes discussed above. This process did not have an adverse effect on our governance or operations. Immediately upon filing, we requested authority to pay all suppliers and other vendors without delay, which request was approved. All our digital and print products were published as usual and no employees were impacted. Our 50% owned equity interests in Tucson, AZ and Madison, WI were not included in the filing. Lender and Noteholder balloting related to the Chapter 11 process was completed before December 12, 2011 and no objections were filed.

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We received confirmation of the plan of reorganization on January 23, 2012 and completed the restructuring process on January 30, 2012.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, as refinanced as of January 30, 2012, if an event of default, as defined, occurs and is not remedied. Many of those consequences are beyond our control, and the control of Pulitzer and PD LLC, respectively. The occurrence of one or more events of default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 25, 2011.

In 2010, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has been declared effective. The Shelf gives us 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 \$750,000,000. In July 2011, the SEC announced changes to the issuer eligibility rules which will require us to have a public float of at least \$75,000,000 in order to use the Shelf. If the market price of our Common Stock increases sufficiently, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities must be used generally to reduce debt subject to conditions of existing debt agreements.

## CHANGES IN LAWS AND REGULATIONS

### Energy Costs

Energy costs have become more volatile, and may increase in the future as a result of carbon emissions and other regulations being developed by the United States Environmental Protection Agency.

### Health Care

The Affordable Care Act was enacted into law in 2010. As a result, in 2010 we wrote off \$2,012,000 of deferred income tax assets due to the loss of future tax deductions for providing retiree prescription drug benefits.

We expect the Affordable Care Act will be supported by a substantial number of underlying regulations, many of which have not been issued. Accordingly, a complete determination of the impact of the Affordable Care Act cannot be made at this time. However, we expect our future health care costs to increase more rapidly based on analysis published by the United States Department of Health and Human Services, input from independent advisors and our understanding of various provisions of the Affordable Care Act that differ from our current medical plans, such as:

- Higher maximum age for dependent coverage;
- Elimination of lifetime benefit caps; and,
- Free choice vouchers for certain lower income employees.

Administrative costs are also likely to increase as a result of new compliance reporting. New costs being imposed on other medical care businesses, such as health insurers, pharmaceutical companies and medical device manufacturers, may be passed on to us in the form of higher costs. We may be able to mitigate certain of these future cost increases through changes in plan design.

We do not expect the Affordable Care Act will have a significant impact on our postretirement medical benefit obligation liability.

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### Income Taxes

Certain states in which we operate are considering changes to their corporate income tax rates. At this time, the impact of such changes cannot be determined.

### INFLATION

Price increases (or decreases) for our products are implemented when deemed appropriate by us. We continuously evaluate price increases, productivity improvements, sourcing efficiencies and other cost reductions to mitigate the impact of inflation.

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

We are 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

#### Debt

Our debt structure and interest rate risk are managed through the use of fixed and floating rate debt. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately \$8,558,000, based on \$855,760,000 of floating rate debt outstanding at December 25, 2011.

Our debt under the Credit Agreement is subject to minimum interest rate levels of 1.25%, 2.0% and 2.5% for borrowing for one month, three month and six month periods, respectively. At December 25, 2011, all of our outstanding debt under the Credit Agreement is based on one month borrowing. Based on the difference between interest rates at the end of January 2012 and our 1.25% minimum rate for one month borrowing, 30 day LIBOR would need to increase approximately 95 basis points before our borrowing cost would begin to be impacted by an increase in interest rates.

Since November 30, 2009, the full amount of the outstanding balance under the Credit Agreement has been subject to floating interest rates, as all interest rate swaps and collars expired or were terminated at or prior to that date. At December 25, 2011, approximately 87% of the principal amount of our debt is subject to floating interest rates. We regularly evaluate alternatives to hedge the related interest rate risk.

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

### COMMODITIES

Certain materials used by us are exposed to commodity price changes. We manage this risk through instruments such as purchase orders and non-cancelable supply contracts. We are a participant in a buying cooperative with other publishing companies, primarily for the acquisition of newsprint. We are 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.

Newsprint pricing has remained relatively flat since mid-2010 with some minor adjustments as West coast producers attempted to close the pricing gap with East coast suppliers. North American newsprint producers continue to face declining domestic demand which has already forced them to shutter excess production and to pursue exports to fill current active production capacities. A strong Canadian currency and increased input costs, particularly recycled fiber, energy, and chemicals, have put significant financial pressure on higher cost producers. Future price changes, if any, will be influenced primarily by the balance between supply capacity and demand, domestic and export, in addition to the producers' ability to mitigate input cost pressures. The final extent of future price change announcements, if any, is subject to negotiations with each newsprint producer.

North American newsprint producers continue to deleverage under difficult market conditions. The largest producer, Resolute Forest Products, exited U.S and Canadian reorganization proceedings in December 2010. Several other

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producers are currently in various stages of corporate reorganization.

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$935,000 based on anticipated consumption in 2012, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which may help to mitigate the impact of future price increases.

### SENSITIVITY TO CHANGES IN VALUE

Our fixed rate debt consists of the Pulitzer Notes, which are not traded on an active market and are held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists we are unable, as of December 25, 2011, to measure the maximum potential impact on fair value of fixed rate debt from adverse changes in market interest rates under normal market conditions. The change in value, if determined, could be significant.

### Item 4. Controls and Procedures

#### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended December 25, 2011 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

In 2008, a group of newspaper carriers filed suit against us in the United States District Court for the Southern District of California, claiming to be our employees and not independent contractors. The plaintiffs seek relief related to alleged violations of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. After concluding discovery, we filed a motion to reverse the class certification ruling. This motion is currently pending before the trial court. The Company denies the allegations of employee status, consistent with our past practices and industry standards, and will continue to vigorously contest the action, which is not covered by insurance. At this time we are unable to predict whether the ultimate economic outcome, if any, could have a material effect on our Consolidated Financial Statements, taken as a whole.

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

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| Item 6. Exhibits<br>Number | Description                            |
|----------------------------|--|
| 31.1                       | Rule 13a-14(a)/15d-14(a) certification |
| 31.2                       | Rule 13a-14(a)/15d-14(a) certification |
| 32                         | Section 1350 certification             |

SIGNATURES

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

LEE ENTERPRISES, INCORPORATED

/s/ Carl G. Schmidt  
Carl G. Schmidt  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

February 3, 2012