

LEE ENTERPRISES, INC  
Form 10-Q  
August 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 June 24, 2012

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware  
(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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

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

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [X] No [ ]

As of July 31, 2012, 52,291,241 shares of Common Stock of the Registrant were outstanding.

---

Table Of Contents	PAGE
<u>FORWARD LOOKING STATEMENTS</u>	<u>1</u>
PART I <u>FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Financial Statements (unaudited)</u>	<u>2</u>
<u>Consolidated Balance Sheets - June 24, 2012 and September 25, 2011</u>	<u>2</u>
<u>Consolidated Statements of Operations and Comprehensive Loss - 13 weeks and 39 weeks ended June 24, 2012 and June 26, 2011</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows - 39 weeks ended June 24, 2012 and June 26, 2011</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
Item 4. <u>Controls and Procedures</u>	<u>38</u>
PART II <u>OTHER INFORMATION</u>	<u>39</u>
Item 1. <u>Legal Proceedings</u>	<u>39</u>
Item 6. <u>Exhibits</u>	<u>39</u>
<u>SIGNATURES</u>	<u>39</u>

Table of Contents

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, 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, 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.

Table of ContentsPART I  
FINANCIAL INFORMATION

## Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Thousands of Dollars)	June 24 2012	September 25 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	19,176	23,555
Accounts receivable, net	69,098	71,024
Income taxes receivable	—	1,335
Inventories	6,294	7,388
Deferred income taxes	967	967
Other	8,927	19,553
Total current assets	104,462	123,822
Investments:		
Associated companies	42,800	44,057
Restricted cash and investments	—	4,972
Other	9,899	9,199
Total investments	52,699	58,228
Property and equipment:		
Land and improvements	27,017	27,017
Buildings and improvements	192,080	191,250
Equipment	309,050	317,126
Construction in process	3,627	2,852
	531,774	538,245
Less accumulated depreciation	333,489	326,205
Property and equipment, net	198,285	212,040
Goodwill	247,271	247,271
Other intangible assets, net	463,077	495,509
Postretirement assets, net	17,542	14,934
Other	4,094	6,444
Total assets	1,087,430	1,158,248

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



Table of Contents

(Thousands of Dollars and Shares, Except Per Share Data)	June 24 2012	September 25 2011	
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt	9,467	994,550	
Accounts payable	26,347	27,740	
Compensation and other accrued liabilities	37,803	35,437	
Income taxes payable	7,791	—	
Unearned revenue	37,452	36,512	
Total current liabilities	118,860	1,094,239	
Long-term debt, net of current maturities	925,547	—	
Pension obligations	69,579	73,518	
Postretirement and postemployment benefit obligations	6,714	6,104	
Deferred income taxes	50,429	66,204	
Income taxes payable	9,125	8,588	
Other	10,566	10,489	
Total liabilities	1,190,820	1,259,142	
Equity (deficit):			
Stockholders' equity (deficit):			
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—	
Common Stock, authorized 120,000 shares; issued and outstanding: June 24, 2012; 51,791 shares; \$0.01 par value September 25, 2011; 44,958 shares; \$2 par value	518	89,915	
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—	
Additional paid-in capital	240,763	140,887	
Accumulated deficit	(339,605)	(326,062)	)
Accumulated other comprehensive loss	(5,630)	(6,086)	)
Total stockholders' deficit	(103,954)	(101,346)	)
Non-controlling interests	564	452	
Total deficit	(103,390)	(100,894)	)
Total liabilities and deficit	1,087,430	1,158,248	

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

Table of Contents

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 24 2012	June 26 2011	June 24 2012	June 26 2011
Operating revenue:				
Advertising	125,285	132,996	385,286	408,814
Circulation	44,403	44,875	135,977	135,173
Other	9,620	9,435	29,864	29,712
Total operating revenue	179,308	187,306	551,127	573,699
Operating expenses:				
Compensation	71,838	74,458	217,939	229,008
Newsprint and ink	13,175	14,632	41,113	45,156
Other operating expenses	54,045	55,969	165,298	173,114
Depreciation	6,039	6,559	18,401	20,376
Amortization of intangible assets	10,588	11,047	32,432	33,531
Impairment of goodwill and other assets	—	187,325	—	187,325
Workforce adjustments	2,823	2,086	3,703	2,721
Total operating expenses	158,508	352,076	478,886	691,231
Curtailment gains	—	3,974	—	16,137
Equity in earnings of associated companies	1,762	1,225	6,003	5,078
Reduction of investment in TNI	—	12,000	—	12,000
Operating income (loss)	22,562	(171,571)	78,244	(108,317)
Non-operating income (expense):				
Financial income	3	102	113	179
Financial expense	(24,468)	(13,223)	(57,533)	(39,800)
Debt financing costs	(42)	(6,053)	(2,780)	(9,913)
Other, net	—	668	—	(16)
Total non-operating expense, net	(24,507)	(18,506)	(60,200)	(49,550)
Income (loss) before reorganization costs and income taxes	(1,945)	(190,077)	18,044	(157,867)
Reorganization costs	(250)	—	37,617	—
Loss before income taxes	(1,695)	(190,077)	(19,573)	(157,867)
Income tax benefit	(341)	(34,637)	(6,301)	(19,955)
Net loss	(1,354)	(155,440)	(13,272)	(137,912)
Net income attributable to non-controlling interests	(119)	(77)	(272)	(136)
Loss attributable to Lee Enterprises, Incorporated	(1,473)	(155,517)	(13,544)	(138,048)
Other comprehensive income, net	152	1,725	456	3,936
Comprehensive loss	(1,321)	(153,792)	(13,088)	(134,112)
Loss per common share:				
Basic	(0.03)	(3.46)	(0.28)	(3.08)
Diluted	(0.03)	(3.46)	(0.28)	(3.08)

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





Table of Contents

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

(Thousands of Dollars)	39 Weeks Ended	
	June 24 2012	June 26 2011
Cash provided by (required for) operating activities:		
Net loss	(13,272	)(137,912 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50,833	53,907
Impairment of goodwill and other assets	—	187,325
Curtailment gains	—	(16,137 )
Reduction of investment in TNI	—	12,000
Amortization (accretion) of debt present value adjustment	2,557	(410 )
Stock compensation expense	802	1,031
Distributions greater than current earnings of MNI	347	87
Deferred income tax benefit	(16,092	)(25,444 )
Debt financing costs	2,805	9,913
Reorganization costs	37,617	—
Changes in operating assets and liabilities:		
Decrease in receivables	1,926	5,159
Decrease in inventories and other	969	2,468
Increase (decrease) in accounts payable, accrued expenses and unearned revenue	947	(4,204 )
Decrease in pension, postretirement and post employment benefits	(5,164	)(547 )
Change in income taxes receivable or payable	9,663	(2,250 )
Other, net	(2,045	)(1,158 )
Net cash provided by operating activities	71,893	83,828
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(4,743	)(3,641 )
Decrease in restricted cash	4,972	4,651
Proceeds from sales of assets	4,933	1,790
Distributions greater than current earnings of TNI	910	27
Other, net	(500	)(10 )
Net cash provided by investing activities	5,572	2,817
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	1,004,795	36,000
Payments on long-term debt	(1,055,305	)(113,330 )
Debt financing and reorganization costs paid	(31,334	)(4,608 )
Common stock transactions, net	—	(205 )
Net cash required for financing activities	(81,844	)(82,143 )
Net increase (decrease) in cash and cash equivalents	(4,379	)(4,502 )
Cash and cash equivalents:		
Beginning of period	23,555	19,422
End of period	19,176	23,924

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



Table of Contents

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

1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the "Company") as of June 24, 2012 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 amended 2011 Annual Report on Form 10-K/A.

Because of seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 24, 2012 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 subsidiaries filed voluntary, prepackaged petitions in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for relief under Chapter 11 of the U.S. Bankruptcy Code (the "U.S. Bankruptcy Code") (collectively, the "Chapter 11 Proceedings"). Our interests in TNI and MNI were not included in the filings. During the Chapter 11 Proceedings, we, and certain of our subsidiaries, continued to operate as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the U.S. Bankruptcy Code. In general, as debtors-in-possession, we were authorized under the U.S. Bankruptcy Code to continue to operate as an ongoing business, but were not to engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On January 23, 2012, the Bankruptcy Court approved our Second Amended Joint Prepackaged Plan of Reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from the Chapter 11 Proceedings. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. Implementation of the Plan resulted primarily in a comprehensive refinancing of our debt. See Notes 4 and 11.

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.



Table of Contents

Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 24 2012	June 26 2011	June 24 2012	June 26 2011
Operating revenue	14,155	15,035	45,878	48,051
Operating expenses, excluding workforce adjustments, depreciation and amortization	11,986	13,307	37,926	40,467
Workforce adjustments	33	—	(31	) 232
Operating income	2,136	1,728	7,983	7,352
Company's 50% share of operating income	1,068	864	3,992	3,676
Less amortization of intangible assets	181	303	542	911
Equity in earnings of TNI	887	561	3,450	2,765

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 Operations and Comprehensive Loss. These amounts totaled \$(128,000) and \$(34,000) in the 13 weeks ended June 24, 2012 and June 26, 2011, respectively and \$(440,000) and \$177,000 in the 39 weeks ended June 24, 2012 and June 26, 2011, 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 \$696,000 in the 53 week period ending June 2013 and \$418,000 in each of the 52 week periods ending June 2014, June 2015, June 2016 and June 2017.

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		39 Weeks Ended	
	June 24 2012	June 26 2011	June 24 2012	June 26 2011
Operating revenue	17,289	18,183	53,063	55,727
Operating expenses, excluding workforce adjustments, depreciation and amortization	13,993	15,007	43,440	46,135
Workforce adjustments	(6	) 541	22	674
Depreciation and amortization	424	514	1,271	1,542
Operating income	2,878	2,121	8,330	7,376
Net income	1,748	1,328	5,106	4,626
Equity in earnings of MNI	874	664	2,553	2,313



Table of Contents

## 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	39 Weeks Ended June 24 2012
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)	June 24 2012	September 25 2011
Nonamortized intangible assets:		
Mastheads	30,795	30,795
Amortizable intangible assets:		
Customer and newspaper subscriber lists	881,164	881,164
Less accumulated amortization	448,883	416,457
	432,281	464,707
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,523	28,517
	1	7
	463,077	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 and nonamortized and

8

---

Table of Contents

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 2011	September 25 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 June 2013 and for each of the 52 week periods ending June 2014, June 2015, June 2016 and June 2017 is estimated to be \$38,924,000, \$38,601,000, \$38,404,000, \$37,275,000 and \$36,035,000, respectively.

#### 4 DEBT

As discussed more fully below (and certain capitalized terms used below defined), in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders.

##### 1<sup>st</sup> Lien Agreement

In January 2012, we entered into a credit agreement (the “1<sup>st</sup> Lien Agreement”) with a syndicate of lenders (the “1<sup>st</sup> Lien Lenders”). The 1<sup>st</sup> Lien Agreement consists of a term loan of \$689,510,000, and a new \$40,000,000 revolving credit facility under which we have not drawn. The revolving credit facility also supports issuance of letters of credit.

##### Interest Payments

Debt under the 1<sup>st</sup> Lien Agreement bears interest, at our option, at either a base rate or an adjusted Eurodollar rate (“LIBOR”), plus an applicable margin. The base rate for the facility is the greater of (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%. LIBOR loans are subject to a minimum rate of 1.25%. The applicable margin for term loan base rate loans is 5.25%, and 6.25% for LIBOR loans. The applicable margin for revolving credit facility

base rate loans is 4.5%, and is 5.5% for LIBOR loans. At June 24, 2012, all borrowing under the 1<sup>st</sup> Lien Agreement is based on LIBOR at a total rate of 7.5%.

#### Principal Payments

At June 24, 2012, the balance outstanding under the term loan is \$668,000,000. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1<sup>st</sup> Lien Agreement at any time, in whole or in

Table of Contents

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 1<sup>st</sup> Lien Agreement. Principal payments are required quarterly beginning in June 2012, and total \$5,000,000 in 2012, \$11,000,000 in 2013, \$12,750,000 in 2014, \$13,500,000 in 2015 and \$3,375,000 in 2016, prior to the final maturity.

In addition to the scheduled payments, we are required to make mandatory prepayments under the 1<sup>st</sup> Lien Agreement under certain other conditions, such as from the net proceeds from asset sales. The 1<sup>st</sup> Lien Agreement also requires us to accelerate future payments in the amount of our quarterly 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 1<sup>st</sup> Lien Agreement payments prior to the December 2015 maturity.

2012 payments made under the 1<sup>st</sup> Lien Agreement, and required to be made for the remainder of the fiscal year, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		14 Weeks Ending
	March 25 2012	June 24 2012	September 30 2012
Mandatory	—	2,500	2,500
Voluntary	12,600	3,850	—
Asset sales	2,410	150	—
Excess cash flow	—	—	—
	15,010	6,500	2,500

There were no net principal payments made in 2012 under the previous credit agreement.

## Security

The 1<sup>st</sup> Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by 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 are not Credit Parties. The 1<sup>st</sup> Lien Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

The Credit Parties have also granted a first priority security interest on 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 1<sup>st</sup> Lien Agreement. Assets of Pulitzer and its subsidiaries, TNI, our ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

The revolving credit facility has super-priority security interest over all of the collateral securing the term loan under the 1<sup>st</sup> Lien Agreement, superior to that of the term loan lenders.

## Covenants and Other Matters

The 1<sup>st</sup> Lien Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is designed to assess the leverage of the Company, excluding Pulitzer, and does not reflect our overall leverage position due to the lower leverage of Pulitzer. It is based primarily on the sum of the principal amount of debt under the 1<sup>st</sup> Lien Agreement,

plus debt under the 2<sup>nd</sup> Lien Agreement, as discussed more fully below, which totals \$843,000,000 at June 24, 2012, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes distributions from MNI and other elements, but excludes the operating results of Pulitzer.

Our actual total leverage ratio at June 24, 2012 under the 1<sup>st</sup> Lien Agreement was 6.8:1 Our maximum total leverage ratio covenant will decrease, in stages, from 10.0:1 at June 24, 2012 to 9.1:1 in December 2015. On a consolidated basis, using the definitions in the 1<sup>st</sup> Lien Agreement, our leverage ratio is 5.7:1 at June 24, 2012. This measure is not the subject of a covenant in any of our lending agreements.

## Table of Contents

The 1<sup>st</sup> Lien Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the sum of interest expense, as defined, incurred under the 1<sup>st</sup> Lien Agreement and 2<sup>nd</sup> Lien Agreement, divided by the same measure of trailing 12 month operating results discussed above. The interest expense coverage ratio is similarly designed to assess the interest coverage of the Company, excluding Pulitzer, and does not reflect our overall interest coverage position. Our actual interest expense coverage ratio at June 24, 2012 was 2.3:1. Our minimum interest expense coverage ratio covenant will decrease, in stages, from 1.5:1 at June 24, 2012 to 1.1:1 in December 2015.

The 1<sup>st</sup> Lien Agreement requires us to suspend stockholder dividends and share repurchases through December 2015. The 1<sup>st</sup> Lien Agreement also limits capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 1<sup>st</sup> Lien Agreement restricts our ability to make additional investments, acquisitions, dispositions and mergers without the consent of the 1<sup>st</sup> Lien Lenders and limits our ability to incur additional debt. Such covenants require that substantially all of our future cash flows are required to be directed toward debt reduction or accumulation of cash collateral and that the cash flows of the Credit Parties are largely segregated from those of Pulitzer.

### 2<sup>nd</sup> Lien Agreement

In January 2012, we entered into a second lien term loan (the "2<sup>nd</sup> Lien Agreement") with a syndicate of lenders (the "2<sup>nd</sup> Lien Lenders"). The 2<sup>nd</sup> Lien Agreement consists of a term loan of \$175,000,000.

The 2<sup>nd</sup> Lien Agreement bears interest at 15.0%, payable quarterly.

### Principal Payments and Redemption

The 2<sup>nd</sup> Lien Agreement requires no principal amortization, except in March 2017 if required for income tax purposes.

The 2<sup>nd</sup> Lien Agreement may not be redeemed prior to January 30, 2013. From that date until January 30, 2014, the 2<sup>nd</sup> Lien Agreement may be redeemed at 102% of the principal amount, at 101% thereafter until January 30, 2015 and at 100% thereafter until the April 2017 final maturity. Terms of the 1<sup>st</sup> Lien Agreement also restrict principal payments under the 2<sup>nd</sup> Lien Agreement.

### Security

The 2<sup>nd</sup> Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by the Credit Parties and by Pulitzer and its subsidiaries, other than TNI (collectively, the "2<sup>nd</sup> Lien Credit Parties"). The 2<sup>nd</sup> Lien Agreement is secured by second priority security interests in the stock and other equity interests owned by the 2<sup>nd</sup> Lien Credit Parties.

The 2<sup>nd</sup> Lien Credit Parties have also granted a second priority security interest on substantially all of their tangible and intangible assets, and granted second lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and performance of their obligations under the 2<sup>nd</sup> Lien Agreement. Assets of TNI, our ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

### Covenants and Other Matters

The 2<sup>nd</sup> Lien Agreement has no affirmative financial covenants. Restrictions on capital expenditures, permitted investments, indebtedness and other provisions are similar to, but generally less restrictive than, those provisions under the 1<sup>st</sup> Lien Agreement.

2<sup>nd</sup> Lien Lenders shared in the issuance of 6,743,640 shares of our Common Stock valued at \$9,576,000, an amount equal to 13% of outstanding shares on a pro forma basis as of January 30, 2012. 2<sup>nd</sup> Lien Lenders also received \$8,750,000 in the form of non-cash fees, which were added to and included in the principal amount of the second lien term loan.

#### 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 Pulitzer Notes were guaranteed by

Table of Contents

Pulitzer pursuant to a Guaranty Agreement with 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 were amended (the "Notes Amendment"). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

In January 2012, in connection with the Plan, we entered into an amended Note Agreement and Guaranty Agreement, which amended the Pulitzer Notes and extended the maturity with the Noteholders. After consideration of unscheduled principal payments totaling \$15,145,000 (\$10,145,000 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 had a balance of \$126,355,000 in January 2012.

The Pulitzer Notes bear interest at 10.55%, increasing 0.75% in January 2013 and in January of each year thereafter.

Principal Payments

At June 24, 2012, the balance of the Pulitzer Notes is \$113,000,000. We may voluntarily prepay principal amounts outstanding under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice, and subject to certain limitations as to minimum amounts of prepayments. The Pulitzer Notes provide for mandatory scheduled prepayments totaling \$6,400,000 beginning in 2012.

In addition to the scheduled payments, we are required to make mandatory prepayments under the Pulitzer Notes under certain other conditions, such as from the net proceeds from asset sales. The Pulitzer Notes also require us to accelerate future payments in the amount of our quarterly 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 Pulitzer Notes payments prior to the final maturity in December 2015.

2012 payments made under the Pulitzer Notes, and required to be made for the remainder of the fiscal year, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		14 Weeks Ending
	March 25 2012	June 24 2012	September 30 2012
Mandatory	6,400	—	—
Voluntary	8,955	3,000	—
Asset sales	—	—	—
Excess cash flow	—	—	—
	15,355	3,000	—

Security

The Guaranty Agreement provides that obligations under the Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries other than TNI. The Pulitzer Notes are also secured by first priority security interests in the stock and other equity interests owned by Pulitzer in its subsidiaries other than TNI. Also, Pulitzer and each of its subsidiaries granted a first priority security interest on substantially all of its tangible and intangible assets, and granted first lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and performance of their obligations under the Pulitzer Notes. Our ownership interest in TNI and certain employee benefit plan assets are excluded.



Covenants and Other Matters

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of minimum trailing 12 month EBITDA (minimum of \$28,400,000 at June 24, 2012), as defined in the Guaranty Agreement, and limitations on capital expenditures and the incurrence of other debt.

Table of Contents

Further, the Pulitzer Notes have limitations or restrictions on 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 or accumulation of cash collateral and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

## Intercreditor Agreements

The 1st Lien Agreement, 2<sup>nd</sup> Lien Agreement and Pulitzer Notes contain cross-default provisions tied to each of the various agreements. Intercreditor agreements and an intercompany subordination agreement are in effect.

## Other

Cash payments to the Lenders, Noteholders and legal and professional fees related to the Plan 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 in 2012. In addition, previously capitalized financing costs of \$4,514,000 at September 25, 2011 were charged to expense in 2012 prior to, or upon consummation of the Plan. Debt under the Plan was considered compromised. As a result, the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement and Pulitzer Notes were recorded at their respective present values, which resulted in a discount to the stated principal amount totaling \$23,709,000. This amount is being amortized as a non-cash component of financial expense over the terms of the related debt. Such amounts are estimated to total \$4,085,000 in 2012, \$5,418,000 in 2013, \$5,359,000 in 2014, \$5,293,000 in 2015, \$2,429,000 in 2016 and \$1,125,000 in 2017.

Debt is summarized as follows:

(Thousands of Dollars)	June 24 2012	September 25 2011	Interest Rates (%)
			June 24 2012
1 <sup>st</sup> Lien Agreement	668,000	—	7.50
2 <sup>nd</sup> Lien Agreement	175,000	—	15.00
Previous credit agreement:			
Term loan	—	569,335	
Revolving credit facility	—	286,425	
Pulitzer Notes	113,000	138,500	10.55
Unaccreted (unamortized) present value adjustment	(20,985)	)290	
	935,015	994,550	
Less current maturities of debt	14,900	994,550	
Current amount of present value adjustment	(5,430)	)—	
Total long term debt	925,545	—	

At June 24, 2012, our weighted average cost of debt was 9.2%.

Aggregate maturities of debt total \$2,500,000 for the remainder of 2012, \$17,400,000 in 2013, \$19,150,000 in 2014, \$19,900,000 in 2015, \$722,050,000 in 2016 and \$175,000,000 in 2017.

## Liquidity

At June 24, 2012, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at June 24, 2012 totals \$49,118,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months

will be satisfied by our continuing cash flows, which will allow us to maintain an adequate level of liquidity.

There are numerous potential consequences under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the Note and Guaranty Agreements related to the Pulitzer Notes, if an event of default, as defined, occurs and is not remedied. Many of those consequences are beyond our control. The occurrence of one or more events of default would give rise to the right of the 1<sup>st</sup> Lien Lenders, 2<sup>nd</sup> Lien Lenders and/or the Noteholders, to exercise their remedies under

13

---

Table of Contents

the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien 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 June 24, 2012.

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. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, 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.

**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 over the service period of active employees based upon annual actuarial calculations. Plan funding strategies are influenced by government regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, and cash.

In addition, we provide retiree medical and life insurance benefits under postretirement plans at several of our operating locations. The level and adjustment of participant contributions vary depending on the specific plan. In addition, PD LLC provides postemployment disability benefits to certain employee groups prior to retirement. Our liability and related expense for benefits under the postretirement plans are recorded over the service period of active employees based upon annual actuarial calculations. We accrue postemployment disability benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid. Plan assets may also be used to fund medical costs of certain active employees.

We use a fiscal year end measurement date for all of our pension and postretirement medical plan obligations.

Table of Contents

The net periodic cost (benefit) components of our pension and postretirement medical plans are as follows:

PENSION PLANS	13 Weeks Ended		39 Weeks Ended	
	June 24	June 26	June 24	June 26
	2012	2011	2012	2011
(Thousands of Dollars)				
Service cost for benefits earned during the period	7	42	21	163
Interest cost on projected benefit obligation	1,994	2,088	5,982	6,229
Expected return on plan assets	(2,223)	(2,433)	(6,669)	(7,226)
Amortization of net loss	593	203	1,779	629
Amortization of prior service benefit	(34)	(34)	(102)	(103)
	337	(134)	1,011	(308)
POSTRETIREMENT MEDICAL PLANS	13 Weeks Ended		39 Weeks Ended	
	June 24	June 26	June 24	June 26
	2012	2011	2012	2011
(Thousands of Dollars)				
Service cost for benefits earned during the period	182	232	546	715
Interest cost on projected benefit obligation	277	350	831	1,278
Expected return on plan assets	(532)	(563)	(1,596)	(1,675)
Amortization of net gain	(613)	(598)	(1,839)	(1,872)
Amortization of prior service benefit	(365)	(380)	(1,095)	(1,091)
Curtailment gains	—	(3,974)	—	(16,137)
	(1,051)	(4,933)	(3,153)	(18,782)

Based on our forecast at June 24, 2012, we expect to contribute \$3,458,000 to our pension plans for the remainder of 2012. Based on our forecast at June 24, 2012, we do not expect to make significant contributions to our postretirement plans for the remainder of 2012.

## 2011 Changes to Plans

In May 2011, a new bargaining unit contract eliminated postretirement medical coverage for affected active employees and froze defined pension benefits. The elimination of postretirement medical coverage resulted in a non-cash curtailment gain of \$3,974,000 which was recognized in the 13 weeks ended June 26, 2011, reduced 2011 net periodic postretirement medical expense by \$82,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by \$3,371,000. The freeze of defined pension benefits reduced 2011 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 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.



Table of Contents

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

(Percent of Loss Before Income Taxes)	13 Weeks Ended		39 Weeks Ended	
	June 24 2012	June 26 2011	June 24 2012	June 26 2011
Computed "expected" income tax benefit	(35.0	)(35.0	)(35.0	)(35.0
State income taxes, net of federal tax benefit	(3.3	)(3.0	)(3.3	)(3.0
Impairment of nondeductible goodwill	—	21.6	—	26.0
Reorganization costs	2.5	—	4.9	—
Restricted Common Stock	—	—	—	(0.9
Valuation allowance	—	0.3	(0.5	)0.3
Resolution of tax matters	14.3	0.3	4.2	—
Other	1.4	(2.4	)(2.5	)—
	(20.1	)(18.2	)(32.2	)(12.6

In connection with the refinancing of debt under the Chapter 11 Proceedings, we realized substantial cancellation of debt income ("CODI") for income tax purposes. However, this income was not immediately taxable for U.S. income tax purposes because the CODI resulted from the Company's reorganization under the U.S. Bankruptcy Code. For U.S. income tax reporting purposes, the Company is required to reduce certain tax attributes, including any net operating loss carryforwards, capital losses, certain tax credit carryforwards, and the tax basis in certain assets and liabilities, including debt, in a total amount equal to the tax gain on the extinguishment of debt. As a result, we have begun recognizing additional interest expense deductions for income tax purposes beginning in February 2012. The reduction in the basis of certain assets will also result in reduced depreciation expense for income tax purposes beginning in 2013.

## 7 LOSS PER COMMON SHARE

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

(Thousands of Dollars and Shares, Except Per Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 24 2012	June 26 2011	June 24 2012	June 26 2011
Loss attributable to Lee Enterprises, Incorporated:	(1,473	)(155,517	)(13,544	)(138,048
Weighted average common shares	51,731	44,897	48,733	44,897
Less non-vested restricted Common Stock	—	—	—	87
Basic average common shares	51,731	44,897	48,733	44,810
Dilutive stock options and restricted Common Stock	—	—	—	—
Diluted average common shares	51,731	44,897	48,733	44,810
Loss per common share:				
Basic	(0.03	)(3.46	)(0.28	)(3.08

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

Diluted (0.03 ) (3.46 ) (0.28 ) (3.08 )

For the 13 weeks ended June 24, 2012 and June 26, 2011, we have 2,695,000 and 1,912,000 weighted average shares, respectively, subject to issuance under our stock option plan that are not considered in the computation of diluted loss per common share. For the 39 weeks ended June 24, 2012 and June 26, 2011, the weighted average shares not considered in the computation of diluted loss per common share are 2,085,000 and 1,982,000,

16

---



Table of Contents

respectively.

## 8 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 39 weeks ended June 24, 2012 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		
Granted	1,387	1.13		
Cancelled	(79)	8.07		
Outstanding, June 24, 2012	3,120	3.24	8.4	679
Exercisable, June 24, 2012	817	7.71	6.6	—

Total unrecognized compensation expense for unvested stock options as of June 24, 2012 is \$2,146,000, which will be recognized over a weighted average period of 2.1 years.

## Determining Fair Value

We determine the fair value of stock options using the Black-Scholes option-pricing formula. Key inputs to this formula include expected term, expected volatility and the risk-free rate. Each assumption is discussed below. This fair value is amortized using the straight-line method over the requisite service periods of the awards, which is generally three years.

The expected term represents the period that our stock-based awards are expected to be outstanding, and is determined based on historical experience of similar awards, giving consideration to contractual terms of the awards, vesting schedules and expectations of future employee behavior. The volatility factor is calculated using historical market data for our Common Stock. The time frame used is equal to the expected term. We base the risk-free interest rate on the yield to maturity at the time of the stock option grant on zero-coupon U.S. government bonds having a remaining term equal to the option's expected term. When estimating forfeitures, we consider voluntary termination behavior as well as actual option forfeitures.

The following assumptions were used to estimate the fair value of 2012 option awards:

Volatility (Percent)	122
Risk-free interest rate (Percent)	0.77
Expected term (Years)	4.7
Estimated fair value (Dollars)	0.92

## Restricted Common Stock

In July 2012, we issued 500,000 shares of restricted Common Stock with a fair value of \$1.31 per share on the grant date.

## 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

Table of Contents

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 \$8,655,000, 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 \$175,000,000 principal amount under the 2<sup>nd</sup> Lien Agreement and \$113,000,000 principal amount of Pulitzer Notes, as discussed more fully in Note 4, which are not traded on an active market and are held by small groups of investors. Coupled with the volatility of substantially all domestic credit markets that exists, we are unable, as of June 24, 2012, 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 (as defined below) 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)	June 24 2012	September 25 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 June 24, 2012.

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.

## 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

## Table of Contents

negatively, to the Consolidated Statements of Operations and Comprehensive Loss 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 was recently denied by the trial court, and the Company is currently evaluating its next steps. 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 the Plan, the par value of our Common Stock was changed from \$2.00 per share to \$0.01 per share effective January 30, 2012. 2<sup>nd</sup> Lien Lenders 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 January 30, 2012.

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 of less than \$50,000,000, 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, our Common Stock is allowed to continue to be listed during a cure period. In February 2012, the NYSE notified the Company that it was again in compliance with the minimum closing price standard. At June 24, 2012, our average market capitalization also exceeds the \$50,000,000 minimum required by the NYSE. However, the NYSE has not yet notified us that the Company has returned to compliance with the market capitalization standard. Continued listing is subject to ongoing reassessment by the NYSE. We are currently operating under an NYSE-approved plan and expect any issues to be successfully addressed within the time frames required under the NYSE rules.

Table of Contents

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks and 39 weeks ended June 24, 2012. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 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 (loss) before depreciation, amortization, impairment charges, 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 (loss) and operating income margin, the most directly comparable measures under GAAP, are included in the tables below:

(Thousands of Dollars)	13 Weeks Ended			
	June 24 2012	Percent of Revenue	June 26 2011	Percent of Revenue
Operating cash flow	37,427	20.9	40,161	21.4
Depreciation and amortization	(16,627)	(9.3)	(17,606)	(9.4)
Impairment of goodwill and other assets	—	—	(187,325)	(100.0)
Curtailment gain	—	—	3,974	2.1
Equity in earnings of associated companies	1,762	1.0	1,225	0.7
Reduction of investment in TNI	—	—	(12,000)	(6.4)
Operating income (loss)	22,562	12.6	(171,571)	(91.6)

  

(Thousands of Dollars)	39 Weeks Ended			
	June 24 2012	Percent of Revenue	June 26 2011	Percent of Revenue
Operating cash flow	123,074	22.3	123,700	21.6
Depreciation and amortization	(50,833)	(9.2)	(53,907)	(9.4)
Impairment of goodwill and other assets	—	—	(187,325)	(32.7)
Curtailment gains	—	—	16,137	2.8
Equity in earnings of associated companies	6,003	1.1	5,078	0.9
Reduction of investment in TNI	—	—	(12,000)	(2.1)
Operating income (loss)	78,244	14.2	(108,317)	(18.9)

Adjusted Net Income and Adjusted Earnings Per Common Share

Adjusted net income and adjusted earnings per common share, which are defined as loss attributable to Lee Enterprises, Incorporated and loss per common share adjusted to exclude both unusual matters and those of a substantially non-

20

---

## Table of Contents

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 loss attributable to Lee Enterprises, Incorporated and loss 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. Same 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. Same property comparisons also exclude corporate office costs.

## 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 amended 2011 Annual Report on Form 10-K/A 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. With the exception of St. Louis, MO, 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:



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

52 daily and 40 Sunday newspapers with average total circulation of 1.3 million and 1.6 million, respectively, for the 39 weeks ended June 24, 2012, read by nearly 4 million people in print;

Websites in all of our markets that complement our newspapers and attracted over 22 million unique visitors in June 2012, a 3.1% increase from June 2011;

Mobile sites in all of our markets that attracted almost 46 million views in June 2012, a 156% increase from June 2011;

Smart-phone applications in all markets;

21

---

## Table of Contents

•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 Statistics as of June 2012, 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 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 and 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, "Debt and Liquidity" and Note 4 of the Notes to Consolidated Financial Statements, included herein. In February 2009, we completed a comprehensive restructuring of our then-existing credit agreement and a refinancing of our Pulitzer Notes debt, substantially enhancing our liquidity and operating flexibility.

Substantially all of our debt was scheduled to mature in April 2012. We used the Chapter 11 Proceedings to accomplish a comprehensive refinancing that extends the maturities to December 2015 and 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 June 24, 2012. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows.

#### 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.

22

---

Table of Contents

Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization of less than \$50,000,000, 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, our Common Stock is allowed to continue to be listed during a cure period. In February 2012, the NYSE notified the Company that it was again in compliance with the minimum closing price standard. At June 24, 2012, our average market capitalization also exceeds the \$50,000,000 minimum required by the NYSE. However, the NYSE has not yet notified us that the Company has returned to compliance with the market capitalization standard. Continued listing is subject to ongoing reassessment by the NYSE. We are currently operating under an NYSE-approved plan and expect any issues to be successfully addressed within the time frames required under the NYSE rules.

Table of Contents

13 WEEKS ENDED JUNE 24, 2012

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 Change	
	June 24 2012	June 26 2011		
Advertising revenue:				
Retail	77,212	80,301	(3.8	)
Classified:				
Employment	10,135	9,994	1.4	
Automotive	9,873	10,367	(4.8	)
Real estate	5,201	6,202	(16.1	)
All other	14,192	15,753	(9.9	)
Total classified	39,401	42,316	(6.9	)
National	6,038	7,291	(17.2	)
Niche publications	2,634	3,088	(14.7	)
Total advertising revenue	125,285	132,996	(5.8	)
Circulation	44,403	44,875	(1.1	)
Commercial printing	3,455	3,055	13.1	
Other	6,165	6,380	(3.4	)
Total operating revenue	179,308	187,306	(4.3	)
Compensation	71,838	74,458	(3.5	)
Newsprint and ink	13,175	14,632	(10.0	)
Other operating expenses	54,045	55,969	(3.4	)
Workforce adjustments	2,823	2,086	35.3	
	141,881	147,145	(3.6	)
Operating cash flow	37,427	40,161	(6.8	)
Depreciation and amortization	16,627	17,606	(5.6	)
Impairment of goodwill and other assets	—	187,325	NM	
Curtailment gain	—	3,974	NM	
Equity in earnings of associated companies	1,762	1,225	43.8	
Reduction of investment in TNI Partners	—	12,000	NM	
Operating income (loss)	22,562	(171,571	)	NM
Non-operating expense, net	(24,507	)(18,506	)	32.4
Loss before reorganization costs and income taxes	(1,945	)(190,077	)	(99.0)
Reorganization costs	(250	)—		NM
Loss before income taxes	(1,695	)(190,077	)	(99.1)
Income tax benefit	(341	)(34,637	)	(99.0)
Net loss	(1,354	)(155,440	)	(99.1)
Net income attributable to non-controlling interests	(119	)(77	)	54.5
Loss attributable to Lee Enterprises, Incorporated	(1,473	)(155,517	)	(99.1)
Other comprehensive income, net	152	1,725	(91.2	)
Comprehensive loss	(1,321	)(153,792	)	(99.1)
Loss per common share:				
Basic	(0.03	)(3.46	)	(99.1)
Diluted	(0.03	)(3.46	)	(99.1)

References to the "2012 Quarter" refer to the 13 weeks ended June 24, 2012. Similarly, references to the "2011 Quarter" refer to the 13 weeks ended June 26, 2011.

## Table of Contents

For the 2012 Quarter, total operating revenue decreased \$7,998,000, or 4.3%, compared to the 2011 Quarter and same property revenue decreased 4.3%. We expect year-over-year revenue comparisons to improve as economic conditions in our markets also improve. Revenue in May 2012 was flat year-over-year, our best month for revenue performance since December 2006.

### Advertising Revenue

In the 2012 Quarter, combined print and digital advertising revenue decreased \$7,711,000, or 5.8% compared to the 2011 Quarter. Retail advertising decreased 3.8%. Retail preprint insertion revenue decreased 2.8%. Digital retail advertising increased 13.7%, partially offsetting print declines.

On a combined basis, print and digital classified revenue decreased 6.9% in the 2012 Quarter. Employment revenue increased 1.4% while automotive advertising decreased 4.8%, real estate decreased 16.1% and other classified decreased 9.9%. Digital classified revenue increased 7.1%, partially offsetting print declines.

National advertising decreased \$1,253,000, or 17.2%. Advertising in niche publications decreased 14.7%.

On a stand-alone basis, digital advertising revenue increased 10.0% in the 2012 Quarter, representing 13.8% 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 decreased \$472,000, or 1.1%, in the 2012 Quarter.

Our unaudited, average daily newspaper circulation units, including TNI and MNI, decreased 6.4% and Sunday circulation decreased 6.3% in the 2012 Quarter compared to the 2011 Quarter.

Our digital sites attracted 22.2 million unique visitors in the month of June 2012, an increase of 3.1% from a year ago, with 196.4 million page views. The number of mobile page views grew 156.2% to 45.5 million in June 2012. 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 \$400,000, or 13.1%, in the 2012 Quarter. Other revenue decreased \$215,000, or 3.4%, in the 2012 Quarter.

### Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased \$6,001,000, or 4.1%, in the 2012 Quarter.

Compensation expense decreased \$2,620,000, or 3.5%, in the 2012 Quarter, driven by a decline in average full-time equivalent employees of 7.5%.

Newsprint and ink costs decreased \$1,457,000, or 10.0%, in the 2012 Quarter as a result of a reduction in newsprint volume of 6.7%. 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 \$1,924,000, or 3.4%, in the 2012 Quarter.

Reductions in staffing resulted in workforce adjustment costs totaling \$2,823,000 and \$2,086,000 in the 2012 Quarter and 2011 Quarter, respectively.

We are engaged in various efforts to continue to contain future growth in operating expenses. Excluding a 53rd week of business activity, we expect 2012 operating expenses, excluding depreciation, amortization and unusual matters,

25

---



Table of Contents

to decrease 3.5-4.5% from the comparable 2011 level.

## Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 6.8%, to \$37,427,000, in the 2012 Quarter compared to \$40,161,000 in the 2011 Quarter. Operating cash flow margin decreased to 20.9% from 21.4% a year ago reflecting a smaller percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased \$520,000, or 7.9%, in the 2012 Quarter and amortization expense decreased \$459,000, or 4.2%, in the 2012 Quarter.

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 and nonamortized and amortizable intangible assets in 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. 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 2011	September 25 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

In May 2011, a new bargaining unit contract eliminated postretirement medical coverage for affected active employees and froze defined pension benefits. The elimination of postretirement medical coverage resulted in a non-cash curtailment gain of \$3,974,000 which was recognized in the 13 weeks ended June 26, 2011, reduced 2011 net periodic postretirement medical expense by \$82,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by \$3,371,000. The freeze of defined pension benefits reduced 2011 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 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.

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.

Table of Contents

Equity in earnings in associated companies increased \$537,000 in the 2012 Quarter.

The factors noted above resulted in operating income of \$22,562,000 in the 2012 Quarter compared to an operating loss of \$171,571,000 in the 2011 Quarter.

## Nonoperating Income and Expense

Financial expense increased \$5,234,000, or 27.2%, to \$24,510,000 in the 2012 Quarter due primarily to higher interest rates. Our weighted average cost of debt was 9.2% at the end of the 2012 Quarter, compared to 5.1% at the end of the 2011 Quarter. Financial expense in the 2012 Quarter includes \$1,387,000 of non-cash amortization of a present value adjustment of debt.

## Overall Results

We recognized a \$250,000 reduction of reorganization costs in the 2012 Quarter. We recognized income tax benefit of 20.1% of loss before income taxes in the 2012 Quarter and income tax benefit of 18.2% of loss before income taxes in the 2011 Quarter. 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.

As a result of the factors noted above, loss attributable to Lee Enterprises, Incorporated totaled \$1,473,000 in the 2012 Quarter compared to a loss of \$155,517,000 in the 2011 Quarter. We recorded loss per diluted common share of \$0.03 in the 2012 Quarter and \$3.46 in the 2011 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.02 in the 2012 Quarter, compared to \$0.21 in the 2011 Quarter. Per share amounts may not add due to rounding.

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended			
	June 24 2012 Amount	Per Share	June 26 2011 Amount	Per Share
Loss attributable to Lee Enterprises, Incorporated, as reported	(1,473	)(0.03	)(155,517	)(3.46
Adjustments:				
Curtailed gain	—		(3,974	)
Impairment of goodwill and other assets, including TNI Partners	—		199,325	
Debt financing and reorganization costs	1,179		5,916	
Other, net	2,839		2,248	
	4,018		203,515	
Income tax effect of adjustments, net and unusual tax matters	(1,319	)	(38,694	)
	2,699	0.05	164,821	3.67
Income attributable to Lee Enterprises, Incorporated, as adjusted	1,226	0.02	9,304	0.21

Table of Contents

39 WEEKS ENDED JUNE 24, 2012

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)	39 Weeks Ended		Percent Change	
	June 24 2012	June 26 2011		
Advertising revenue:				
Retail	239,321	250,185	(4.3	)
Classified:				
Employment	27,918	27,843	0.3	
Automotive	30,093	31,430	(4.3	)
Real estate	15,875	18,792	(15.5	)
All other	40,274	45,866	(12.2	)
Total classified	114,160	123,931	(7.9	)
National	23,535	25,397	(7.3	)
Niche publications	8,270	9,301	(11.1	)
Total advertising revenue	385,286	408,814	(5.8	)
Circulation	135,977	135,173	0.6	
Commercial printing	9,662	8,998	7.4	
Other	20,202	20,714	(2.5	)
Total operating revenue	551,127	573,699	(3.9	)
Compensation	217,939	229,008	(4.8	)
Newsprint and ink	41,113	45,156	(9.0	)
Other operating expenses	165,298	173,114	(4.5	)
Workforce adjustments	3,703	2,721	36.1	
	428,053	449,999	(4.9	)
Operating cash flow	123,074	123,700	(0.5	)
Depreciation and amortization	50,833	53,907	(5.7	)
Impairment of goodwill and other assets	—	187,325	NM	
Curtailment gains	—	16,137	NM	
Equity in earnings of associated companies	6,003	5,078	18.2	
Reduction of investment in TNI Partners	—	12,000	NM	
Operating income (loss)	78,244	(108,317	)	NM
Non-operating expense, net	(60,200	)(49,550	)	21.5
Income (loss) before reorganization costs and income taxes	18,044	(157,867	)	NM
Reorganization costs	37,617	—		NM
Loss before income taxes	(19,573	)(157,867	)	(87.6
Income tax benefit	(6,301	)(19,955	)	(68.4
Net loss	(13,272	)(137,912	)	(90.4
Net income attributable to non-controlling interests	(272	)(136	)	NM
Loss attributable to Lee Enterprises, Incorporated	(13,544	)(138,048	)	(90.2
Other comprehensive income, net	456	3,936		NM
Comprehensive loss	(13,088	)(134,112	)	(90.2
Loss per common share:				
Basic	(0.28	)(3.08	)	(90.9
Diluted	(0.28	)(3.08	)	(90.9

References to the "2012 Period" refer to the 39 weeks ended June 24, 2012. Similarly, references to the "2011 Period" refer to the 39 weeks ended June 26, 2011.

28

---

## Table of Contents

### Advertising Revenue

In the 2012 Period, combined print and digital advertising revenue decreased \$23,528,000, or 5.8%, compared to the 2011 Period. Retail advertising decreased 4.3%. Retail preprint insertion revenue decreased 5.5%. Digital retail advertising increased 18.3%, partially offsetting print declines.

On a combined basis, print and digital classified revenue decreased 7.9% in the 2012 Period. Employment revenue increased 0.3% while automotive advertising decreased 4.3%, real estate decreased 15.5% and other classified decreased 12.2%. Digital classified revenue increased 1.2%, partially offsetting print declines.

National advertising decreased \$1,862,000, or 7.3%. Advertising in niche publications decreased 11.1%.

On a stand-alone basis, digital advertising revenue increased 10.1% in the 2012 Period, representing 12.8% 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 7.7%.

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 \$804,000, or 0.6%, in the 2012 Period.

Our average daily newspaper circulation units, including TNI and MNI, as measured by the Audit Bureau of Circulations, decreased 6.2% and Sunday circulation decreased 4.9% in the 2012 Period compared to the 2011 Period.

Our digital sites attracted 22.2 million unique visitors in the month of June 2012, an increase of 3.1% from a year ago, with 196.4 million page views. The number of mobile page views grew 156.2% to 45.5 million in June 2012. 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 \$664,000, or 7.4%, in the 2012 Period. Other revenue decreased \$512,000, or 2.5%, in the 2012 Period.

### Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased \$22,928,000, or 5.1%, in the 2012 Period.

Compensation expense decreased \$11,069,000, or 4.8%, in the 2012 Period, driven by a decline in average full time equivalent employees of 7.4%.

Newsprint and ink costs decreased \$4,043,000, or 9.0%, in the 2012 Period as a result of a reduction in newsprint volume of 7.3%. 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 \$7,816,000, or 4.5%, in the 2012 Period.

Reductions in staffing resulted in workforce adjustment costs totaling \$3,703,000 and \$2,721,000 in the 2012 Period and 2011 Period, respectively.

We are engaged in various efforts to continue to contain future growth in operating expenses. Excluding a 53rd week of business activity, we expect 2012 operating expenses, excluding depreciation, amortization and unusual matters, to decrease 3.5-4.5% from the comparable 2011 level.

Table of Contents

## Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 0.5%, to \$123,074,000, in the 2012 Period compared to \$123,700,000 in the 2011 Period. Operating cash flow margin increased to 22.3% from 21.6% a year ago reflecting a larger percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased \$1,975,000, or 9.7%, in the 2012 Period and amortization expense decreased \$1,099,000, or 3.3%, in the 2012 Period.

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 and nonamortized and amortizable intangible assets in 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. 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 2011	September 25 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

In May 2011, a new bargaining unit contract eliminated postretirement medical coverage for affected active employees and froze defined pension benefits. The elimination of postretirement medical coverage resulted in a non-cash curtailment gain of \$3,974,000 which was recognized in the 13 weeks ended June 26, 2011, reduced 2011 net periodic postretirement medical expense by \$82,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by \$3,371,000. The freeze of defined pension benefits reduced 2011 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 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.

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 \$925,000 in the 2012 Period.

Table of Contents

The factors noted above resulted in operating income of \$78,244,000 in the 2012 Period compared to an operating loss of \$108,317,000 in the 2011 Period.

## Nonoperating Income and Expense

Financial expense increased \$10,600,000, or 21.3%, to \$60,313,000 in the 2012 Period due primarily to higher interest rates. Our weighted average cost of debt was 9.2% at the end of the 2012 Period, compared to 5.1% at the end of the 2011 Period. Financial expense in the 2012 Period includes \$2,557,000 of non-cash amortization of a present value adjustment of debt.

## Overall Results

We recognized \$37,617,000 of reorganization costs in the 2012 Period. We recognized income tax benefit of 32.2% of loss before income taxes in the 2012 Period and income tax benefit of 12.6% of loss before income taxes in the 2011 Period. 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.

As a result of the factors noted above, loss attributable to Lee Enterprises, Incorporated totaled \$13,544,000 in the 2012 Period compared to a loss of \$138,048,000 in the 2011 Period. We recorded loss per diluted common share of \$0.28 in the 2012 Period and \$3.08 in the 2011 Period. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.33 in the 2012 Period, compared to \$0.50 in the 2011 Period. Per share amounts may not add due to rounding.

	39 Weeks Ended			
	June 24 2012	Per Share	June 26 2011	Per Share
(Thousands of Dollars, Except Per Share Data)	Amount		Amount	
Loss attributable to Lee Enterprises, Incorporated, as reported	(13,544	)(0.28	)(138,048	)(3.08
Adjustments:				
Curtailed gains	—		(16,137	)
Impairment of goodwill and other assets, including TNI Partners	—		199,325	
Debt financing and reorganization costs	42,954		9,503	
Other, net	3,695		3,038	
	46,649		195,729	
Income tax effect of adjustments, net and unusual tax matters	(16,834	)	(35,187	)
	29,815	0.61	160,542	3.58
Income attributable to Lee Enterprises, Incorporated, as adjusted	16,271	0.33	22,494	0.50

## LIQUIDITY AND CAPITAL RESOURCES

## Operating Activities

Cash provided by operating activities was \$71,893,000 in the 2012 Period and \$83,828,000 in the 2011 Period. We recorded a net loss of \$13,272,000 in the 2012 Period and \$137,912,000 in the 2011 Period. We recognized \$37,617,000 of reorganization costs in the 2012 Period. In the 2011 Period we recognized non-cash impairment charges and curtailment gains totaling \$187,325,000 and \$16,137,000, respectively. 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.

## Table of Contents

### Investing Activities

Cash provided by investing activities totaled \$5,572,000 in the 2012 Period and \$2,817,000 in the 2011 Period. Restricted cash was reduced \$4,972,000 in the 2012 Period and \$4,651,000 in the 2011 Period. Capital spending totaled \$4,743,000 in the 2012 Period and \$3,641,000 in the 2011 Period. We received \$4,933,000 from the sale of assets in the 2012 Period compared to \$1,790,000 in the 2011 Period.

We anticipate that funds necessary for capital expenditures, which are expected to total between \$5,000,000 and \$10,000,000 in 2012, and other requirements, will be available from internally generated funds.

### Financing Activities

Cash required for financing activities totaled \$81,844,000 in the 2012 Period and \$82,143,000 in the 2011 Period. In connection with the Chapter 11 Proceedings, we paid \$31,334,000 of debt financing and reorganization costs in the 2012 Period. Debt reduction accounted for the remainder of the usage of funds in the 2012 Period and substantially all of the usage of funds in the 2011 Period.

## DEBT AND LIQUIDITY

As discussed more fully below (and certain capitalized terms used below defined), in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders.

### 1<sup>st</sup> Lien Agreement

In January 2012, we entered into a credit agreement (the “1<sup>st</sup> Lien Agreement”) with a syndicate of lenders (the “1<sup>st</sup> Lien Lenders”). The 1<sup>st</sup> Lien Agreement consists of a term loan of \$689,510,000, and a new \$40,000,000 revolving credit facility under which we have not drawn. The revolving credit facility also supports issuance of letters of credit.

### Interest Payments

Debt under the 1<sup>st</sup> Lien Agreement bears interest, at our option, at either a base rate or an adjusted Eurodollar rate (“LIBOR”), plus an applicable margin. The base rate for the facility is the greater of (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%. LIBOR loans are subject to a minimum rate of 1.25%. The applicable margin for term loan base rate loans is 5.25%, and 6.25% for LIBOR loans. The applicable margin for revolving credit facility base rate loans is 4.5%, and is 5.5% for LIBOR loans. At June 24, 2012, all borrowing under the 1<sup>st</sup> Lien Agreement is based on LIBOR at a total rate of 7.5%.

### Principal Payments

At June 24, 2012, the balance outstanding under the term loan is \$668,000,000. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1<sup>st</sup> Lien 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 1<sup>st</sup> Lien Agreement. Principal payments are required quarterly beginning in June 2012, and total \$5,000,000 in 2012, \$11,000,000 in 2013, \$12,750,000 in 2014, \$13,500,000 in 2015 and \$3,375,000 in 2016, prior to the final maturity.

In addition to the scheduled payments, we are required to make mandatory prepayments under the 1<sup>st</sup> Lien Agreement under certain other conditions, such as from the net proceeds from asset sales. The 1<sup>st</sup> Lien Agreement also requires us to accelerate future payments in the amount of our quarterly 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 1<sup>st</sup> Lien Agreement payments prior to the December 2015 maturity.

Table of Contents

2012 payments made under the 1<sup>st</sup> Lien Agreement, and required to be made for the remainder of the fiscal year, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		14 Weeks Ending
	March 25 2012	June 24 2012	September 30 2012
Mandatory	—	2,500	2,500
Voluntary	12,600	3,850	—
Asset sales	2,410	150	—
Excess cash flow	—	—	—
	15,010	6,500	2,500

There were no net principal payments made in 2012 under the previous credit agreement.

## Security

The 1<sup>st</sup> Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by 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 are not Credit Parties. The 1<sup>st</sup> Lien Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

The Credit Parties have also granted a first priority security interest on 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 1<sup>st</sup> Lien Agreement. Assets of Pulitzer and its subsidiaries, TNI, our ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

The revolving credit facility has super-priority security interest over all of the collateral securing the term loan under the 1<sup>st</sup> Lien Agreement, superior to that of the term loan lenders.

## Covenants and Other Matters

The 1<sup>st</sup> Lien Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is designed to assess the leverage of the Company, excluding Pulitzer, and does not reflect our overall leverage position due to the lower leverage of Pulitzer. It is based primarily on the sum of the principal amount of debt under the 1<sup>st</sup> Lien Agreement, plus debt under the 2<sup>nd</sup> Lien Agreement, as discussed more fully below, which totals \$843,000,000 at June 24, 2012, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes distributions from MNI and other elements, but excludes the operating results of Pulitzer.

Our actual total leverage ratio at June 24, 2012 under the 1<sup>st</sup> Lien Agreement was 6.8:1. Our maximum total leverage ratio covenant will decrease, in stages, from 10.0:1 at June 24, 2012 to 9.1:1 in December 2015. On a consolidated basis, using the definitions in the 1<sup>st</sup> Lien Agreement, our leverage ratio is 5.7:1 at June 24, 2012. This measure is not the subject of a covenant in any of our lending agreements.

The 1<sup>st</sup> Lien Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the sum of interest expense, as defined, incurred under the 1<sup>st</sup> Lien Agreement and 2<sup>nd</sup> Lien Agreement, divided by the same measure of trailing 12 month operating results discussed above. The interest expense coverage ratio is similarly designed to assess the interest coverage of the Company, excluding Pulitzer, and does not reflect our overall interest

coverage position. Our actual interest expense coverage ratio at June 24, 2012 was 2.3:1. Our minimum interest expense coverage ratio covenant will decrease, in stages, from 1.5:1 at June 24, 2012 to 1.1:1 in December 2015.

The 1<sup>st</sup> Lien Agreement requires us to suspend stockholder dividends and share repurchases through December 2015. The 1<sup>st</sup> Lien Agreement also limits capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 1<sup>st</sup> Lien Agreement restricts our ability to make additional investments, acquisitions, dispositions and mergers without the consent of the 1<sup>st</sup> Lien Lenders and limits our ability to incur additional debt. Such covenants require that substantially all of our future cash flows are required to be directed toward debt

## Table of Contents

reduction or accumulation of cash collateral and that the cash flows of the Credit Parties are largely segregated from those of Pulitzer.

### 2<sup>nd</sup> Lien Agreement

In January 2012, we entered into a second lien term loan (the "2<sup>nd</sup> Lien Agreement") with a syndicate of lenders (the "2<sup>nd</sup> Lien Lenders"). The 2<sup>nd</sup> Lien Agreement consists of a term loan of \$175,000,000.

The 2<sup>nd</sup> Lien Agreement bears interest at 15.0%, payable quarterly.

### Principal Payments and Redemption

The 2<sup>nd</sup> Lien Agreement requires no principal amortization, except in March 2017 if required for income tax purposes.

The 2<sup>nd</sup> Lien Agreement may not be redeemed prior to January 30, 2013. From that date until January 30, 2014, the 2<sup>nd</sup> Lien Agreement may be redeemed at 102% of the principal amount, at 101% thereafter until January 30, 2015 and at 100% thereafter until the April 2017 final maturity. Terms of the 1<sup>st</sup> Lien Agreement also restrict principal payments under the 2<sup>nd</sup> Lien Agreement.

### Security

The 2<sup>nd</sup> Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by the Credit Parties and by Pulitzer and its subsidiaries, other than TNI (collectively, the "2<sup>nd</sup> Lien Credit Parties"). The 2<sup>nd</sup> Lien Agreement is secured by second priority security interests in the stock and other equity interests owned by the 2<sup>nd</sup> Lien Credit Parties.

The 2<sup>nd</sup> Lien Credit Parties have also granted a second priority security interest on substantially all of their tangible and intangible assets, and granted second lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and performance of their obligations under the 2<sup>nd</sup> Lien Agreement. Assets of TNI, our ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

### Covenants and Other Matters

The 2<sup>nd</sup> Lien Agreement has no affirmative financial covenants. Restrictions on capital expenditures, permitted investments, indebtedness and other provisions are similar to, but generally less restrictive than, those provisions under the 1<sup>st</sup> Lien Agreement.

2<sup>nd</sup> Lien Lenders shared in the issuance of 6,743,640 shares of our Common Stock valued at \$9,576,000, an amount equal to 13% of outstanding shares on a pro forma basis as of January 30, 2012. 2<sup>nd</sup> Lien Lenders also received \$8,750,000 in the form of non-cash fees, which were added to and included in the principal amount of the second lien term loan.

### 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 Pulitzer Notes were guaranteed by Pulitzer pursuant to a Guaranty Agreement with 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. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

In January 2012, in connection with the Plan, we entered into an amended Note Agreement and Guaranty Agreement which amended the Pulitzer Notes and extended the maturity with the Noteholders. After consideration of unscheduled principal payments totaling \$15,145,000 (\$10,145,000 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 had a balance of \$126,355,000 in January 2012.

The Pulitzer Notes bear interest at 10.55%, increasing 0.75% in January 2013 and January of each year thereafter.

Table of Contents

## Principal Payments

At June 24, 2012, the balance of the Pulitzer Notes is \$113,000,000. We may voluntarily prepay principal amounts outstanding under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice, and subject to certain limitations as to minimum amounts of prepayments. The Pulitzer Notes provide for mandatory scheduled prepayments totaling \$6,400,000 beginning in 2012.

In addition to the scheduled payments, we are required to make mandatory prepayments under the Pulitzer Notes under certain other conditions, such as from the net proceeds from asset sales. The Pulitzer Notes also require us to accelerate future payments in the amount of our quarterly 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 Pulitzer Notes payments prior to the final maturity in December 2015.

2012 payments made under the Pulitzer Notes, and required to be made for the remainder of the fiscal year, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		14 Weeks Ending
	March 25 2012	June 24 2012	September 30 2012
Mandatory	6,400	—	—
Voluntary	8,955	3,000	—
Asset sales	—	—	—
Excess cash flow	—	—	—
	15,355	3,000	—

## Security

The Guaranty Agreement provides that obligations under the Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries other than TNI. The Pulitzer Notes are also secured by the first priority security interests in the stock and other equity interests owned by Pulitzer in its subsidiaries other than TNI. Also, Pulitzer and each of its subsidiaries granted a first priority security interest on substantially all of its tangible and intangible assets, and granted first lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and performance of their obligations under the Pulitzer Notes. Our ownership interest in TNI and certain employee benefit plan assets are excluded.

## Covenants and Other Matters

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of minimum trailing 12 month EBITDA (minimum of \$28,400,000 at June 24, 2012), as defined in the Guaranty Agreement, and limitations on capital expenditures and the incurrence of other debt.

Further, the Pulitzer Notes have limitations or restrictions on 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 or accumulation of cash collateral and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

## Intercreditor Agreements

The 1st Lien Agreement, 2<sup>nd</sup> Lien Agreement and Pulitzer Notes contain cross-default provisions tied to each of the various agreements. Intercreditor agreements and an intercompany subordination agreement are in effect.

Other

Cash payments to the Lenders, Noteholders and legal and professional fees related to the Plan 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 in 2012. In addition, previously capitalized financing costs of \$4,514,000 at September 25, 2011 were charged to expense in 2012 prior to, or upon consummation of the Plan. Debt under the

Table of Contents

Plan was considered compromised. As a result, the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement and Pulitzer Notes were recorded at their respective present values, which resulted in a discount to the stated principal amount totaling \$23,709,000. This amount is being amortized as a non-cash component of financial expense over the terms of the related debt. Such amounts are estimated to total \$4,085,000 in 2012, \$5,418,000 in 2013, \$5,359,000 in 2014, \$5,293,000 in 2015, \$2,429,000 in 2016 and \$1,125,000 in 2017.

Debt is summarized as follows:

(Thousands of Dollars)			Interest Rates (%)
	June 24 2012	September 25 2011	June 24 2012
1 <sup>st</sup> Lien Agreement	668,000	—	7.50
2 <sup>nd</sup> Lien Agreement	175,000	—	15.00
Credit Agreement:			
A Term Loan	—	569,335	
Revolving credit facility	—	286,425	
Pulitzer Notes	113,000	138,500	10.55
Unaccrued (unamortized) present value adjustment	(20,985)	) 290	
	935,015	994,550	
Less current maturities of debt	14,900	994,550	
Current amount of present value adjustment	(5,430)	) —	
Total long term debt	925,545	—	

At June 24, 2012, our weighted average cost of debt was 9.2%.

Aggregate maturities of debt total \$2,500,000 for the remainder of 2012, \$17,400,000 in 2013, \$19,150,000 in 2014, \$19,900,000 in 2015, \$722,050,000 in 2016 and \$175,000,000 in 2017.

### Liquidity

At June 24, 2012, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at June 24, 2012 totals \$49,118,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our continuing cash flows, which will allow us to maintain an adequate level of liquidity.

There are numerous potential consequences under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the Note and Guaranty Agreements related to the Pulitzer Notes, if an event of default, as defined, occurs and is not remedied. Many of those consequences are beyond our control. The occurrence of one or more events of default would give rise to the right of the 1<sup>st</sup> Lien Lenders, 2<sup>nd</sup> Lien Lenders and/or the Noteholders, to exercise their remedies under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien 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 June 24, 2012.

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. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, 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.

## Table of Contents

### 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 considered 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 previous medical plans, such as:

- Certain preventive services provided without charge to employees;
- Automatic enrollment of new employees;
- 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 and mandatory fees per participant. 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.

#### Pension Plans

In July 2012, the Surface Transportation Extension Act of 2012 (“STEA”) was signed into law. STEA provides for optional changes in the determination of discount rates that may result in a near-term reduction in minimum funding requirements for our defined benefit pension plans. STEA will also result in an increase in future premiums to be paid to the Pension Benefit Guarantee Corporation.

#### 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.

37

---

## Table of Contents

### 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 \$6,680,000, based on \$668,000,000 of floating rate debt outstanding at June 24, 2012.

Our debt under the 1<sup>st</sup> Lien Agreement is subject to minimum interest rate levels of 1.25%. Based on the difference between interest rates at the end of July 2012 and our 1.25% minimum rate, LIBOR would need to increase approximately 50-100 basis points before our borrowing cost would begin to be impacted by an increase in interest rates.

At June 24, 2012, approximately 69.9% 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 2010 with some minor adjustments as West coast producers attempted to close the pricing gap with East coast producers. 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 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 2<sup>nd</sup> Lien Agreement and Pulitzer Notes, which are not traded on an active market and are held by small groups of investors. Coupled with the volatility of substantially all domestic credit markets that exists we are unable, as of June 24, 2012, 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

38

---

Table of Contents

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 June 24, 2012 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 was recently denied by the trial court, and the Company is currently evaluating its next steps. 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.

Item 6. Exhibits

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

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

August 3, 2012

Carl G. Schmidt

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

39