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LEE ENTERPRISES, INC  
Form 10-Q  
February 04, 2011

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

FORM 10-Q

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

For The Quarterly Period Ended December 26, 2010

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

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

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

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

Yes ☒ 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   |                          | Smaller reporting company | <input type="checkbox"/>            |

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☐ (Do not check if a smaller reporting company)

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

As of December 26, 2010, 39,239,465 shares of Common Stock and 5,613,236 shares of Class B Common Stock of the Registrant were outstanding.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the “Company”).

References to “2011”, “2010” and the like refer to the fiscal years ended the last Sunday in September.

**FORWARD-LOOKING STATEMENTS**

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

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 and the availability of credit due to instability in the credit markets, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, competition and other risks detailed from time to time in our publicly filed documents.

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

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (Thousands of Dollars)          | December 26<br>2010 | September 26<br>2010 |
|---------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                   |                     |                      |
| Current assets:                 |                     |                      |
| Cash and cash equivalents       | 17,007              | 19,422               |
| Accounts receivable, net        | 89,253              | 77,558               |
| Inventories                     | 11,962              | 10,822               |
| Deferred income taxes           | 2,687               | 2,687                |
| Other                           | 10,461              | 11,128               |
| Total current assets            | 131,370             | 121,617              |
| Investments:                    |                     |                      |
| Associated companies            | 58,490              | 58,122               |
| Restricted cash and investments | 5,123               | 9,623                |
| Other                           | 9,141               | 9,594                |
| Total investments               | 72,754              | 77,339               |
| Property and equipment:         |                     |                      |
| Land and improvements           | 28,075              | 28,075               |
| Buildings and improvements      | 194,503             | 194,344              |
| Equipment                       | 316,621             | 316,697              |
| Construction in process         | 1,453               | 811                  |
|                                 | 540,652             | 539,927              |
| Less accumulated depreciation   | 310,986             | 304,527              |
| Property and equipment, net     | 229,666             | 235,400              |
| Goodwill                        | 433,552             | 433,552              |
| Other intangible assets, net    | 546,857             | 558,140              |
| Postretirement assets, net      | 7,285               | —                    |
| Other                           | 12,271              | 14,068               |
| <br>Total assets                | <br>1,433,755       | <br>1,440,116        |

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



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| (Thousands of Dollars and Shares, Except Per Share Data)                               | December 26<br>2010 | September 26<br>2010 |
|--|---------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>  |                     |                      |
| Current liabilities:   |                     |                      |
| Current maturities of long-term debt   | 83,325              | 81,500               |
| Accounts payable   | 25,928              | 30,529               |
| Compensation and other accrued liabilities   | 34,318              | 38,117               |
| Income taxes payable   | 7,533               | 1,082                |
| Unearned revenue   | 37,706              | 36,624               |
| Total current liabilities  | 188,810             | 187,852              |
| Long-term debt, net of current maturities  | 969,316             | 1,000,927            |
| Pension obligations  | 53,645              | 54,566               |
| Postretirement and postemployment benefit obligations                                  | 5,737               | 9,979                |
| Deferred income taxes  | 106,989             | 102,616              |
| Income taxes payable   | 12,113              | 11,919               |
| Other  | 15,043              | 15,150               |
| Total liabilities  | 1,351,653           | 1,383,009            |
| Equity:  |                     |                      |
| Stockholders' equity:  |                     |                      |
| Serial convertible preferred stock, no par value; authorized 500 shares; none issued   | —                   | —                    |
| Common Stock, \$2 par value; authorized 120,000 shares; issued and outstanding:        | 78,478              | 78,554               |
| December 26, 2010; 39,239 shares;  |                     |                      |
| September 26, 2010; 39,277 shares  |                     |                      |
| Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding: | 11,226              | 11,352               |
| December 26, 2010; 5,613 shares;   |                     |                      |
| September 26, 2010; 5,676 shares   |                     |                      |
| Additional paid-in capital   | 140,192             | 139,460              |
| Accumulated deficit  | (160,249)           | (179,194)            |
| Accumulated other comprehensive income   | 12,136              | 6,651                |
| Total stockholders' equity   | 81,783              | 56,823               |
| Non-controlling interests  | 319                 | 284                  |
| Total equity   | 82,102              | 57,107               |
| Total liabilities and equity   | 1,433,755           | 1,440,116            |

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



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

| (Thousands of Dollars, Except Per Common Share Data) | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 26<br>2010 | December 27<br>2009 |
| Operating revenue:                                   |                     |                     |
| Advertising  | 151,766             | 154,402             |
| Circulation  | 45,478              | 45,115              |
| Other  | 10,424              | 10,321              |
| Total operating revenue                              | 207,668             | 209,838             |
| Operating expenses:                                  |                     |                     |
| Compensation   | 78,020              | 82,136              |
| Newsprint and ink                                    | 15,674              | 12,693              |
| Other operating expenses                             | 59,669              | 61,477              |
| Depreciation   | 6,523               | 7,362               |
| Amortization of intangible assets                    | 11,283              | 11,320              |
| Workforce adjustments                                | 192                 | 397                 |
| Total operating expenses                             | 171,361             | 175,385             |
| Curtailment gains                                    | 10,172              | 31,130              |
| Equity in earnings of associated companies           | 2,705               | 2,190               |
| Operating income                                     | 49,184              | 67,773              |
| Non-operating income (expense):                      |                     |                     |
| Financial income                                     | 59                  | 54                  |
| Financial expense                                    | (13,437)            | (19,804)            |
| Debt financing costs                                 | (1,966)             | (1,995)             |
| Other, net   | (453)               | —                   |
| Total non-operating expense, net                     | (15,797)            | (21,745)            |
| Income before income taxes                           | 33,387              | 46,028              |
| Income tax expense                                   | 14,407              | 18,069              |
| Net income   | 18,980              | 27,959              |
| Net income attributable to non-controlling interests | (35)                | (52)                |
| Income attributable to Lee Enterprises, Incorporated | 18,945              | 27,907              |
| Other comprehensive income, net                      | 5,485               | 793                 |
| Comprehensive income                                 | 24,430              | 28,700              |
| Earnings per common share:                           |                     |                     |
| Basic  | 0.42                | 0.63                |
| Diluted  | 0.42                | 0.62                |

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

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

| (Thousands of Dollars)  | 13 Weeks Ended      |                     |
|---|---------------------|---------------------|
|   | December 26<br>2010 | December 27<br>2009 |
| Cash provided by (required for) operating activities:                             |                     |                     |
| Net income  | 18,980              | 27,959              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 17,806              | 18,682              |
| Curtailment gains   | (10,172)            | (31,130)            |
| Accretion of debt fair value adjustment   | (136)               | (155)               |
| Stock compensation expense  | 518                 | 682                 |
| Distributions less than current earnings of associated companies                  | (436)               | (192)               |
| Deferred income tax expense   | 5,968               | 10,588              |
| Debt financing costs  | 1,966               | 1,995               |
| Changes in operating assets and liabilities:                                      |                     |                     |
| Increase in receivables   | (11,695)            | (9,948)             |
| Increase in inventories and other   | (207)               | (1,161)             |
| Decrease in accounts payable, accrued expenses and unearned revenue               | (7,318)             | (4,806)             |
| Increase (decrease) in pension, postretirement and post employment benefits       | 1,614               | (1,407)             |
| Change in income taxes receivable or payable                                      | 6,645               | 3,128               |
| Other, net  | 119                 | (1,312)             |
| Net cash provided by operating activities   | 23,652              | 12,923              |
| Cash provided by (required for) investing activities:                             |                     |                     |
| Purchases of property and equipment   | (1,105)             | (3,254)             |
| Decrease (increase) in restricted cash  | 4,500               | (39)                |
| Proceeds from sales of assets   | 452                 | 203                 |
| Other, net  | 68                  | 187                 |
| Net cash provided by (required for) investing activities                          | 3,915               | (2,903)             |
| Cash provided by (required for) financing activities:                             |                     |                     |
| Proceeds from long-term debt  | 9,000               | 47,800              |
| Payments on long-term debt  | (38,650)            | (54,966)            |
| Debt financing costs paid   | (94)                | —                   |
| Common stock transactions, net  | (238)               | (165)               |
| Net cash required for financing activities  | (29,982)            | (7,331)             |
| Net increase (decrease) in cash and cash equivalents                              | (2,415)             | 2,689               |
| Cash and cash equivalents:  |                     |                     |
| Beginning of period   | 19,422              | 7,905               |
| End of period   | 17,007              | 10,594              |

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

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

## 1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the “Company”) as of December 26, 2010 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 2010 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 26, 2010 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 “2011”, “2010” 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.

## 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 operations and specialty publications. In May 2009, Citizen discontinued print publication of the Tucson Citizen. TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspapers and other media.

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

Summarized results of TNI are as follows:

| (Thousands of Dollars)   | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 26<br>2010 | December 27<br>2009 |
| Operating revenue  | 17,232              | 17,806              |
| Operating expenses, excluding workforce adjustments, depreciation and amortization | 13,454              | 14,739              |
| Workforce adjustments  | 232                 | 783                 |
| Operating income   | 3,546               | 2,284               |
| Company's 50% share of operating income  | 1,773               | 1,142               |
| Less amortization of intangible assets   | 304                 | 244                 |

|                           |       |     |
|---------------------------|-------|-----|
| Equity in earnings of TNI | 1,469 | 898 |
|---------------------------|-------|-----|

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Income and Comprehensive Income. These amounts totaled \$127,000 and \$(135,000) in the 13 weeks ended December 26, 2010 and December 27, 2009, respectively.

Annual amortization of intangible assets is estimated to be \$1,215,000 in the 52 week period ending December 2011 and the 53 week period ending December 2012, \$1,036,000 in the 52 week period ending December 2013

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and \$911,000 in the 52 week periods ending December 2014 and December 2015.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

| (Thousands of Dollars)   | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 26<br>2010 | December 27<br>2009 |
| Operating revenue  | 20,200              | 20,597              |
| Operating expenses, excluding workforce adjustments, depreciation and amortization | 15,685              | 15,823              |
| Workforce adjustments  | 16                  | —                   |
| Depreciation and amortization  | 515                 | 576                 |
| Operating income   | 3,984               | 4,198               |
| Net income   | 2,472               | 2,584               |
| Equity in earnings of MNI  | 1,236               | 1,292               |

### 3 GOODWILL AND OTHER INTANGIBLE ASSETS

There was no change in the carrying value of goodwill in the 13 weeks ended December 26, 2010.

Identified intangible assets consist of the following:

| (Thousands of Dollars)                  | December 26<br>2010 | September 26<br>2010 |
|---|---------------------|----------------------|
| Nonamortized intangible assets:         |                     |                      |
| Mastheads                               | 44,754              | 44,754               |
| Amortizable intangible assets:          |                     |                      |
| Customer and newspaper subscriber lists | 885,713             | 885,713              |
| Less accumulated amortization           | 383,615             | 372,337              |
|   | 502,098             | 513,376              |
| Noncompete and consulting agreements    | 28,658              | 28,658               |
| Less accumulated amortization           | 28,653              | 28,648               |
|   | 5                   | 10                   |
|   | 546,857             | 558,140              |

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

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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.

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 52 week period ending December 2011, 53 week period ending December 2012 and for each of the 52 week periods ending December 2013, December 2014 and December 2015 is estimated to be \$44,316,000, \$41,496,000, \$39,088,000, \$38,950,000 and \$37,607,000, respectively.

## 4 DEBT

### Credit Agreement

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

### Security

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

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

### Interest Payments

Debt under the A Term Loan, which has a balance of \$620,515,000 at December 26, 2010, and the \$375,000,000 revolving credit facility, which has a balance of \$279,425,000 at December 26, 2010, bear 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 (i) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (ii) 0.5% in excess of the overnight federal funds rate at such time; or (iii) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: for revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon our total leverage ratio at such time.

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively, are also in effect. At December 26, 2010, all of our outstanding debt under the Credit Agreement is based on one month borrowing. At the December 26, 2010 leverage level, our debt under the Credit Agreement will be priced at 1.25%, plus a LIBOR margin of 3.0% beginning in February 2011.

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Under the 2009 Amendments, contingent, non-cash payment-in-kind interest expense of 1.0% to 2.0% will be accrued in a quarterly period only in the event our total leverage ratio exceeds 7.5:1 at the end of the previous quarter. At December 26, 2010, this provision is not applicable. Such non-cash charges, if any, will be added to the principal amount of debt and will be reversed, in whole or in part, in the event our total leverage ratio is below 6.0:1 in September 2011 or we refinance the Credit Agreement in advance of its April 2012 maturity.

### Principal Payments

We may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. We are required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in the 13 weeks ended December 26, 2010 were \$15,150,000. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. At December 26, 2010, remaining payments in 2011 total \$50,325,000. Payments in 2012 prior to the April 2012 maturity total \$70,000,000. The scheduled payment at maturity is \$500,190,000, plus the balance of the revolving credit facility outstanding at that time.

In addition to the scheduled payments, we are required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires us to apply the net proceeds from asset sales to repayment of the A Term Loan. In January 2011, a payment of \$325,000 was made related to this provision. In the 13 weeks ended December 26, 2010, we made a \$150,000 payment related to this provision.

The Credit Agreement also requires us to accelerate future payments under the A Term Loan in the amount of 75% of our annual excess cash flow, as defined. We had no excess cash flow under the Credit Agreement in 2010 and 2009. We had excess cash flow of approximately \$62,000,000 in 2008 and, as a result, paid \$46,325,000 originally due under the A Term Loan in March and June 2009. The acceleration of such payments due to future asset sales or excess cash flow does not change the due dates of other A Term Loan payments prior to the April 2012 maturity.

### Covenants and Other Matters

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At December 26, 2010, we are in compliance with such covenants. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals \$1,051,940,000 at December 26, 2010, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI and curtailment gains.

The 2009 Amendments amended our covenants to take into account economic conditions and the changes to amortization of debt noted above. Our total leverage ratio at December 26, 2010 was 5.25:1. Under the 2009 Amendments, our maximum total leverage ratio limit will decrease from 7.5:1 in December 2010 to 7.25:1 in March 2011, decrease to 7.0:1 in June 2011, decrease to 6.75:1 in September 2011 and decrease to 6.50:1 in December 2011. Each change in the maximum total leverage ratio noted above is effective on the last day of the quarter.

The Credit Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the same measure of trailing 12 month operating results noted above. Our interest expense coverage ratio at December 26, 2010 was 3.11:1. The minimum interest expense coverage ratio is 1.6:1 in December 2010 and will increase periodically thereafter until it reaches 2.25:1 in March 2012.

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

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### Pulitzer Notes

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

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the "Notes Amendment"). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28, 2008. The remaining debt balance of \$186,000,000, of which \$152,000,000 remains outstanding at December 26, 2010, was refinanced by the Noteholders until April 2012.

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

The Notes Amendment increased the rate paid on the outstanding principal balance to 9.05% until April 28, 2010, at which time it increased to 9.55%. The interest rate will increase by 0.5% per year thereafter.

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

In addition to the scheduled payments, we are required to make mandatory prepayments under the Pulitzer Notes under certain other conditions. The Notes Amendment requires us to apply the net proceeds from asset sales to repayment of the Pulitzer Notes. In January 2011, a payment of \$1,000,000 was made related to this provision.

The Notes Amendment establishes a reserve of restricted cash of up to \$9,000,000 (which was reduced to \$4,500,000 in October 2010) to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements were eliminated. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events. In 2010, a principal prepayment of \$1,000,000 was made under the Pulitzer Notes from excess cash flow of Pulitzer for the 13 weeks ended March 28, 2010.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the maximum ratio of debt to EBITDA (limit of 3.5:1 at December 26, 2010), as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage (limit of 2.8:1 at December 26, 2010), as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At December 26, 2010, Pulitzer is in compliance with such covenants.

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

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

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which was recorded as debt in the Consolidated Balance Sheets. At December 26, 2010, the unaccreted balance totals \$701,000. This amount is being accreted over the remaining life of the Pulitzer

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

## Liquidity

At December 26, 2010, we had \$279,425,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, have approximately \$81,677,000 available for future use. Including cash and restricted cash, our liquidity at December 26, 2010 totals \$103,807,000. This liquidity amount excludes any future cash flows. At December 26, 2010, remaining mandatory principal payments on debt in 2011 total \$59,325,000. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows. We expect all interest and principal payments due in 2011 will be satisfied by our continuing cash flows, which will allow us to maintain, or increase, the current level of liquidity.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 26, 2010.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement 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, and the control of Pulitzer and PD LLC, respectively. The occurrence of one or more events of default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

In 2010, we filed a Form S-3 shelf registration statement ("Shelf") with the Securities and Exchange Commission ("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. The Shelf enables us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities must be used generally to reduce debt subject to conditions of existing debt agreements.

## Other

In 2009, we paid fees to the Lenders and Noteholders for the 2009 Amendments and Notes Amendment which, along with the related legal and financial advisory expenses, totaled \$26,061,000. \$15,500,000 of the fees were capitalized and are being expensed over the remaining term of the Credit Agreement and Pulitzer Notes, until April 2012. At December 26, 2010, we have total unamortized financing costs of \$9,976,000.

Debt is summarized as follows:

| (Thousands of Dollars)    | December 26<br>2010 | September 26<br>2010 | Interest Rates<br>December 26<br>2010 |
|---------------------------|---------------------|----------------------|---------------------------------------|
| Credit Agreement:         |                     |                      |                                       |
| A Term Loan               | 620,515             | 635,665              | 4.125                                 |
| Revolving credit facility | 279,425             | 285,425              | 4.125                                 |
| Pulitzer Notes:           |                     |                      |                                       |

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|                                  |           |           |      |
|----------------------------------|-----------|-----------|------|
| Principal amount                 | 152,000   | 160,500   | 9.55 |
| Unaccreted fair value adjustment | 701       | 837       |      |
|                                  | 1,052,641 | 1,082,427 |      |
| Less current maturities          | 83,325    | 81,500    |      |
|                                  | 969,316   | 1,000,927 |      |

At December 26, 2010, our weighted average cost of debt was 4.91%.

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Aggregate maturities of debt in the 52 week period ending December 2011 and 53 week period ending December 2012 are \$83,325,000 and \$968,615,000, respectively.

## 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 are generally based on salary and years of service. 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.

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

| PENSION PLANS<br>(Thousands of Dollars)                | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 26<br>2010 | December 27<br>2009 |
| Service cost for benefits earned during the period     | 60                  | 333                 |
| Interest cost on projected benefit obligation          | 2,071               | 2,227               |
| Expected return on plan assets                         | (2,397)             | (2,365)             |
| Amortization of net loss                               | 213                 | 113                 |
| Amortization of prior service benefit                  | (34)                | (34)                |
|  | (87)                | 274                 |
|  |                     |                     |
| POSTRETIREMENT MEDICAL PLANS<br>(Thousands of Dollars) | 13 Weeks Ended      |                     |
|  | December 26<br>2010 | December 27<br>2009 |
| Service cost for benefits earned during the period     | 241                 | 190                 |
| Interest cost on projected benefit obligation          | 523                 | 1,076               |
| Expected return on plan assets                         | (562)               | (547)               |
| Amortization of net gain                               | (646)               | (633)               |
| Amortization of prior service benefit                  | (336)               | (554)               |
| Curtailment gains                                      | (10,172)            | (31,130)            |
|  | (10,952)            | (31,598)            |

Based on our forecast at September 26, 2010, we expect to contribute \$2,137,000 to our pension plans in 2011. Based on our forecast at December 26, 2010, we do not expect to make significant contributions to our postretirement plans in 2011.

#### 2011 Changes to Plans

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

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weeks ended December 26, 2010, will reduce 2011 net periodic postretirement medical cost by \$769,000 beginning in the 13 weeks ending March 27, 2011, and reduced the benefit obligation liability at December 26, 2010 by \$15,065,000.

## 2010 Changes to Plans

In December 2009, 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 non-cash curtailment gains of \$31,130,000, which were recognized in the 13 weeks ended December 27, 2009, reduced 2010 net periodic postretirement medical cost by \$1,460,000 beginning in the 13 weeks ended March 28, 2010, and reduced the benefit obligation liability at December 27, 2009 by \$28,750,000.

In March 2010, members of the St. Louis Newspaper Guild voted to approve a new 5.5 year contract, effective April 1, 2010. The new contract eliminated postretirement medical coverage for active employees and defined pension benefits were frozen. The elimination of postretirement medical coverage resulted in non-cash curtailment gains of \$11,878,000, which were recognized in the 13 weeks ended March 28, 2010 and reduced the benefit obligation liability at March 28, 2010 by \$6,576,000. The freeze of defined pension benefits resulted in non-cash curtailment gains of \$2,004,000, which were recognized in the 13 weeks ended March 28, 2010, reduced 2010 net periodic pension expenses by \$668,000 beginning in the 13 weeks ended June 27, 2010, and reduced the benefit obligation liability at March 28, 2010 by \$2,004,000.

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.

The Patient Protection and Affordable Care Act, along with its companion reconciliation legislation (together, the “Affordable Care Act”), were enacted into law in March 2010. We expect the Affordable Care Act will be supported by a substantial number of underlying regulations, many of which have not been issued. Certain provisions are now subject to judicial challenges on constitutional and other grounds. Accordingly, a complete determination of the impact of the Affordable Care Act cannot be made at this time. However, we do not expect the Affordable Care Act will have a significant impact on our postretirement medical benefit obligation liability.

## 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.

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

| (Percent of Income Before Income Taxes)        | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 26<br>2010 | December 27<br>2009 |
| Computed “expected” income tax expense         | 35.0                | 35.0                |
| State income taxes, net of federal tax benefit | 3.0                 | 3.0                 |
| Stock compensation                             | 4.2                 | 2.9                 |
| Curtailment gains                              | 0.3                 | —                   |
| Increase in uncertain tax positions            | 1.0                 | 0.5                 |
| Other  | (0.3                | )(2.1               |

43.2

39.3

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,

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the actual outcome cannot be determined with certainty and the difference could be material, either positively or negatively, to the Consolidated Statements of Income and Comprehensive Income in the periods in which such matters are ultimately determined. We do not believe the final resolution of such matters will be material to our consolidated financial position or cash flows.

We have various income tax examinations ongoing and at various stages of completion, but generally the income tax returns have been audited or closed to audit through 2005.

## 7 EARNINGS PER COMMON SHARE

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

| (Thousands of Dollars and Shares, Except Per Share Data) | 13 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | December 26<br>2010 | December 27<br>2009 |
| Income attributable to Lee Enterprises, Incorporated:    | 18,945              | 27,907              |
| Weighted average common shares                           | 44,939              | 44,892              |
| Less non-vested restricted Common Stock                  | 259                 | 361                 |
| Basic average common shares                              | 44,680              | 44,531              |
| Dilutive stock options and restricted Common Stock       | —                   | 228                 |
| Diluted average common shares                            | 44,680              | 44,759              |
| Earnings per common share:                               |                     |                     |
| Basic  | 0.42                | 0.63                |
| Diluted  | 0.42                | 0.62                |

For the 13 weeks ended December 26, 2010 and December 27, 2009, we have 2,027,000 and 204,000 weighted average shares, respectively, subject to issuance under our stock option plan that have no intrinsic value and are not considered in the computation of diluted earnings per common share.

## 8 STOCK OWNERSHIP PLANS

### Stock Options

A summary of stock option activity during the 13 weeks ended December 26, 2010 follows:

| (Thousands of Dollars and Shares, Except Per Share Data) | Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|--|--------|--|--|---------------------------------|
| Outstanding, September 26, 2010                          | 940    | 8.77                                     |  |                                 |
| Granted  | 1,105  | 2.57                                     |  |                                 |
| Cancelled  | (29)   | 13.78                                    |  |                                 |
| Outstanding, December 26, 2010                           | 2,016  | 5.30                                     | 8.8  | 286                             |
| Exercisable, December 26, 2010                           | 403    | 16.87                                    | 6.7  | 86                              |

Total unrecognized compensation expense for unvested stock options as of December 26, 2010 is \$2,525,000, which will be recognized over a weighted average period of 2.4 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

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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 2011 option awards:

|                                   |      |
|-----------------------------------|------|
| Volatility (percent)              | 111  |
| Risk-free interest rate (percent) | 1.01 |
| Expected term (years)             | 4.7  |
| Estimated fair value (dollars)    | 2.00 |

## Restricted Common Stock

A summary of restricted Common Stock activity during the 13 weeks ended December 26, 2010 follows:

| (Thousands of Shares, Except Per Share Data) | Shares | Weighted<br>Average Grant Date<br>Fair Value |
|--|--------|--|
| Outstanding, September 26, 2010              | 299    | 15.02  |
| Vested                                       | (297)  | ) 15.02                                      |
| Forfeited                                    | (2)    | ) 15.02                                      |
| Outstanding, December 26, 2010               | —      | —  |

The fair value of restricted Common Stock vested during the 13 weeks ended December 26, 2010 totals \$723,000.

## 9 FAIR VALUE MEASUREMENTS

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

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

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

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

The following table summarizes the financial instruments measured at fair value in the accompanying Consolidated Financial Statements as of December 26, 2010:

| (Thousands of Dollars)                 | Level 3 | Total |
|--|---------|-------|
| Herald Value - liability (see Note 10) | 2,300   | 2,300 |

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling \$8,155,000, including our 17% ownership of the nonvoting common stock of TCT, are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. Our fixed rate debt

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consists of the \$152,000,000 principal amount of Pulitzer Notes, as discussed more fully in Note 4, which is not traded on an active market and is held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists, we are unable, as of December 26, 2010, to determine the fair value of such debt. The value, if determined, may be less than the carrying amount.

There were no realized or unrealized gains or losses, purchases, sales, or transfers related to the Herald Value in the 13 weeks ended December 26, 2010. The determination of the amount of the Herald Value is based on an estimate of fair value using both market and income-based approaches.

In 2010, we reduced the carrying value of equipment no longer in use by \$3,290,000, 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. 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 is expected to 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.

### 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 employees and not independent contractors of ours. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court judge granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. Discovery in the case will proceed in the normal course and we intend to bring a motion to reverse the class certification ruling upon completion of that process. 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 deny the allegations of employee status, consistent with our past practices and industry practices, and intend to vigorously contest the action, which is not covered by insurance.

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



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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of, and for the 13 weeks ended December 26, 2010. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2010 Annual Report on Form 10-K.

## 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. However, we believe the use of non-GAAP financial measures provides meaningful supplemental information with which to evaluate our financial performance, or assist in forecasting and analyzing future periods. We also believe such non-GAAP financial measures are alternative indicators of performance used by investors, lenders, rating agencies and financial analysts to estimate the value of a publishing business or its ability to meet debt service requirements.

## Operating Cash Flow and Operating Cash Flow Margin

Operating cash flow, which is defined as operating income before depreciation, amortization, curtailment gains and equity in earnings of associated companies, and operating cash flow margin (operating cash flow divided by operating revenue) represent non-GAAP financial measures that are used in the analysis below. We believe these measures provide meaningful supplemental information because of their focus on results from operations excluding such non-cash factors.

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

| (Thousands of Dollars)                     | 13 Weeks Ended      |                       |                     |                       |
|--|---------------------|-----------------------|---------------------|-----------------------|
|  | December 26<br>2010 | Percent of<br>Revenue | December 27<br>2009 | Percent of<br>Revenue |
| Operating cash flow                        | 54,113              | 26.1                  | 53,135              | 25.3                  |
| Depreciation and amortization              | (17,806)            | (8.6)                 | (18,682)            | (8.9)                 |
| Curtailment gains                          | 10,172              | 4.9                   | 31,130              | 14.8                  |
| Equity in earnings of associated companies | 2,705               | 1.3                   | 2,190               | 1.0                   |
| Operating income                           | 49,184              | 23.7                  | 67,773              | 32.3                  |

## Adjusted Net Income and Adjusted Earnings Per Common Share

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

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

## SAME PROPERTY COMPARISONS

Certain information below, as noted, is presented on a same property basis, which is exclusive of acquisitions and divestitures, if any, consummated in the current or prior year. We believe such comparisons provide meaningful supplemental information for an understanding of changes in our revenue and operating expenses. 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.

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### CRITICAL ACCOUNTING POLICIES

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

Our critical accounting policies include the following:

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

Additional information regarding these critical accounting policies can be found under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2010 Annual Report on Form 10-K and the Notes to Consolidated Financial Statements, included herein.

### EXECUTIVE OVERVIEW

We are a premier provider of local news, information and advertising in primarily midsize markets, with 49 daily newspapers and a joint interest in four others, rapidly growing digital products and nearly 300 weekly newspapers and specialty publications in 23 states.

Approximately 73% of our revenue is derived from advertising. Our strategies are to increase our share of local advertising through increased sales activities in our existing markets and, over time, to increase print and digital audiences through internal expansion into existing and contiguous markets and enhancement of digital products.

### 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. 2010, 2009 and 2008 revenue, operating results and cash flows were significantly impacted by the recession. 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 continuing, and (at the time) increasing 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 and again in 2009. Deterioration in our revenue and the overall recessionary operating environment for us and other publishing companies were also factors in the timing of the analyses.

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

At September 26, 2010, our fair value exceeded our carrying value. No indicators have been identified that would require us to reassess our fair value as of December 26, 2010 and during the 13 week period then ended. Based on substantial impairment charges recorded in both 2009 and 2008, and the most recent testing performed at September 26, 2010, as of December 26, 2010 we do not believe our reporting unit is at risk of failing future goodwill impairment testing. However, future decreases in our market value, or significant differences in revenue, expenses or cash flows from estimates used to determine fair value, could affect this determination.

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## DEBT AND LIQUIDITY

As discussed more fully in Note 4 of the Notes to Consolidated Financial Statements, included herein, in February 2009, we completed a comprehensive restructuring of our Credit Agreement and a refinancing of our Pulitzer Notes debt, substantially enhancing our liquidity and operating flexibility until April 2012. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows. We expect all interest and principal payments due in 2011 will be satisfied by our continuing cash flows.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 26, 2010.

## 13 WEEKS ENDED DECEMBER 26, 2010

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

| (Thousands of Dollars, Except Per Share Data) | 13 Weeks Ended      |                     |                   |
|---|---------------------|---------------------|-------------------|
|   | December 26<br>2010 | December 27<br>2009 | Percent<br>Change |
| Advertising revenue:                          |                     |                     |                   |
| Retail  | 91,491              | 94,779              | (3.5 )            |
| Classified:                                   |                     |                     |                   |
| Daily newspapers:                             |                     |                     |                   |
| Employment                                    | 5,244               | 4,789               | 9.5               |
| Automotive                                    | 5,957               | 6,405               | (7.0 )            |
| Real estate                                   | 4,997               | 6,371               | (21.6 )           |
| All other                                     | 11,089              | 11,179              | (0.8 )            |
| Other publications                            | 6,400               | 6,599               | (3.0 )            |
| Total classified                              | 33,687              | 35,343              | (4.7 )            |
| Digital                                       | 14,674              | 10,649              | 37.8              |
| National                                      | 9,003               | 10,645              | (15.4 )           |
| Niche publications                            | 2,911               | 2,986               | (2.5 )            |
| Total advertising revenue                     | 151,766             | 154,402             | (1.7 )            |
| Circulation                                   | 45,478              | 45,115              | 0.8               |
| Commercial printing                           | 3,052               | 2,931               | 4.1               |
| Digital services and other                    | 7,372               | 7,390               | (0.2 )            |
| Total operating revenue                       | 207,668             | 209,838             | (1.0 )            |
| Compensation                                  | 78,020              | 82,136              | (5.0 )            |
| Newsprint and ink                             | 15,674              | 12,693              | 23.5              |
| Other operating expenses                      | 59,669              | 61,477              | (2.9 )            |
| Workforce adjustments                         | 192                 | 397                 | (51.6 )           |
|   | 153,555             | 156,703             | (2.0 )            |
| Operating cash flow                           | 54,113              | 53,135              | 1.8               |
| Depreciation and amortization                 | 17,806              | 18,682              | (4.7 )            |
| Curtailment gains                             | 10,172              | 31,130              | (67.3 )           |
| Equity in earnings of associated companies    | 2,705               | 2,190               | 23.5              |
| Operating income                              | 49,184              | 67,773              | (27.4 )           |
| Non-operating expense, net                    | (15,797)            | (21,745)            | (27.4 )           |
| Income before income taxes                    | 33,387              | 46,028              | (27.5 )           |

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|  |        |        |        |   |
|--|--------|--------|--------|---|
| Income tax expense                                   | 14,407 | 18,069 | (20.3  | ) |
| Net income   | 18,980 | 27,959 | (32.1  | ) |
| Net income attributable to non-controlling interests | (35    | )(52   | )(32.7 | ) |
| Income attributable to Lee Enterprises, Incorporated | 18,945 | 27,907 | (32.1  | ) |
| Other comprehensive income, net                      | 5,485  | 793    | NM     |   |
| Comprehensive income                                 | 24,430 | 28,700 | (14.9  | ) |
| Earnings per common share:                           |        |        |        |   |
| Basic  | 0.42   | 0.63   | (33.3  | ) |
| Diluted  | 0.42   | 0.62   | (32.3  | ) |

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References to the 2011 Quarter refer to the 13 weeks ended December 26, 2010. Similarly, references to the 2010 Quarter refer to the 13 weeks ended December 27, 2009. Revenue, as reported, and same property revenue are the same as there were no acquisitions or divestitures in 2011 or 2010.

Year-over-year revenue trends improved significantly overall as 2010 progressed. In the 13 weeks ended September 27, 2009, total operating revenue decreased 20.0%, compared to the prior year period. In the 13 weeks ended September 26, 2010, total operating revenue declined 3.7%. Certain categories of advertising, such as digital, and employment and auto classified advertising, turned positive compared to 2009 at different points in 2010. For the 2011 Quarter, total operating revenue decreased \$2,170,000, or 1.0%, compared to the 2010 Quarter. We expect year-over-year revenue comparisons will continue to improve in the 13 weeks ending March 27, 2011.

## Advertising Revenue

In the 2011 Quarter, advertising revenue decreased \$2,636,000, or 1.7%. On a combined basis, print and digital retail advertising decreased 1.9%. Print retail revenue decreased \$3,288,000, or 3.5%, in the 2011 Quarter while daily newspaper retail advertising lineage increased 2.1%. Average retail rates, excluding preprint insertions, decreased 9.3% in the 2011 Quarter. Retail preprint insertion revenue decreased 0.2%. Digital retail advertising increased 49.1%, partially offsetting print declines.

The table below combines print and digital advertising revenue and reclassifies certain print retail revenue to classified based on the primary business of the advertiser:

| (Thousands of Dollars) | 13 Weeks Ended      |                     | Percent Change |
|------------------------|---------------------|---------------------|----------------|
|                        | December 26<br>2010 | December 27<br>2009 |                |
| Retail                 | 96,457              | 98,294              | (1.9 )         |
| Classified:            |                     |                     |                |
| Employment             | 8,745               | 7,762               | 12.7           |
| Automotive             | 11,092              | 10,230              | 8.4            |
| Real estate            | 6,736               | 8,455               | (20.3 )        |
| Other                  | 15,525              | 15,747              | (1.4 )         |
| Total classified       | 42,098              | 42,194              | (0.2 )         |
| National               | 10,299              | 10,929              | (5.8 )         |

On a combined basis, print and digital classified revenue decreased 0.2%. Print classified advertising revenue decreased \$1,656,000, or 4.7%, in the 2011 Quarter. Digital classified advertising increased 7.3%. Higher rate print employment advertising in our daily newspapers increased 9.5% and digital employment advertising increased 19.2%. As a result, this category increased 12.7% overall. Print automotive advertising decreased 7.0% and digital automotive advertising increased 11.1%. As a result, this category increased 8.4% overall. Print real estate advertising decreased 21.6% in a weak housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Digital real estate advertising decreased 17.1%. Other daily newspaper print classified advertising decreased 0.8%. Daily newspaper classified advertising rates decreased 4.2%.

Advertising lineage, as reported for our daily newspapers only, consists of the following:

| (Thousands of Inches) | 13 Weeks Ended      |                     | Percent Change |
|-----------------------|---------------------|---------------------|----------------|
|                       | December 26<br>2010 | December 27<br>2009 |                |
| Retail                | 2,922               | 2,860               | 2.1            |

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|            |       |       |       |   |
|------------|-------|-------|-------|---|
| Classified | 2,687 | 2,708 | (0.8  | ) |
| National   | 116   | 151   | (23.1 | ) |
|            | 5,725 | 5,719 | 0.1   |   |

On a stand-alone basis, digital advertising revenue increased 37.8% in the 2011 Quarter. Year-over-year total digital advertising turned positive in the month of December 2009 and has been rising steadily since that time.

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National print advertising decreased \$1,642,000, or 15.4%, due to a 23.1% decrease in lineage and a 6.7% decrease in average national rate. Digital national advertising increased 317.4%. Advertising in niche publications decreased 2.5%.

Despite declines in advertising revenue, our total advertising results have historically benchmarked favorably to industry averages reported by the Newspaper Association of America.

### Circulation and Other Revenue

Circulation revenue increased \$363,000, or 0.8%, in the 2011 Quarter due primarily to selective price increases. Our unaudited, average newspaper circulation units, including TNI and MNI, totaled 1.4 million daily and 1.7 million Sunday for the 2011 Quarter. Comparable amounts for the 2010 Quarter are not available due to extensive changes made by the Audit Bureau of Circulations (“ABC”) to the measurement of circulation units. The new ABC standards include updated measures for newspaper subscriptions that include hybrid or bundled digital editions, while continuing to address the growing market for paid content across multiple platforms, such as e-readers and mobile apps. These changes were effective in October 2010. Lee's digital sites attracted 19.7 million unique visitors in the month of December 2010, an increase of 20.1% from a year ago, with approximately 161.7 million page views. The number of mobile page views grew 250% to 10.0 million in December 2010. 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 \$121,000, or 4.1%, in the 2011 Quarter. Digital services and other revenue decreased \$18,000, or 0.2%, in the 2011 Quarter.

### Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased \$2,943,000, or 1.9%, in the 2011 Quarter.

Compensation expense decreased \$4,116,000, or 5.0%, in the 2011 Quarter, driven by a decline in average full time equivalent employees of 3.2%.

Newsprint and ink costs increased \$2,981,000, or 23.5%, in the 2011 Quarter as a result of higher prices, which were partially offset by a reduction in newsprint volume of 2.8%. 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 \$1,808,000, or 2.9%, in the 2011 Quarter.

Reductions in staffing resulted in workforce adjustment costs totaling \$192,000 and \$397,000 in the 2011 Quarter and 2010 Quarter, respectively.

We are engaged in various efforts to continue to contain future growth in operating expenses. Despite the increased cost of newsprint, operating expenses, excluding depreciation, amortization and unusual matters, are expected to increase less than 1% in 2011.

### Results of Operations

As a result of the factors noted above, operating cash flow increased 1.8% to \$54,113,000 in the 2011 Quarter compared to \$53,135,000 in the 2010 Quarter. Operating cash flow margin increased to 26.1% from 25.3% a year ago

reflecting a smaller percentage decrease in operating revenue than the decrease in operating expenses, as well as decreased workforce adjustment costs in 2011.

Depreciation expense decreased \$839,000, or 11.4%, in the 2011 Quarter due to lower levels of capital spending in 2010 and 2009. Amortization expense decreased \$37,000, or 0.3%, in the 2011 Quarter.

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

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March 27, 2011, and reduced the benefit obligation liability at December 26, 2010 by \$15,065,000.

In December 2009, 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 non-cash curtailment gains of \$31,130,000, which were recognized in the 13 weeks ended December 27, 2009, reduced 2010 net periodic postretirement medical cost by \$1,460,000 beginning in the 13 weeks ended March 28, 2010, and reduced the benefit obligation liability at December 27, 2009 by \$28,750,000.

In March 2010, members of the St. Louis Newspaper Guild voted to approve a new 5.5 year contract, effective April 1, 2010. The new contract eliminated postretirement medical coverage for active employees and defined pension benefits were frozen. The elimination of postretirement medical coverage resulted in non-cash curtailment gains of \$11,878,000, which were recognized in the 13 weeks ended March 28, 2010 and reduced the benefit obligation liability at March 28, 2010 by \$6,576,000. The freeze of defined pension benefits resulted in non-cash curtailment gains of \$2,004,000, which were recognized in the 13 weeks ended March 28, 2010, reduced 2010 net periodic pension expenses by \$668,000 beginning in the 13 weeks ended June 27, 2010, and reduced the benefit obligation liability at March 28, 2010 by \$2,004,000.

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.

The Patient Protection and Affordable Care Act, along with its companion reconciliation legislation (together the "Affordable Care Act"), were enacted into law in March 2010. We expect the Affordable Care Act will be supported by a substantial number of underlying regulations, many of which have not been issued. Certain provisions are now subject to judicial challenges on constitutional and other grounds. Accordingly, a complete determination of the impact of the Affordable Care Act cannot be made at this time. However, we do not expect the Affordable Care Act will have a significant impact on our postretirement medical benefit obligation liability.

Equity in earnings in associated companies increased \$515,000 in the 2011 Quarter.

The factors noted above resulted in operating income of \$49,184,000 in the 2011 Quarter and \$67,773,000 in the 2010 Quarter.

## Nonoperating Income and Expense

Financial expense, including amortization of debt financing costs, decreased \$6,367,000, or 32.2%, to \$13,437,000 in the 2011 Quarter due to lower debt balances and lower interest rates. Our weighted average cost of debt was 4.91% at the end of the 2011 Quarter, compared to 5.82% at the end of the 2010 Quarter.

As more fully discussed in Note 4 of the Notes to Consolidated Financial Statements, included herein, amendments to our Credit Agreement consummated in 2009 increased financial expense in 2009 in relation to LIBOR. We are now subject to minimum LIBOR levels, which are currently in excess of actual LIBOR. The maximum rate has been increased to the LIBOR minimum plus 450 basis points, and we could also be subject to additional non-cash payment-in-kind interest if leverage increases above specified levels. At the December 2010 leverage level, our debt under the Credit Agreement will be priced at the applicable LIBOR minimum of 1.25% plus 3.00%. The interest rate on the Pulitzer Notes increased 1% to 9.05% in February 2009 and increased 0.5% in April 2010 to 9.55%. The interest rate will increase by 0.5% per year thereafter.

## Overall Results

We recognized income tax expense of 43.2% of income before income taxes in the 2011 Quarter and income tax expense of 39.3% of income before income taxes in the 2010 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.

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As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated totaled \$18,945,000 in the 2011 Quarter compared to \$27,907,000 in the 2010 Quarter. We recorded earnings per diluted common share of \$0.42 in the 2011 Quarter and \$0.62 in the 2010 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.29 in the 2011 Quarter, compared to \$0.22 in the 2010 Quarter. Per share amounts may not add due to rounding.

| (Thousands of Dollars, Except Per Share Data)                                    | 13 Weeks Ended      |           | December 27    |           |
|--|---------------------|-----------|----------------|-----------|
|  | December 26<br>2010 | Per Share | 2009<br>Amount | Per Share |
| Income attributable to Lee Enterprises, Incorporated, as reported                | 18,945              | 0.42      | 27,907         | 0.62      |
| Adjustments <sup>(1)</sup> :   |                     |           |                |           |
| Curtailment gains  | (10,172             | )         | (31,130        | )         |
| Other, net   | 313                 |           | 789            |           |
|  | (9,859              | )         | (30,341        | )         |
| Income tax effect of adjustments, net, and other unusual tax matters             | 3,917               |           | 12,487         |           |
|  | (5,942              | )(0.13    | )(17,854       | )(0.40    |
| Income attributable to Lee Enterprises, Incorporated, as adjusted <sup>(1)</sup> | 13,003              | 0.29      | 10,053         | 0.22      |

In 2010 and 2009, adjusted earnings and adjusted earnings per common share included adjustments to remove debt financing costs, due to significant debt financing costs charged to expense in 2009. 2011 and

- (1) 2010 debt financing costs do not contain any unusual comparative differences. Accordingly, this adjustment has been removed. As a result, 2010 adjusted earnings and adjusted earnings per common share will differ from amounts previously reported.

## LIQUIDITY AND CAPITAL RESOURCES

## Operating Activities

Cash provided by operating activities was \$23,652,000 in the 2011 Quarter and \$12,923,000 in the 2010 Quarter. Depreciation and amortization decreased as discussed under "Results of Operations" above. In the 2011 Quarter and 2010 Quarter, we also recognized non-cash curtailment gains totaling \$10,172,000 and \$31,130,000, respectively. The net change in all of the aforementioned factors accounted for the majority of the increase in cash provided between periods. Changes in deferred income taxes, operating assets and liabilities and the timing of income tax payments accounted for the bulk of the remainder of the change in cash provided by operating activities in both periods.

## Investing Activities

Cash provided by investing activities totaled \$3,915,000 in the 2011 Quarter and cash required for investing activities totaled \$2,903,000 in the 2010 Quarter. Restricted cash was reduced \$4,500,000 in the 2011 Quarter. Capital spending totaled \$1,105,000 in the 2011 Quarter and \$3,254,000 in the 2010 Quarter and accounted for substantially all of the net usage of funds in the 2010 Quarter.

We anticipate that funds necessary for capital expenditures, which are expected to total between \$10,000,000 and \$13,000,000 in 2011, and other requirements, will be available from internally generated funds, or availability under our Credit Agreement. The 2009 Amendments, as more fully discussed in Note 4 of the Notes to Consolidated Financial Statements, included herein, limit capital expenditures to \$30,000,000 in 2011.

## Financing Activities

Cash required for financing activities totaled \$29,982,000 in the 2011 Quarter and \$7,331,000 in the 2010 Quarter. Debt reduction accounted for substantially all of the usage of funds in both periods.

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

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### Liquidity

At December 26, 2010, we had \$279,425,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, have approximately \$81,677,000 available for future use. Including cash and restricted cash, our liquidity at December 26, 2010 totals \$103,807,000. This liquidity amount excludes any future cash flows. At December 26, 2010, remaining mandatory principal payments on debt in 2011 total \$59,325,000. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows. We expect all interest and principal payments due in 2011 will be satisfied by our continuing cash flows, which will allow us to maintain, or increase, the current level of liquidity.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 26, 2010.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement 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, and the control of Pulitzer and PD LLC, respectively. The occurrence of one or more events of default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

In 2010, we filed a Form S-3 shelf registration statement ("Shelf") with the Securities and Exchange Commission ("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. The Shelf enables us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities must be used generally to reduce debt subject to conditions of existing debt agreements.

## CHANGES IN LAWS AND REGULATIONS

### Energy Costs

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

### Health Care

The Affordable Care Act, was enacted into law in March 2010. As a result, in March 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. Certain provisions are now subject to judicial challenges on constitutional and other grounds. Accordingly, a complete determination of the impact of the Affordable Care Act cannot be made at this time. However, we expect our future health care costs to increase more rapidly based on analysis published by the United States Department of Health and Human Services, input from independent advisors and our understanding of various provisions of the Affordable Care Act that differ from our current medical plans, such as:

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

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

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

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liability.

### Income Taxes

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

### INFLATION

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

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

We are exposed to market risk stemming from changes in interest rates and commodity prices. Changes in these factors could cause fluctuations in earnings and cash flows. In the normal course of business, exposure to certain of these market risks is managed as described below.

### INTEREST RATES

#### Restricted Cash and Investments

Interest rate risk in our restricted cash and investments is managed by investing only in short-term securities. Only U.S. Government and related securities are permitted.

#### Debt

Our debt structure and interest rate risk are managed through the use of fixed and floating rate debt. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately \$8,999,000, based on \$899,940,000 of floating rate debt outstanding at December 26, 2010.

Our debt under the Credit Agreement is subject to minimum interest rate levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively. At December 26, 2010, all of our outstanding debt under the Credit Agreement is based on one month borrowing. Based on the difference between interest rates at the end of January 2011 and our 1.25% minimum rate for one month borrowing, 30 day LIBOR would need to increase approximately 100 basis points before our borrowing cost would begin to be impacted by an increase in interest rates.

Since November 30, 2009, the full amount of the outstanding balance under the Credit Agreement has been subject to floating interest rates, as all interest rate swaps and collars expired or were terminated at or prior to that date. At December 26, 2010, approximately 86% 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.

North American newsprint producers have taken significant steps since October 2009 to balance newsprint production capacity against declining North American demand by permanently reducing manufacturing capacity and significantly increasing export shipments to markets outside North America. Throughout 2010, export tonnes, in particular, have been utilized to solidify newsprint order backlogs, thereby supporting domestic, North American newsprint price levels

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and increases. North American producers have implemented several price increases beginning in October 2009, resulting in increased purchase costs. As a result, we expect 2011 newsprint costs to be higher than 2010. The final extent of future price change announcements, if any, is subject to negotiations with each newsprint producer.

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 2011, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which may help to mitigate the impact of future price increases.

## SENSITIVITY TO CHANGES IN VALUE

Our fixed rate debt consists of the Pulitzer Notes, which are not traded on an active market and are held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists we are unable, as of December 26, 2010, 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 of our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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 its consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended December 26, 2010 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 employees and not independent contractors of ours. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court judge granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. Discovery in the case will proceed in the normal course and we intend to bring a motion to reverse the class certification ruling upon completion of that process. 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 deny the allegations of employee status, consistent with our past practices and industry practices, and intend to vigorously contest the action, which is not covered by insurance.

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

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

During the 13 weeks ended December 26, 2010, we purchased shares of Common Stock, as noted in the table below, in transactions with participants in our 1990 Long-Term Incentive Plan. The transactions resulted from the withholding of shares to pay income taxes related to the vesting of restricted Common Stock.

| Month    | Shares<br>Purchased | Average Price<br>Per Share |
|----------|---------------------|----------------------------|
| December | 97,370              | 2.44                       |

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

February 4, 2011