

LEE ENTERPRISES, INC  
Form 10-Q  
February 08, 2013

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 30, 2012

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

Yes  No

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

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

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

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

Yes [ ] No [X]

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

As of January 31, 2013, 52,296,241 shares of Common Stock of the Registrant were outstanding.

---

Table Of Contents	PAGE
<u>FORWARD LOOKING STATEMENTS</u>	<u>1</u>
PART I <u>FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Financial Statements (unaudited)</u>	<u>2</u>
<u>Consolidated Balance Sheets - December 30, 2012 and September 30, 2012</u>	<u>2</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) - 13 weeks ended December 30, 2012 and December 25, 2011</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows - 13 weeks ended December 30, 2012 and December 25, 2011</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>32</u>
PART II <u>OTHER INFORMATION</u>	<u>32</u>
Item 1. <u>Legal Proceedings</u>	<u>32</u>
Item 6. <u>Exhibits</u>	<u>32</u>
<u>SIGNATURES</u>	<u>33</u>

References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the “Company”). References to “2013”, “2012” and the like refer to the fiscal years ended the last Sunday in September.

#### FORWARD-LOOKING STATEMENTS

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

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

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

PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Thousands of Dollars)	December 30 2012	September 30 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	20,284	13,920
Accounts receivable, net	77,267	68,190
Income taxes receivable	—	7,887
Inventories	7,075	7,454
Deferred income taxes	789	789
Other	5,187	6,261
Assets of discontinued operations	—	12,213
Total current assets	110,602	116,714
Investments:		
Associated companies	43,176	42,201
Other	10,075	10,033
Total investments	53,251	52,234
Property and equipment:		
Land and improvements	24,650	24,535
Buildings and improvements	188,787	188,743
Equipment	299,482	299,905
Construction in process	3,842	2,567
	516,761	515,750
Less accumulated depreciation	334,934	330,531
Property and equipment, net	181,827	185,219
Goodwill	244,229	244,229
Other intangible assets, net	441,588	451,292
Postretirement assets, net	7,981	7,551
Other	4,027	3,897
Total assets	1,043,505	1,061,136

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



(Thousands of Dollars and Shares, Except Per Share Data)	December 30 2012	September 30 2012	
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt	9,496	11,982	
Accounts payable	21,527	22,978	
Compensation and other accrued liabilities	36,282	38,559	
Income taxes payable	3,481	—	
Unearned revenue	34,449	35,078	
Liabilities of discontinued operations	—	1,714	
Total current liabilities	105,235	110,311	
Long-term debt, net of current maturities	889,089	914,244	
Pension obligations	68,137	68,636	
Postretirement and postemployment benefit obligations	7,374	7,160	
Deferred income taxes	58,335	60,140	
Income taxes payable	6,201	6,062	
Other	8,325	8,639	
Total liabilities	1,142,696	1,175,192	
Equity (deficit):			
Stockholders' equity (deficit):			
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—	
Common Stock, authorized 120,000 shares; issued and outstanding:	523	523	
December 30, 2012; 52,296 shares; \$0.01 par value			
September 30, 2012; 52,291 shares; \$0.01 par value			
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—	
Additional paid-in capital	241,417	241,039	
Accumulated deficit	(328,194)	(342,760)	)
Accumulated other comprehensive loss	(13,528)	(13,435)	)
Total stockholders' deficit	(99,782)	(114,633)	)
Non-controlling interests	591	577	
Total deficit	(99,191)	(114,056)	)
Total liabilities and deficit	1,043,505	1,061,136	

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

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended	
	December 30 2012	December 25 2011
Operating revenue:		
Advertising	128,690	137,322
Circulation	46,226	44,506
Other	10,543	10,214
Total operating revenue	185,459	192,042
Operating expenses:		
Compensation	66,435	69,839
Newsprint and ink	12,247	14,086
Other operating expenses	54,468	54,821
Depreciation	5,526	6,041
Amortization of intangible assets	9,704	10,924
Workforce adjustments	803	298
Total operating expenses	149,183	156,009
Equity in earnings of associated companies	3,045	2,812
Operating income	39,321	38,845
Non-operating income (expense):		
Financial income	80	55
Financial expense	(23,466)	(12,752)
Debt financing costs	(47)	(2,024)
Other, net	7,007	—
Total non-operating expense, net	(16,426)	(14,721)
Income before reorganization costs and income taxes	22,895	24,124
Reorganization costs	—	1,241
Income before income taxes	22,895	22,883
Income tax expense	9,379	8,477
Income from continuing operations	13,516	14,406
Discontinued operations, net of income taxes	1,167	218
Net income	14,683	14,624
Net income attributable to non-controlling interests	(117)	(70)
Income attributable to Lee Enterprises, Incorporated	14,566	14,554
Other comprehensive income (loss), net of income taxes	(93)	152
Comprehensive income attributable to Lee Enterprises, Incorporated	14,473	14,706
Income from continuing operations attributable to Lee Enterprises, Incorporated	13,399	14,336
Earnings per common share:		
Basic:		
Continuing operations	0.26	0.32
Discontinued operations	0.02	—
	0.28	0.32
Diluted:		
Continuing operations	0.26	0.32



Discontinued operations	0.02	—
	0.28	0.32

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

4

---

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

(Thousands of Dollars)	13 Weeks Ended	
	December 30 2012	December 25 2011
Cash provided by operating activities:		
Net income	14,683	14,624
Results of discontinued operations	1,167	218
Income from continuing operations	13,516	14,406
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	15,230	16,965
Amortization (accretion) of debt present value adjustment	1,359	(124)
Stock compensation expense	368	248
Distributions greater (less) than earnings of MNI	(21)	)70
Deferred income tax expense (benefit)	(1,740)	)1,206
Debt financing costs	52	2,024
Reorganization costs	—	1,241
Gain on sale of investments	(7,093)	)—
Changes in operating assets and liabilities:		
Increase in receivables	(9,077)	)(12,179)
Decrease in inventories and other	1,319	1,655
Decrease in accounts payable, compensation and other accrued liabilities and unearned revenue	(4,692)	)(6,865)
Decrease in pension, postretirement and postemployment benefit obligations	(873)	)(844)
Change in income taxes receivable or payable	10,874	7,272
Other, net	(519)	)(510)
Net cash provided by operating activities of continuing operations	18,703	24,565
Cash provided by (required for) investing activities of continuing operations:		
Purchases of property and equipment	(2,073)	)(1,875)
Decrease in restricted cash	—	4,972
Proceeds from sales of assets	7,215	1,324
Distributions greater (less) than earnings of TNI	(954)	)586
Other, net	(114)	)—
Net cash provided by investing activities of continuing operations	4,074	5,007
Cash provided by (required for) financing activities of continuing operations:		
Proceeds from long-term debt	—	21,180
Payments on long-term debt	(29,000)	)(31,825)
Debt financing and reorganization costs paid	—	(10,136)
Common stock transactions, net	6	—
Net cash required for financing activities of continuing operations	(28,994)	)(20,781)
Net cash provided by (required for) discontinued operations		
Operating activities	—	(913)
Investing activities	12,581	(5)
Net increase in cash and cash equivalents	6,364	7,873
Cash and cash equivalents:		
Beginning of period	13,920	23,555
End of period	20,284	31,428

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

5

---

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 30, 2012 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2012 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 30, 2012 are not necessarily indicative of the results to be expected for the full year.

Certain amounts as previously reported have been reclassified to conform with the current period presentation. See Notes 2 and 4.

References to "we", "our", "us" and the like throughout the Consolidated Financial Statements refer to the Company. References to "2013", "2012" and the like refer to the fiscal years ended the last Sunday in September.

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

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

On January 23, 2012, the Bankruptcy Court approved our Second Amended Joint Prepackaged Plan of Reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from the Chapter 11 Proceedings. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. Implementation of the Plan resulted primarily in a comprehensive refinancing of our debt. The Chapter 11 Proceedings did not adversely affect employees, vendors, contractors, customers or any aspect of Company operations. Stockholders retained their interest in the Company, subject to modest dilution. See Notes 5 and 12.

## 2 DISCONTINUED OPERATIONS

In October 2012, we sold the North County Times in Escondido, CA for \$11,950,000 in cash. The transaction resulted in a gain of \$1,167,000, after income taxes, and is recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the 13 weeks ended December 30, 2012. Operating results of the North County Times have been classified as discontinued operations for all periods presented.



Assets and liabilities of the North County Times at September 30, 2012 are summarized as follows:

(Thousands of Dollars)	September 30 2012
Current assets	2,093
Property and equipment, net	5,158
Goodwill	3,042
Other intangible assets, net	1,920
Current liabilities	(1,714)
Assets, net	10,499

Results of discontinued operations consist of the following:

(Thousands of Dollars)	13 Weeks Ended	
	December 30 2012	December 25 2011
Operating revenue	—	7,519
Costs and expenses	—	6,973
Gain on sale of the North County Times	1,800	—
Income from discontinued operations, before income taxes	1,800	351
Income tax expense	633	133
Net income	1,167	218

In January 2013, we entered into an agreement to sell The Garden Island newspaper and digital operations in Lihue, HI for \$2,000,000, before income taxes. The transaction, which is subject to customary closing conditions, is expected to be completed in the 13 weeks ending March 31, 2013. We expect to record a loss on the sale of The Garden Island of approximately \$2,500,000 after income taxes.

At December 30, 2012, we had not committed to a plan to sell The Garden Island and did not meet the criteria in FASB Accounting Standards Codification 360-10-45-9 in order to consider the assets held for sale. Accordingly, we have not reclassified its assets, liabilities and results of operations as discontinued operations at December 30, 2012.

### 3INVESTMENTS IN ASSOCIATED COMPANIES

#### TNI Partners

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

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

Summarized results of TNI are as follows:

(Thousands of Dollars)	14 Weeks Ended December 30 2012	13 Weeks Ended December 25 2011
Operating revenue	17,544	16,522
Operating expenses, excluding workforce adjustments, depreciation and amortization	13,637	13,062
Workforce adjustments	—	(64
Operating income	3,907	3,524
Company's 50% share of operating income	1,954	1,762
Less amortization of intangible assets	181	180
Equity in earnings of TNI	1,773	1,582

Certain assets utilized by TNI are owned by Star Publishing and Citizen. Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Operations and Comprehensive Income (Loss). These amounts totaled \$(168,000) and \$(105,000) in the 14 weeks ended December 30, 2012 and 13 weeks ended December 25, 2011, respectively.

Annual amortization of intangible assets is estimated to be \$544,000 in the 52 week period ending December 2013 and \$418,000 in each of the 52 week periods ending December 2014, December 2015, December 2016 and December 2017.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended	
	December 30 2012	December 25 2011
Operating revenue	18,564	19,457
Operating expenses, excluding workforce adjustments, depreciation and amortization	14,049	15,094
Workforce adjustments	—	26
Depreciation and amortization	383	424
Operating income	4,132	3,913
Net income	2,543	2,460
Equity in earnings of MNI	1,272	1,230





## 4 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	13 Weeks Ended December 30 2012	
Goodwill, gross amount	1,536,000	
Accumulated impairment losses	(1,288,729	)
Goodwill, beginning of period, as previously reported	247,271	
Goodwill allocated to discontinued operations	(3,042	)
Goodwill, beginning of period, as reclassified	244,229	
Goodwill, end of period	244,229	

Identified intangible assets consist of the following:

(Thousands of Dollars)	December 30 2012	September 30 2012
Nonamortized intangible assets:		
Mastheads	28,875	28,875
Amortizable intangible assets:		
Customer and newspaper subscriber lists	864,184	864,184
Less accumulated amortization	451,475	441,772
	412,709	422,412
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,520	28,519
	4	5
	441,588	451,292

In assessing the recoverability of goodwill and other nonamortized intangible assets, we annually assess qualitative factors affecting our business to determine if the probability of a goodwill impairment is more likely than not. Our assessment includes reviewing internal and external factors affecting our business such as cash flow projections, stock price and other industry or market considerations. This assessment is normally made in the last fiscal quarter of each year.

We analyze goodwill and other nonamortized intangible assets for impairment 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.

Should we determine that a goodwill impairment is more likely than not, 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.

Should we determine that a nonamortized intangible asset impairment is more likely than not, we make a determination of the individual asset's fair value. Fair value is determined using the relief from royalty method, which estimates fair value based upon appropriate royalties of future revenue discounted to their present value. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of such asset.

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

9

---

projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

We 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 periods ending December 2013, December 2014, December 2015, December 2016 and December 2017 is estimated to be \$38,666,000, \$38,527,000, \$37,851,000, \$36,646,000 and \$35,807,000, respectively.

## 5DEBT

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

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

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

### Interest Payments

Debt under the 1<sup>st</sup> Lien Agreement bears interest, at our option, at either a base rate or an adjusted Eurodollar rate (“LIBOR”), plus an applicable margin. The base rate for the facility is the greater of (a) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (b) 0.5% in excess of the overnight federal funds rate at such time; or (c) 30 day LIBOR plus 1.0%. LIBOR loans are subject to a minimum rate of 1.25%. The applicable margin for term loan base rate loans is 5.25%, and 6.25% for LIBOR loans. The applicable margin for revolving credit facility base rate loans is 4.5%, and is 5.5% for LIBOR loans. At December 30, 2012, all borrowing under the 1<sup>st</sup> Lien Agreement is based on LIBOR at a total rate of 7.5%.

### Principal Payments

At December 30, 2012, the balance outstanding under the term loan is \$641,850,000. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1<sup>st</sup> Lien Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

We are required to repay principal amounts, on a quarterly basis until maturity, under the 1st Lien Agreement. Principal payments are required quarterly beginning in June 2012, and total \$11,000,000 in 2013, \$12,750,000 in

2014, \$13,500,000 in 2015 and \$3,375,000 in 2016, prior to the final maturity.

In addition to the scheduled payments, we are required to make mandatory prepayments under the 1<sup>st</sup> Lien Agreement under certain other conditions, such as from the net proceeds from asset sales. The 1<sup>st</sup> Lien Agreement also requires us to accelerate future payments in the amount of our quarterly excess cash flow, as defined. The acceleration of such payments due to future asset sales or excess cash flow does not change the due dates of other 1<sup>st</sup> Lien Agreement payments prior to the December 2015 maturity.

2013 payments made under the 1<sup>st</sup> Lien Agreement, and required to be made for the remainder of the year, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended	13 Weeks Ending		September 29 2013
	December 30 2012	March 31 2013	June 30 2013	
Mandatory	2,500	2,500	3,000	3,000
Voluntary	9,750	—	—	—
Asset sales	7,750	—	—	—
Excess cash flow	—	—	—	—
	20,000	2,500	3,000	3,000

2012 payments made under the 1<sup>st</sup> Lien Agreement are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		14 Weeks Ended
	March 25 2012	June 24 2012	September 30 2012
Mandatory	—	2,500	2,500
Voluntary	12,600	3,850	3,000
Asset sales	2,410	150	650
Excess cash flow	—	—	—
	15,010	6,500	6,150

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

### Security

The 1<sup>st</sup> Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by all of our existing and future, direct and indirect subsidiaries in which we hold a direct or indirect interest of more than 50% (the “Credit Parties”); provided however, that our wholly-owned subsidiary Pulitzer Inc. (“Pulitzer”) and its subsidiaries are not Credit Parties. The 1<sup>st</sup> Lien Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

The Credit Parties have also granted a first priority security interest on substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the 1<sup>st</sup> Lien Agreement. Assets of Pulitzer and its subsidiaries, TNI, our ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

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

### Covenants and Other Matters

The 1<sup>st</sup> Lien Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is designed to assess the leverage of the Company, excluding Pulitzer, and does not reflect our overall leverage position due to the lower leverage of Pulitzer. It is based primarily on the sum of the principal amount of debt under the 1<sup>st</sup> Lien Agreement, plus debt under the 2<sup>nd</sup> Lien Agreement, as discussed more fully below, which totals \$816,850,000 at December 30,

2012, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes distributions from MNI and other elements, but excludes the operating results of Pulitzer.

Our actual total leverage ratio at December 30, 2012 under the 1<sup>st</sup> Lien Agreement was 6.6:1 Our maximum total leverage ratio covenant will decrease, in stages, from 10.0:1 at December 30, 2012 to 9.1:1 in December

2015. On a consolidated basis, using the definitions in the 1<sup>st</sup> Lien Agreement, our leverage ratio is 5.7:1 at December 30, 2012. This consolidated measure is not the subject of a covenant in any of our debt agreements.

The 1<sup>st</sup> Lien Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the sum of interest expense, as defined, incurred under the 1<sup>st</sup> Lien Agreement and 2<sup>nd</sup> Lien Agreement, divided by the same measure of trailing 12 month operating results discussed above. The interest expense coverage ratio is similarly designed to assess the interest coverage of the Company, excluding Pulitzer, and does not reflect our overall interest coverage position. Our actual interest expense coverage ratio at December 30, 2012 was 1.67:1. Our minimum interest expense coverage ratio covenant is 1.1:1 at December 30, 2012.

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

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

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

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

#### Principal Payments and Redemption

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

From January 30, 2013 until January 30, 2014, the 2<sup>nd</sup> Lien Agreement may be redeemed at 102% of the principal amount, at 101% thereafter until January 30, 2015 and at 100% thereafter until the April 2017 final maturity. Terms of the 1<sup>st</sup> Lien Agreement also restrict principal payments under the 2<sup>nd</sup> Lien Agreement.

#### Security

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

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

#### Covenants and Other Matters

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

2<sup>nd</sup> Lien Lenders shared in the issuance of 6,743,640 shares of our Common Stock valued at \$9,576,000 based on the closing stock price of \$1.42 on the date of issuance, an amount equal to 13% of outstanding shares on a pro forma basis as of January 30, 2012. 2<sup>nd</sup> Lien Lenders also received \$8,750,000 in the form of non-cash fees, which were added to and included in the principal amount of the second lien term loan.



## Pulitzer Notes

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

In February 2009, the Pulitzer Notes and the Guaranty Agreement were amended (the "Notes Amendment"). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

In January 2012, in connection with the Plan, we entered into an amended Note Agreement and Guaranty Agreement, which amended the Pulitzer Notes and extended the maturity with the Noteholders. After consideration of unscheduled principal payments totaling \$15,145,000 (\$10,145,000 in December 2011 and \$5,000,000 in January 2012), offset by \$3,500,000 of non-cash fees paid to the Noteholders in the form of additional Pulitzer Notes debt, the amended Pulitzer Notes had a balance of \$126,355,000 in January 2012.

The Pulitzer Notes bear interest at 10.55%, increasing 0.75% in January 2013 and in January of each year thereafter. Due to the increasing interest rate, interest on the Pulitzer Notes is charged to expense using a calculated effective interest rate during the period. This method increased financial expense from the amount actually payable to the Noteholders by \$263,000 in the 13 weeks ended December 30, 2012.

## Principal Payments

At December 30, 2012, the balance of the Pulitzer Notes is \$100,000,000. We may voluntarily prepay principal amounts outstanding under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice, and subject to certain limitations as to minimum amounts of prepayments. The Pulitzer Notes provide for mandatory scheduled annual prepayments totaling \$1,400,000 in 2012 and \$6,400,000 annually thereafter.

In addition to the scheduled payments, we are required to make mandatory prepayments under the Pulitzer Notes under certain other conditions, such as from the net proceeds from asset sales. The Pulitzer Notes also require us to accelerate future payments in the amount of our quarterly excess cash flow, as defined. The acceleration of such payments due to future asset sales or excess cash flow does not change the due dates of other Pulitzer Notes payments prior to the final maturity in December 2015.

2013 payments made under the Pulitzer Notes, and required to be made for the remainder of the year, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended	13 Weeks Ending		
	December 30 2012	March 31 2013	June 30 2013	September 29 2013
Mandatory	3,800	—	600	2,000
Voluntary	—	—	—	—
Asset sales	5,200	—	—	—
Excess cash flow	—	—	—	—
	9,000	—	600	2,000

2012 payments made under the Pulitzer Notes are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended			14 Weeks Ended
	December 25 2011	March 25 2012	June 24 2012	September 30 2012
Prior to refinancing	500	—	—	—
Pursuant to the Plan, net	10,145	1,500	—	—
Mandatory	—	1,400	—	—
Voluntary	—	8,955	3,000	4,000
Asset sales	—	—	—	—
Excess cash flow	—	—	—	—
	10,645	11,855	3,000	4,000

### Security

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

### Covenants and Other Matters

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of minimum trailing 12 month EBITDA (minimum of \$25,400,000 at December 30, 2012), as defined in the Guaranty Agreement, and limitations on capital expenditures and the incurrence of other debt.

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

### Intercreditor Agreements

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

### Other

Cash payments to the Lenders, Noteholders and legal and professional fees related to the Plan totaled \$38,628,000, of which \$6,273,000 was paid in 2011, and the remainder of which was paid in 2012. \$720,000 of such costs were charged to expense in 2011. In addition, previously capitalized financing costs of \$4,514,000 at September 25, 2011 were charged to expense in 2012 as debt financing costs prior to consummation of the Plan, with the remainder classified as reorganization costs in the Consolidated Statements of Operations and Comprehensive Income (Loss) upon consummation of the Plan.

Debt under the Plan was considered compromised. As a result, the 1st Lien Agreement, 2nd Lien Agreement and Pulitzer Notes were recorded at their respective present values, which resulted in a discount to the stated principal

amount totaling \$23,709,000. We used the effective rates of the respective debt agreements to discount the debt to its present value. In determining the effective rates, we considered all cash outflows of the respective debt agreements including: mandatory principal payments, interest payments, fees paid to lenders in connection with the refinancing as well as, in the case of the 2<sup>nd</sup> Lien Agreement, Common Stock issued. The present value is being amortized as a non-cash component of financial expense over the terms

of the related debt. Such amounts totaled \$4,085,000 in 2012 and are estimated to total \$5,418,000 in 2013, \$5,359,000 in 2014, \$5,293,000 in 2015, \$2,429,000 in 2016 and \$1,125,000 in 2017.

As a result of the Plan, we recognized \$37,765,000 of reorganization costs in the 2012 Consolidated Statements of Operations and Comprehensive Income (Loss). The components of reorganization costs are summarized as follows:  
(Thousands of Dollars)

Fees paid in cash to lenders, attorneys and others	38,628
Unamortized loan fees from previous debt agreements	1,740
Fair value of stock granted to 2 <sup>nd</sup> Lien Lenders	9,576
Noncash fees paid in the form of additional debt	12,250
Present value adjustment	(23,709)
	38,485
Charged to expense in 2012	37,765
Charged to expense in 2011 as other nonoperating expense	720

Debt is summarized as follows:

(Thousands of Dollars)	December 30 2012	September 30 2012	Interest Rates (%) December 30 2012
Revolving credit facility	—	—	6.75
1 <sup>st</sup> Lien Agreement	641,850	661,850	7.50
2 <sup>nd</sup> Lien Agreement	175,000	175,000	15.00
Pulitzer Notes	100,000	109,000	10.55
Unamortized present value adjustment	(18,265)	(19,624)	)
	898,585	926,226	
Less current maturities of debt	14,900	17,400	
Current amount of present value adjustment	(5,404)	(5,418)	)
Total long-term debt	889,089	914,244	

At December 30, 2012, our weighted average cost of debt was 9.3%.

Aggregate maturities of debt total \$11,100,000 for the remainder of 2013, \$19,150,000 in 2014, \$19,900,000 in 2015, \$691,700,000 in 2016 and \$175,000,000 in 2017.

### Liquidity

At December 30, 2012, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at December 30, 2012 totals \$50,226,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our continuing cash flows, which will allow us to maintain an adequate level of liquidity.

At February 8, 2013, the principal amount of our outstanding debt totals \$903,500,000. This amount is already less than the \$938,700,000 amount projected in the Plan for September 2013 and is approaching the \$893,100,000 amount projected for September 2014. Lower cash balances and asset sales have contributed to the improvement in debt repayment compared to the Plan.

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

15

---

respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 30, 2012.

In 2010, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has been declared effective. The Shelf gives us the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of \$750,000,000. In July 2011, the SEC announced changes to the issuer eligibility rules which will require us to have a public float of at least \$75,000,000 in order to use the Shelf. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities must be used generally to reduce debt.

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

We have several noncontributory defined benefit pension plans that together cover selected employees. Benefits under the plans were generally based on salary and years of service. Effective in 2012, all benefits are frozen and no additional benefits are being accrued. Our liability and related expense for benefits under the plans are recorded over the service period of active employees based upon annual actuarial calculations. Plan funding strategies are influenced by government regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, and cash.

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

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

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

PENSION PLANS	13 Weeks Ended	
(Thousands of Dollars)	December 30 2012	December 25 2011
Service cost for benefits earned during the period	54	7
Interest cost on projected benefit obligation	1,882	1,994
Expected return on plan assets	(2,459	)(2,223
Amortization of net loss	572	593
Amortization of prior service benefit	(34	)(34
	15	337
		)
POSTRETIREMENT MEDICAL PLANS	13 Weeks Ended	
(Thousands of Dollars)	December 30 2012	December 25 2011
Service cost for benefits earned during the period	182	182
Interest cost on projected benefit obligation	281	277
Expected return on plan assets	(368	)(532
Amortization of net gain	(331	)(613
Amortization of prior service benefit	(365	)(365
	(601	)(1,051
		)

Based on our forecast at December 30, 2012, we expect to contribute \$2,733,000 to our pension plans for the remainder of 2013. Based on our forecast at December 30, 2012, we do not expect to make significant contributions to our postretirement plans for the remainder of 2013.

## 7 INCOME TAXES

The provision for income taxes includes deferred taxes and is based upon estimated annual effective tax rates in the tax jurisdictions in which we operate. Such annualization of effective tax rates can cause distortion in quarterly tax rates.

Income tax expense related to continuing operations 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 30 2012	December 25 2011
Computed "expected" income tax expense	35.0	35.0
State income taxes, net of federal tax expense	3.4	3.2
Dividends received deductions and credits	(5.2	)(2.7
Valuation allowance	4.8	2.1
Resolution of tax matters	1.3	1.5
Other	1.7	(2.1
	41.0	37.0
		)

In connection with the refinancing of debt under the Chapter 11 Proceedings, we realized substantial cancellation of debt income ("CODI") for income tax purposes. However, this income was not immediately taxable for U.S. income tax purposes because the CODI resulted from our reorganization under the U.S. Bankruptcy Code. For U.S. income tax

reporting purposes, we are required to reduce certain tax attributes, including any net operating loss carryforwards, capital losses, certain tax credit carryforwards, and the tax basis in certain assets and liabilities, including debt, in a total amount equal to the tax gain on the extinguishment of debt. As a result,

17

---



in February 2012 we began recognizing additional interest expense deductions for income tax purposes. The reduction in the basis of certain assets results in reduced depreciation and amortization expense for income tax purposes beginning in 2013.

## 8 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 30 2012	December 25 2011
Income attributable to Lee Enterprises, Incorporated	14,566	14,554
Weighted average common shares	52,294	44,958
Less non-vested restricted Common Stock	500	—
Basic average common shares	51,794	44,958
Dilutive stock options and restricted Common Stock	60	—
Diluted average common shares	51,854	44,958
Earnings per common share:		
Basic:		
Continuing operations	0.26	0.32
Discontinued operations	0.02	—
	0.28	0.32
Diluted:		
Continuing operations	0.26	0.32
Discontinued operations	0.02	—
	0.28	0.32

For the 13 weeks ended December 30, 2012 and December 25, 2011, the weighted average shares not considered in the computation of diluted earnings per common share are 3,036,000 and 1,798,000, respectively.

## 9 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 13 weeks ended December 30, 2012 follows:

(Thousands of Dollars and Shares, Except Per Share Data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 30, 2012	3,102	3.18		
Exercised	(5	) 1.13		
Cancelled	(151	) 6.67		
Outstanding, December 30, 2012	2,946	3.00	8.1	13
Exercisable, December 30, 2012	1,183	5.32	6.8	—

Total unrecognized compensation expense for unvested stock options as of December 30, 2012 is \$1,677,000, which will be recognized over a weighted average period of 2.0 years.

Restricted Common Stock

The table summarizes restricted Common Stock activity during the 13 weeks ended December 30, 2012.

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 30, 2012	500	1.31
Outstanding, December 30, 2012	500	1.31

Total unrecognized compensation expense for unvested restricted Common Stock at December 30, 2012 is \$559,000, which will be recognized over a weighted average period of 2.6 years.

10FAIR VALUE MEASUREMENTS

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

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

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

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling \$8,570,000, including our 17% ownership of the nonvoting common stock of TCT, are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. Our fixed rate debt consists of the \$175,000,000 principal amount under the 2<sup>nd</sup> Lien Agreement and \$100,000,000 principal amount of Pulitzer Notes, as discussed more fully in Note 5, which are not traded on an active market and are held by small groups of investors. We are unable, as of December 30, 2012, to determine the fair value of such debt. The value, if determined, may be less than the carrying amount. The determination of the amount of the Herald Value (as discussed more fully in Note 11) is based on an estimate of fair value using both market and income-based approaches.

The following table summarizes the financial instruments measured at fair value in the accompanying Consolidated Balance Sheets:

(Thousands of Dollars)	December 30 2012	December 25 2011
Level 3 - Herald Value - liability	300	300

In December 2012, we recognized a gain of \$7,093,000 from a distribution related to the partial sale of assets in a private equity investment.

11 COMMITMENTS AND CONTINGENT LIABILITIES

Redemption of PD LLC Minority Interest

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and STL Distribution Services LLC ("DS LLC") owned by The Herald Publishing Company, LLC ("Herald") pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest (the "Herald Value") will be settled, at a date determined by Herald between April 2013 and April 2015, based on a calculation of 10% of the fair market value of PD LLC and DS

LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any. We recorded a liability of \$2,300,000 in 2009 as an estimate of the amount of the Herald Value to be disbursed. In 2011, we reduced the liability related to the Herald Value to \$300,000 based on the current estimate of fair value. The actual amount of the Herald Value will depend on such variables as future cash flows and indebtedness of PD LLC and DS LLC, market valuations of newspaper properties and the timing of the request for redemption. Cash settlement of the Herald Value is limited by the terms of the Credit Agreement.

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

#### Income Taxes

We file income tax returns with the IRS and various state tax jurisdictions. From time to time, we are subject to routine audits by those agencies, and those audits may result in proposed adjustments. We have considered the alternative interpretations that may be assumed by the various taxing agencies, believe our positions taken regarding our filings are valid, and that adequate tax liabilities have been recorded to resolve such matters. However, the actual outcome cannot be determined with certainty and the difference could be material, either positively or negatively, to the Consolidated Statements of Operations and Comprehensive Income (Loss) in the periods in which such matters are ultimately determined. We do not believe the final resolution of such matters will be material to our consolidated financial position or cash flows.

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

#### Legal Proceedings

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

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

#### 12COMMON STOCK

Under the Plan, the par value of our Common Stock was changed from \$2.00 per share to \$0.01 per share effective January 30, 2012. 2<sup>nd</sup> Lien Lenders shared in the issuance of 6,743,640 shares of our Common Stock, an amount equal to 13% of outstanding shares on a pro forma basis as of January 30, 2012.

As of July 1, 2011, our Common Stock traded at an average 30-day closing market price of less than \$1 per share. Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization of less than \$50,000,000, our Common Stock could be removed from the NYSE and traded in the over the counter market. In July 2011, the NYSE first notified us that our Common Stock did not meet the NYSE continued listing standards due to the failure to maintain an adequate share price. Under the NYSE rules, our Common Stock was allowed to continue to be listed during a cure period. In February 2012, after completing our debt refinancing, the NYSE notified us that we were again in compliance with the minimum closing price standard. In January 2013, the NYSE notified us that we had returned to full compliance with all continued listing standards.

## 13 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2012, the FASB issued an amendment to an existing accounting standard, which provides entities an option to perform a qualitative assessment to determine whether further impairment testing on indefinite-lived intangible assets is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This guidance is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. We do not believe that the adoption of this amendment, which will occur in 2013, will have a material impact on our Consolidated Financial Statements.

## 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 30, 2012. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2012 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 ("GAAP"). However, we believe the use of non-GAAP financial measures provides meaningful supplemental information with which to evaluate our financial performance, or assist in forecasting and analyzing future periods. We also believe such non-GAAP financial measures are alternative indicators of performance used by investors, lenders, rating agencies and financial analysts to estimate the value of a publishing business or its ability to meet debt service requirements.

## Operating Cash Flow and Operating Cash Flow Margin

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

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

(Thousands of Dollars)	13 Weeks Ended			
	December 30 2012	Percent of Revenue	December 25 2011	Percent of Revenue
Operating cash flow	51,506	27.8	52,998	27.6
Depreciation and amortization	(15,230)	(8.2)	(16,965)	(8.8)
Equity in earnings of associated companies	3,045	1.6	2,812	1.5
Operating income	39,321	21.2	38,845	20.2

## 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 in Item 2, included herein, under the caption "Overall Results".

## 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 2012 Annual Report on Form 10-K and the Notes to Consolidated Financial Statements, included herein.

## IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2012, the FASB issued an amendment to an existing accounting standard, which provides entities an option to perform a qualitative assessment to determine whether further impairment testing on indefinite-lived intangible assets is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This guidance is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. We do not believe that the adoption of this amendment, which will occur in 2013, will have a material impact on our Consolidated Financial Statements.

## EXECUTIVE OVERVIEW

We are a leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. With the exception of St. Louis, Missouri, our 51 daily newspaper markets, across 23 states, are principally midsize or small. Through our print and digital platforms, we reach an overwhelming majority of adults in our markets.

Our platforms include:

• 51 daily and 39 Sunday newspapers with circulation totaling 1.2 million and 1.4 million, respectively, for the 13 weeks ended December 30, 2012, read by nearly four million people in print;

•

Websites and mobile and tablet products in all of our markets that complement our newspapers and attracted 21.5 million unique visitors in December 2012 with 187.3 million page views; and  
♣ Nearly 300 weekly newspapers and classified and niche publications.

Our markets have established retail bases, and most are regional shopping hubs. We are located in four state capitals. Six of our top ten markets by revenue include major universities, and seven are home to major corporate headquarters. Based on data from the Bureau of Labor of Statistics as of December 2012, the unemployment rate in eight of our top ten markets by revenue was lower than the national average. We believe that all of these factors have had a positive impact on advertising revenue.

We do not face significant competition from other local daily newspapers in most of our markets, although there is significant competition for readers and viewers in those markets from other media. In our top ten markets by revenue, only two have significant local daily print competition. In the balance of our markets, we have little or no local daily print competition.

## ECONOMIC CONDITIONS

According to the National Bureau of Economic Research, the United States economy was in a recession from December 2007 until June 2009. It is widely believed that certain elements of the economy, such as housing, auto sales and employment, were in decline before December 2007, and have still not recovered to pre-recession levels. Revenue, operating results and cash flows were significantly impacted by the recession and its aftermath. The domestic economy contracted again in the December 2012 quarter. The duration and depth of an economic recession, and pace of economic recovery, in markets in which we operate may influence our future results.

## IMPAIRMENT OF GOODWILL AND OTHER ASSETS

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

As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill and nonamortized and amortizable intangible assets in 2008, 2009, and 2011. Additional pretax, non-cash charges were recorded to reduce the carrying value of TNI. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment in 2008, 2009, 2010, 2011 and 2012. We recorded deferred income tax benefits related to these charges.

## DEBT AND LIQUIDITY

We have a substantial amount of debt, as discussed more fully (and certain capitalized terms used below defined) in Item 2, "Liquidity" and Note 5 of the Notes to Consolidated Financial Statements, included herein. In February 2009, we completed a comprehensive restructuring of our then-existing credit agreement and a refinancing of our Pulitzer Notes debt, substantially enhancing our liquidity and operating flexibility. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows.

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

At February 8, 2013, the principal amount of our outstanding debt totals \$903,500,000. This amount is already less than the \$938,700,000 amount projected in the Plan for September 2013 and is approaching the \$893,100,000 amount projected for September 2014. Lower cash balances and asset sales have contributed to the improvement in debt repayment compared to the Plan.

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

Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 30, 2012.

## EQUITY CAPITAL

As of July 1, 2011, our Common Stock traded at an average 30-day closing market price of less than \$1 per share. Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization of less than \$50,000,000, our Common Stock could be removed from the NYSE and traded in the over the counter market. In July 2011, the NYSE first notified us that our Common Stock did not meet the NYSE continued listing standards due to the failure to maintain an adequate share price. Under the NYSE rules, our Common Stock was allowed to continue to be listed during a cure period. In February 2012, after completing our debt refinancing, the NYSE notified us that we were again in compliance with the minimum closing price standard. In January 2013, the NYSE notified us that we had returned to full compliance with all continued listing standards.

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

13 WEEKS ENDED DECEMBER 30, 2012

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

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended		Percent Change
	December 30 2012	December 25 2011	
Advertising revenue:			
Retail	84,923	88,261	(3.8 )
Classified:			
Employment	7,717	8,472	(8.9 )
Automotive	9,320	10,013	(6.9 )
Real estate	4,680	5,290	(11.5 )
All other	11,715	12,445	(5.9 )
Total classified	33,432	36,220	(7.7 )
National	7,674	10,126	(24.2 )
Niche publications	2,661	2,715	(2.0 )
Total advertising revenue	128,690	137,322	(6.3 )
Circulation	46,226	44,506	3.9
Commercial printing	3,305	3,064	7.9
Other	7,238	7,150	1.2
Total operating revenue	185,459	192,042	(3.4 )
Compensation	66,435	69,839	(4.9 )
Newsprint and ink	12,247	14,086	(13.1 )
Other operating expenses	54,468	54,821	(0.6 )
Workforce adjustments	803	298	NM
	133,953	139,044	(3.7 )
Operating cash flow	51,506	52,998	(2.8 )
Depreciation and amortization	15,230	16,965	(10.2 )
Equity in earnings of associated companies	3,045	2,812	8.3
Operating income	39,321	38,845	1.2
Non-operating expense, net	(16,426)	(14,721)	)11.6
Income from continuing operations before reorganization costs and income taxes	22,895	24,124	(5.1 )
Reorganization costs	—	1,241	NM
Income from continuing operations before income taxes	22,895	22,883	0.1
Income tax expense	9,379	8,477	10.6
Net income from continuing operations	13,516	14,406	(6.2 )
Discontinued operations, net of income taxes	1,167	218	NM
Net income	14,683	14,624	0.4
Net income attributable to non-controlling interests	(117)	(70)	)NM
Income attributable to Lee Enterprises, Incorporated	14,566	14,554	0.1
Other comprehensive income (loss), net of income taxes	(93)	)152	NM
Comprehensive income attributable Lee Enterprises, Incorporated	14,473	14,706	(1.6 )
Income from continuing operations attributable to Lee Enterprises, Incorporated	13,399	14,336	(6.5 )
Earnings per common share:			

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

Basic	0.28	0.32	(12.5	)
Diluted	0.28	0.32	(12.5	)

25

---

References to the "2013 Quarter" refer to the 13 weeks ended December 30, 2012. Similarly, references to the "2012 Quarter" refer to the 13 weeks ended December 25, 2011.

#### Advertising Revenue

In the 2013 Quarter, combined print and digital advertising revenue decreased \$8,632,000, or 6.3%, compared to the 2012 Quarter. Retail advertising decreased 3.8%. Retail preprint insertion revenue increased 1.1%. Digital retail advertising increased 6.2%, partially offsetting print declines.

On a combined basis, print and digital classified revenue decreased 7.7% in the 2013 Quarter. Employment revenue decreased 8.9% while automotive advertising decreased 6.9%, real estate decreased 11.5% and other classified decreased 5.9%. Digital classified revenue increased 11.0%, partially offsetting print declines.

National advertising decreased \$2,452,000, or 24.2%. Advertising in niche publications decreased 2.0%.

On a stand-alone basis, digital advertising revenue increased 4.8% in the 2013 Quarter, representing 12.7% of total advertising revenue. Year-over-year total digital advertising turned positive in the month of December 2009 and has been rising steadily since that time. Print advertising revenue on a stand-alone basis decreased 7.7%.

Our total advertising results since 2000 have benchmarked favorably to industry averages reported by the Newspaper Association of America in 43 of the last 47 quarters.

#### Circulation and Other Revenue

Circulation revenue increased \$1,720,000, or 3.9%, in the 2013 Quarter due to price increases and increases in digital subscribers, which were partially offset by decreases in print subscribers.

Our unaudited average daily newspaper circulation units, including TNI and MNI, decreased 4.5% and Sunday circulation decreased 10.1% in the 2013 Quarter compared to the 2012 Quarter.

Our digital sites attracted 21.5 million unique visitors in the month of December 2012, an increase of 2.2% from a year ago, with 187.3 million page views. The number of mobile page views grew 93% to 60.7 million in December 2012. Research in our larger markets indicates we are maintaining our share of audience through the combination of rapid digital audience growth and strong newspaper readership.

Commercial printing revenue increased \$241,000, or 7.9%, in the 2013 Quarter. Other revenue increased \$88,000, or 1.2%, in the 2013 Quarter.

#### Operating Expenses

Operating expenses, other than depreciation, amortization and unusual matters, decreased \$5,596,000, or 4.0%, in the 2013 Quarter.

Compensation expense decreased \$3,404,000, or 4.9%, in the 2013 Quarter, driven by a decline in average full time equivalent employees of 8.7%.

Newsprint and ink costs decreased \$1,839,000, or 13.1%, in the 2013 Quarter as a result of a reduction in newsprint volume of 12.6%. 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 \$353,000, or 0.6%, in the 2013 Quarter.

Reductions in staffing resulted in workforce adjustment costs totaling \$803,000 and \$298,000 in the 2013 Quarter and 2012 Quarter, respectively.

We are engaged in various efforts to continue to manage our operating expenses. We expect 2013 operating expenses, excluding depreciation, amortization and unusual matters, to decrease 3.5-4.5% from their 2012 level.

### Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 2.8%, to \$51,506,000, in the 2013 Quarter compared to \$52,998,000 in the 2012 Quarter. Operating cash flow margin increased to 27.8% from 27.6% a year ago reflecting a larger percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased \$515,000, or 8.5%, in the 2013 Quarter and amortization expense decreased \$1,220,000, or 11.2%, in the 2013 Quarter.

Equity in earnings in associated companies increased \$233,000 in the 2013 Quarter.

The factors noted above resulted in operating income of \$39,321,000 in the 2013 Quarter compared to \$38,845,000 in the 2012 Quarter. Operating income margin increased to 21.2% from 20.2% a year ago.

### Nonoperating Income and Expense

Financial expense increased \$8,737,000, or 59.1%, to \$23,513,000 in the 2013 Quarter due primarily to higher interest rates on our debt, which were partially offset by lower debt balances. Our weighted average cost of debt was 9.3% at December 30, 2012, compared to 5.0% at December 25, 2011. Financial expense in the 2013 Quarter also includes \$1,359,000 of non-cash amortization of a present value adjustment of debt.

The increase in financial expense from the refinancing of our debt in January 2012 will cycle in January 2013. Absent a significant increase in LIBOR, we expect financial expense to begin to decrease after January 2013 due to lower debt balances, which decreased \$29,000,000 in the 2013 Quarter and \$74,015,000 since the January 2012 refinancing.

In December 2012, we recognized a gain of \$7,093,000 from a distribution related to the partial sale of assets in a private equity investment.

### Overall Results

We recognized \$1,241,000 of reorganization costs in the 2012 Quarter. We recognized income tax expense of 41.0% of income from continuing operations before income taxes in the 2013 Quarter and 37.0% in the 2012 Quarter. See Note 7 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated (which includes discontinued operations) totaled \$14,566,000 in the 2013 Quarter compared to \$14,554,000 in the 2012 Quarter. We recorded earnings per diluted common share of \$0.28 in the 2013 Quarter and \$0.32 in the 2012 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.20 in the 2013 Quarter, compared to \$0.37 in the 2012 Quarter. Per share amounts may not add due to rounding.

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended		December 25	
	December 30		December 25	
	2012		2011	
	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	14,566	0.28	14,554	0.32
Adjustments:				
Debt financing and reorganization costs	47		3,265	
Gain on sale of investment, net	(6,909)	)	—	
Other, net	2,424		155	
	(4,438)	)	3,420	
Income tax effect of adjustments, net and unusual tax matters	1,553		(1,193)	)
	(2,885)	) (0.06	) 2,227	0.05
Unusual matters related to discontinued operations	(1,167)	) (0.02	) 25	—
Income attributable to Lee Enterprises, Incorporated, as adjusted	10,514	0.20	16,806	0.37

#### DISCONTINUED OPERATIONS

In October 2012, we sold the North County Times in Escondido, CA for \$11,950,000 in cash. The transaction resulted in a gain of \$1,167,000, after income taxes, and is recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the 13 weeks ended December 30, 2012. Operating results of the North County Times have been classified as discontinued operations for all periods presented.

In January 2013, we entered into an agreement to sell The Garden Island newspaper and digital operations in Lihue, HI for \$2,000,000, before income taxes. The transaction, which is subject to customary closing conditions, is expected to be completed in the 13 weeks ending March 31, 2013. We expect to record a loss on the sale of The Garden Island of approximately \$2,500,000 after income taxes.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Operating Activities

Cash provided by operating activities of continuing operations was \$18,703,000 in the 2013 Quarter and \$24,565,000 in the 2012 Quarter. We recorded net income of \$14,683,000 in the 2013 Quarter and \$14,624,000 in the 2012 Quarter. Increased financial expense accounts for the decline in cash provided by operating activities of continuing operations. We recognized a \$1,167,000 gain on sale of discontinued operations in the 2013 Quarter and incurred \$1,241,000 of reorganization costs in the 2012 Quarter. We also recognized a gain on sale of an investment of \$7,093,000 in the 2013 Quarter. 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 of continuing operations in both periods.

##### Investing Activities

Cash provided by investing activities of continuing operations totaled \$4,074,000 in the 2013 Quarter and \$5,007,000 in the 2012 Quarter. Capital spending totaled \$2,073,000 in the 2013 Quarter and \$1,875,000 in the 2012 Quarter. We received \$7,215,000 from sales of assets in the 2013 Quarter compared to \$1,324,000 in the 2012 Quarter. Restricted cash was reduced \$4,972,000 in the 2012 Quarter.

Table of Contents

We anticipate that funds necessary for capital expenditures, which are expected to total approximately \$12,000,000 in 2013, and other requirements, will be available from internally generated funds or availability under our revolving credit facility.

## Financing Activities

Cash required for financing activities of continuing operations totaled \$28,994,000 in the 2013 Quarter and \$20,781,000 in the 2012 Quarter. Debt reduction accounted for the usage of funds in the 2013 Quarter. In connection with the Chapter 11 Proceedings, we paid \$10,136,000 of debt financing and reorganization costs in the 2012 Quarter. Debt reduction accounted for the remainder of the usage of funds in the 2012 Quarter.

The Plan requires us to suspend stockholder dividends and share repurchases through December 2015.

As discussed more fully in Note 5 of the Notes to Consolidated Financial Statements, included herein, in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders.

Debt is summarized as follows:

(Thousands of Dollars)			Interest Rates (%)
	December 30 2012	September 30 2012	December 30 2012
Revolving credit facility	—	—	6.75
1 <sup>st</sup> Lien Agreement	641,850	661,850	7.50
2 <sup>nd</sup> Lien Agreement	175,000	175,000	15.00
Pulitzer Notes	100,000	109,000	10.55
Unamortized present value adjustment	(18,265	)(19,624	)
	898,585	926,226	
Less current maturities of debt	14,900	17,400	
Current amount of present value adjustment	(5,404	)(5,418	)
Total long-term debt	889,089	914,244	

At December 30, 2012, our weighted average cost of debt was 9.3%.

Aggregate maturities of debt total \$11,100,000 for the remainder of 2013, \$19,150,000 in 2014, \$19,900,000 in 2015, \$691,700,000 in 2016 and \$175,000,000 in 2017.

## Liquidity

At December 30, 2012, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at December 30, 2012 totals \$50,226,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our continuing cash flows, which will allow us to maintain an adequate level of liquidity.

At February 8, 2013, the principal amount of our outstanding debt totals \$903,500,000. This amount is already less than the \$938,700,000 amount projected in the Plan for September 2013 and is approaching the \$893,100,000 amount projected for September 2014. Lower cash balances and asset sales have contributed to the improvement in debt

repayment compared to the Plan.

There are numerous potential consequences under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the Note and Guaranty Agreements related to the Pulitzer Notes, if an event of default, as defined, occurs and is not remedied. Many of those consequences are beyond our control. The occurrence of one or more events of default would give rise to the right of the 1<sup>st</sup> Lien Lenders, 2<sup>nd</sup> Lien Lenders and/or the Noteholders, to exercise their remedies under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

29

---

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 30, 2012.

In 2010, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has been declared effective. The Shelf gives us the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of \$750,000,000. In July 2011, the SEC announced changes to the issuer eligibility rules which will require us to have a public float of at least \$75,000,000 in order to use the Shelf. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities must be used generally to reduce debt.

## CHANGES IN LAWS AND REGULATIONS

### Energy Costs

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

### Health Care

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

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

- Certain preventive services provided without charge to employees;
- Automatic enrollment of new employees;
- Higher maximum age for dependent coverage;
- Elimination of lifetime benefit caps; and
- Free choice vouchers for certain lower income employees.

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

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

### Pension Plans

In July 2012, the Surface Transportation Extension Act of 2012 ("STEA") was signed into law. STEA provides for changes in the determination of discount rates that result in a near-term reduction in minimum funding requirements

for our defined benefit pension plans. STEA will also result in an increase in future premiums to be paid to the Pension Benefit Guarantee Corporation.

#### Income Taxes

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



## Table of Contents

### 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 ON DEBT

Our debt structure and interest rate risk are managed through the use of fixed and floating rate debt. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately \$6,419,000, based on \$641,850,000 of floating rate debt outstanding at December 30, 2012.

Our debt under the 1<sup>st</sup> Lien Agreement is subject to minimum interest rate levels of 1.25%. Based on the difference between interest rates in December 2012 and our 1.25% minimum rate, LIBOR would need to increase approximately 75 basis points for six month borrowing up to approximately 105 basis points for one month borrowing before our borrowing cost would begin to be impacted by an increase in interest rates.

At December 30, 2012, approximately 70.0% 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 continue to deleverage under difficult market conditions as they continue to face significant declines in domestic demand as well as weakening export demand. Three of these companies exited U.S. and/or Canadian financial reorganization protection in September and October 2012. Other producers have also reacted with extended production downtime or permanent closure of facilities as well as converting paper machines to other paper grades. The high cost of attaining recycled fibers has led to significant reductions in the availability of newsprint with recycled content.

Newsprint pricing has remained relatively stable since mid-2010. Future price changes, if any, will be influenced primarily by the balance between supply capacity and demand, domestic and export, in addition to the producers' ability to mitigate input cost pressures. The final extent of future price change announcements, if any, is subject to negotiations with each newsprint producer.

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$775,000 based on anticipated consumption in 2013, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which may help to mitigate the impact of future price increases.

#### SENSITIVITY TO CHANGES IN VALUE

Our fixed rate debt consists of the 2<sup>nd</sup> Lien Agreement and Pulitzer Notes, which are not traded on an active market and are held by small groups of investors. We are unable, as of December 30, 2012, to measure the maximum potential

31

---

impact on fair value of fixed rate debt from adverse changes in market interest rates under normal market conditions. The change in value, if determined, could be significant.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended December 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II  
OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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



Table of Contents

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 8, 2013