LEE ENTERPRISES, INC
Form 10-Q
August 05, 2011

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

FORM 10-Q

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

For The Quarterly Period Ended June 26, 2011

OR

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

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

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

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

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

[ ] (Do not check if a smaller reporting company)

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

As of June 26, 2011, 44,957,601 shares of Common Stock of the Registrant were outstanding.

Table Of Contents

			PAGE
FORWARD LOOKING STATEMENTS			1
PART I	FINANCIAL INFORMATION		2
	Item 1.	Financial Statements (unaudited)	2
		Consolidated Balance Sheets - June 26, 2011 and September 26, 2010	2
		Consolidated Statements of Operations and Comprehensive Income (Loss) - 13 weeks and 39 weeks ended June 26, 2011 and June 27, 2010	4
		Consolidated Statements of Cash Flows - 39 weeks ended June 26, 2011 and June 27, 2010	5
		Notes to Consolidated Financial Statements	6
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
	Item 4.	Controls and Procedures	37
PART II	OTHER INFORMATION		37
	Item 1.	Legal Proceedings	37
	Item 6.	Exhibits	37
SIGNATURES			38

Table of Contents

References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the "Company"). References to "2011", "2010" and the like refer to the fiscal years ended the last Sunday in September.

FORWARD-LOOKING STATEMENTS

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

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

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

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	June 26 2011	September 26 2010
ASSETS		
Current assets:		
Cash and cash equivalents	23,924	19,422
Accounts receivable, net	72,399	77,558
Inventories	7,950	10,822
Deferred income taxes	2,687	2,687
Other	12,062	11,128
Total current assets	119,022	121,617
Investments:		
Associated companies	46,008	58,122
Restricted cash and investments	4,972	9,623
Other	9,324	9,594
Total investments	60,304	77,339
Property and equipment:		
Land and improvements	27,421	28,075
Buildings and improvements	193,269	194,344
Equipment	316,522	316,697
Construction in process	1,307	811
	538,519	539,927
Less accumulated depreciation	321,564	304,527
Property and equipment, net	216,955	235,400
Goodwill	259,427	433,552
Other intangible assets, net	511,409	558,140
Postretirement assets, net	13,868	—
Other	8,651	14,068
Total assets	1,189,636	1,440,116

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

2

Table of Contents

(Thousands of Dollars and Shares, Except Per Share Data)	June 26 2011	September 26 2010
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	1,004,687	81,500
Accounts payable	25,713	30,529
Compensation and other accrued liabilities	37,337	38,117
Income taxes payable	1,168	1,082
Unearned revenue	38,016	36,624
Total current liabilities	1,106,921	187,852
Long-term debt, net of current maturities	—	1,000,927
Pension obligations	48,581	54,566
Postretirement and postemployment benefit obligations	6,189	9,979
Deferred income taxes	80,195	102,616
Income taxes payable	9,583	11,919
Other	13,876	15,150
Total liabilities	1,265,345	1,383,009
Equity (deficit):		
Stockholders' equity (deficit):		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, $2 par value; authorized 120,000 shares; issued and outstanding:	89,915	78,554
June 26, 2011; 44,958 shares;		
September 26, 2010; 39,277 shares		
Class B Common Stock, $2 par value; authorized 30,000 shares; issued and outstanding:	—	11,352
September 26, 2010; 5,676 shares		
Additional paid-in capital	140,629	139,460
Accumulated deficit	(317,241)	(179,194)
Accumulated other comprehensive income	10,587	6,651
Total stockholders' equity (deficit)	(76,110)	56,823
Non-controlling interests	401	284
Total equity (deficit)	(75,709)	57,107
Total liabilities and equity (deficit)	1,189,636	1,440,116

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

3

Table of Contents

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 26 2011	June 27 2010	June 26 2011	June 27 2010
Operating revenue:				
Advertising	132,995	140,813	408,814	425,775
Circulation	44,875	45,072	135,173	135,205
Other	9,436	10,520	29,712	31,007
Total operating revenue	187,306	196,405	573,699	591,987
Operating expenses:				
Compensation	74,458	78,372	229,008	239,806
Newsprint and ink	14,632	13,618	45,156	39,373
Other operating expenses	55,969	57,686	173,114	178,954
Depreciation	6,559	6,844	20,376	21,378
Amortization of intangible assets	11,047	11,307	33,531	33,935
Impairment of goodwill and other assets	187,325	—	187,325	3,290
Workforce adjustments	2,086	395	2,721	1,082
Total operating expenses	352,076	168,222	691,231	517,818
Curtailment gains	3,974	—	16,137	45,012
Equity in earnings of associated companies	1,225	1,934	5,078	5,401
Reduction of investment in TNI	12,000	—	12,000	—
Operating income (loss)	(171,571)	30,117	(108,317)	124,582
Non-operating income (expense):				
Financial income	102	63	179	262
Financial expense	(13,223)	(14,354)	(39,800)	(49,802)
Debt financing costs	(6,053)	(1,997)	(9,913)	(5,964)
Other, net	668	—	(16)	—
Total non-operating expense, net	(18,506)	(16,288)	(49,550)	(55,504)
Income (loss) before income taxes	(190,077)	13,829	(157,867)	69,078
Income tax expense (benefit)	(34,637)	3,790	(19,955)	28,099
Net income (loss)	(155,440)	10,039	(137,912)	40,979
Net income attributable to non-controlling interests	(77)	(20)	(136)	(63)
Income (loss) attributable to Lee Enterprises, Incorporated	(155,517)	10,019	(138,048)	40,916
Other comprehensive income (loss), net	1,725	(609)	3,936	(9,150)
Comprehensive income (loss)	(153,792)	9,410	(134,112)	31,766
Earnings (loss) per common share:				
Basic	(3.46)	0.22	(3.08)	0.92
Diluted	(3.46)	0.22	(3.08)	0.91

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

Table of Contents

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

(Thousands of Dollars)	39 Weeks Ended June 26 2011	June 27 2010
Cash provided by (required for) operating activities:		
Net income (loss)	(137,912)	40,979
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	53,907	55,313
Impairment of goodwill and other assets	187,325	3,290
Curtailment gains	(16,137)	(45,012)
Reduction of investment in TNI	12,000	—
Accretion of debt fair value adjustment	(410)	(465)
Stock compensation expense	1,031	1,573
Distributions greater (less) than current earnings of MNI	87	(830)
Deferred income tax expense (benefit)	(25,444)	18,579
Debt financing costs	9,913	5,932
Changes in operating assets and liabilities:		
Decrease in receivables	5,159	6,725
Decrease in inventories and other	2,468	1,934
Decrease in accounts payable, accrued expenses and unearned revenue	(4,204)	(10,573)
Decrease in pension, postretirement and post employment benefits	(547)	(1,929)
Change in income taxes receivable or payable	(2,250)	4,660
Other, net	(1,158)	(689)
Net cash provided by operating activities	83,828	79,487
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(3,641)	(6,695)
Decrease (increase) in restricted cash	4,651	(124)
Proceeds from sales of assets	1,790	1,253
Distributions greater than current earnings of TNI	27	47
Other	(10)	—
Net cash provided by (required for) investing activities	2,817	(5,519)
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	36,000	73,800
Payments on long-term debt	(113,330)	(140,130)
Debt financing costs paid	(4,608)	(200)
Common stock transactions, net	(205)	(166)
Net cash required for financing activities	(82,143)	(66,696)
Net increase in cash and cash equivalents	4,502	7,272
Cash and cash equivalents:		
Beginning of period	19,422	7,905
End of period	23,924	15,177

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

Table of Contents

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

1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the “Company”) as of June 26, 2011 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2010 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 26, 2011 are not necessarily indicative of the results to be expected for the full year.

References to “we”, “our”, “us” and the like throughout the Consolidated Financial Statements refer to the Company. References to “2011”, “2010” and the like refer to the fiscal years ended the last Sunday in September.

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

2 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

In Tucson, Arizona, TNI, acting as agent for our subsidiary, Star Publishing Company (“Star Publishing”), and Citizen Publishing Company (“Citizen”), a subsidiary of Gannett Co. Inc., is responsible for printing, delivery, advertising, and circulation of the Arizona Daily Star as well as the related digital 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)	13 Weeks Ended June 26 2011	13 Weeks Ended June 27 2010	39 Weeks Ended June 26 2011	39 Weeks Ended June 27 2010
Operating revenue	15,035	15,792	48,051	49,880
Operating expenses, excluding workforce adjustments, depreciation and amortization	13,307	13,278	40,467	42,051
Workforce adjustments	—	—	232	783
Operating income	1,728	2,514	7,352	7,046
Company's 50% share of operating income	864	1,257	3,676	3,523
Less amortization of intangible assets	303	304	911	852
Equity in earnings of TNI	561	953	2,765	2,671

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 $(34,000) and $219,000 in the 13 weeks ended June 26, 2011 and June 27, 2010, respectively, and $177,000 and $87,000 in the 39 weeks ended June 26, 2011 and June 27, 2010, respectively.

Subject to the final determination of impairment charges, annual amortization of intangible assets is estimated to be $1,215,000 in the 52 week period ending June 2012, $1,189,000 in the 53 week period ending June 2013, and

$911,000 in each of the 52 week periods ending June 2014, June 2015 and June 2016. See Note 3.

Our preliminary impairment analysis as of June 26, 2011 resulted in a pretax reduction in the carrying value of TNI of $12,000,000. See Note 3.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 26 2011	June 27 2010	June 26 2011	June 27 2010
Operating revenue	18,183	18,977	55,727	57,147
Operating expenses, excluding workforce adjustments, depreciation and amortization	15,007	15,203	46,135	46,556
Workforce adjustments	541	12	674	63
Depreciation and amortization	514	598	1,542	1,750
Operating income	2,121	3,164	7,376	8,778
Net income	1,328	1,962	4,626	5,460
Equity in earnings of MNI	664	981	2,313	2,730

3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill in the 39 weeks ended June 26, 2011 are as follows:

(Thousands of Dollars)	June 26 2011
Goodwill, gross amount	1,536,000
Less accumulated impairment losses	1,102,448
Goodwill, beginning of period	433,552
Less current period impairment	174,125
Goodwill, end of period	259,427

Table of Contents

Identified intangible assets consist of the following:

(Thousands of Dollars)	June 26 2011	September 26 2010
Nonamortized intangible assets:		
Mastheads	31,554	44,754
Amortizable intangible assets:		
Customer and newspaper subscriber lists	885,713	885,713
Less accumulated amortization	405,858	372,337
	479,855	513,376
Noncompete and consulting agreements	28,658	28,658
Less accumulated amortization	28,658	28,648
	—	10
	511,409	558,140

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

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

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

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

Due primarily to the difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets as of June 26, 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analysis. We concluded the fair value of our business did not exceed the carrying value of our net assets as of June 26, 2011.

As a result, we recorded estimated pretax, non-cash charges to reduce the carrying value of goodwill and nonamortized intangible assets by $174,125,000 and $13,200,000, respectively, in the 13 weeks ended June 26, 2011. Additional pretax, non-cash charges of $12,000,000 were recorded to reduce the carrying value of TNI. We recorded $37,524,000 of income tax benefits related to these charges.

We have determined that an impairment of our customer and newspaper subscriber lists is probable. However, because of the timing of the determination of impairment and complexity of the calculations required, we have not

completed the required determination of fair value of amortizable and nonamortized intangible assets and real property. Accordingly, we are not able to estimate the impairment loss related to these asset groups and we have recorded an estimated impairment loss as a reduction of goodwill, nonamortized intangible assets and our investment in TNI as of June 26, 2011. The final determination of reductions in the amounts of goodwill and other assets included in the June 26, 2011 Consolidated Balance Sheet, including any additional impairment losses and the related tax impact, could change significantly. Such changes would not impact our cash flows. Definitive amounts will be included in our Annual Report on Form 10-K for the year ending September 25, 2011.

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. We tested such assets for impairment as of June 26, 2011, as noted above, but have not yet concluded whether adjustments to the useful lives of such assets are required.

Subject to the final determination of impairment charges, annual amortization of intangible assets for the 52 week period ending June 2012, 53 week period ending June 2013 and for each of the 52 week periods ending June 2014, June 2015 and June 2016 is estimated to be $43,797,000, $39,347,000, $39,023,000, $38,827,000 and $37,697,000, respectively.

4 DEBT

Credit Agreement

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

Security

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

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

Interest Payments

Debt under the A Term Loan, which has a balance of $589,335,000 at June 26, 2011, and the $375,000,000 revolving credit facility, which has a balance of $272,425,000 at June 26, 2011, bear interest, at our option, at either a base rate or an adjusted Eurodollar rate (“LIBOR”), plus an applicable margin. The base rate for the facility is the greater of (a) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (b) 0.5% in excess of the overnight federal funds rate at such time; or (c) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: for revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon our total leverage ratio at such time.

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

1.25%, plus a LIBOR margin of 3.0%.

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

Table of Contents

Principal Payments

We may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. We are required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in the 13 weeks ended June 26, 2011 were $15,000,000. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. At June 26, 2011, remaining payments in 2011 total $20,000,000. Payments in 2012 prior to the April 2012 maturity total $70,000,000. The scheduled payment at maturity is $499,335,000, plus the balance of the revolving credit facility outstanding at that time.

In addition to the scheduled payments, we are required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires us to apply the net proceeds from asset sales to repayment of the A Term Loan. We made no payments related to this provision In the 13 weeks ended June 26, 2011.

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

Covenants and Other Matters

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At June 26, 2011, we are in compliance with such covenants. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals $1,004,260,000 at June 26, 2011, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI and curtailment gains.

The 2009 Amendments amended our covenants to take into account economic conditions and the changes to amortization of debt noted above. Our total leverage ratio at June 26, 2011 was 5.5:1. Under the 2009 Amendments, our maximum total leverage ratio limit will decrease from 7.0:1 in June 2011 to 6.75:1 in September 2011 and decrease to 6.5:1 in December 2011. Each change in the maximum total leverage ratio noted above is effective on the last day of the quarter.

The Credit Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the same measure of trailing 12 month operating results noted above. Our interest expense coverage ratio at June 26, 2011 was 2.83:1. The minimum interest expense coverage ratio is 1.8:1 in June 2011 and will increase periodically thereafter until it reaches 2.25:1 in March 2012.

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

Pulitzer Notes

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

Table of Contents

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the “Notes Amendment”). Under the Notes Amendment, PD LLC repaid $120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled $129,810,000 at December 28, 2008. The remaining debt balance of $186,000,000, of which $142,500,000 remains outstanding at June 26, 2011, was refinanced by the Noteholders until April 2012.

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

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

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

In addition to the scheduled payments, we are required to make mandatory prepayments under the Pulitzer Notes under certain other conditions. The Notes Amendment requires us to apply the net proceeds from asset sales to repayment of the Pulitzer Notes. In the 13 weeks ended June 26, 2011, we made no payment related to this provision.

The Notes Amendment establishes a reserve of restricted cash of up to $9,000,000 (which was reduced to $4,500,000 in October 2010) to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements were eliminated. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events. In 2010, a principal prepayment of $1,000,000 was made under the Pulitzer Notes from excess cash flow of Pulitzer for the 13 weeks ended March 28, 2010. In the 13 weeks ended June 26, 2011, a principal prepayment of $500,000 was made under the Pulitzer Notes from excess cash flow of Pulitzer.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the maximum ratio of debt to EBITDA (limit of 3.0:1 at June 26, 2011), as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage (limit of 3.0:1 at June 26, 2011), as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At June 26, 2011, Pulitzer is in compliance with such covenants.

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

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

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of $31,512,000, which was recorded as debt in the Consolidated Balance Sheets. At June 26, 2011, the unaccreted balance totals $427,000. This amount is being accreted over the remaining life of the Pulitzer Notes, until April 2012, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due, or reduce the amount of interest to be paid, to the Noteholders.

Table of Contents

Other

In 2009, we paid fees to the Lenders and Noteholders for the 2009 Amendments and Notes Amendment which, along with the related legal and financial advisory expenses, totaled $26,061,000. $15,500,000 of the fees were capitalized and are being expensed over the remaining term of the Credit Agreement and Pulitzer Notes, until April 2012. At June 26, 2011, we have total unamortized financing costs of $6,335,000. The expected refinancing of our debt could result in expense recognition of some or all of such costs prior to the April 2012 maturity of the Credit Agreement and Pulitzer Notes.

Debt is summarized as follows:

(Thousands of Dollars)	June 26 2011	September 26 2010	Interest Rates June 26 2011
Credit Agreement:			
A Term Loan	589,335	635,665	4.25
Revolving credit facility	272,425	285,425	4.25
Pulitzer Notes:			
Principal amount	142,500	160,500	10.05
Unaccreted fair value adjustment	427	837	
	1,004,687	1,082,427	
Less current maturities	1,004,687	81,500	
	—	1,000,927	

At June 26, 2011, our weighted average cost of debt was 5.07%.

Liquidity

At June 26, 2011, we had $272,425,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, have approximately $89,677,000 available for future use. Including cash and restricted cash, our liquidity at June 26, 2011 totals $118,573,000. This liquidity amount excludes any future cash flows. At June 26, 2011, remaining mandatory principal payments on debt in 2011 total $20,000,000. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows. We expect all interest and principal payments due in 2011 will be satisfied by our continuing cash flows, which will allow us to maintain, or increase, the current level of liquidity.

In April 2011, we announced a plan to offer to qualified institutional buyers, subject to market conditions, $680,000,000 of first priority lien senior secured notes due in 2017, $375,000,000 of second priority lien senior secured notes due in 2018 and up to 8,928,175 shares of Common Stock. The proceeds from the offerings, net of offering costs, would have been used to refinance the Credit Agreement and Pulitzer Notes. As a result of market conditions, we terminated the offering process in May 2011 and charged $4,198,000 of related debt financing costs to expense in the 13 weeks ended June 26, 2011. Refinancing of our debt is among our highest priorities and in July 2011, we announced that we are engaged in substantive discussions with existing lenders about an extension of our Credit Agreement. We expect our overall financial expense to increase as a result of the refinancing process. We will continue to pursue alternatives and intend to extend or refinance the Credit Agreement and Pulitzer Notes before their April 2012 maturity.

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

compliance with our debt covenants at June 26, 2011.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an event of default, as defined, occurs and is not remedied. Many of those consequences are beyond our control, and the control of Pulitzer and PD LLC, respectively. The occurrence of one or more events of default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively,

12

Table of Contents

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

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

5 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT DEFINED BENEFIT PLANS

We have several noncontributory defined benefit pension plans that together cover selected employees. Benefits under the plans are generally based on salary and years of service. Our liability and related expense for benefits under the plans are recorded over the service period of active employees based upon annual actuarial calculations. Benefits for most active employees are frozen. 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		39 Weeks Ended	
(Thousands of Dollars)	June 26 2011	June 27 2010	June 26 2011	June 27 2010
Service cost for benefits earned during the period	42	63	163	729
Interest cost on projected benefit obligation	2,088	2,217	6,229	6,671
Expected return on plan assets	(2,433)	(2,418)	(7,226)	(7,148)
Amortization of net loss	203	113	629	339
Amortization of prior service benefit	(34)	(34)	(103)	(102)
Curtailment gains	—	—	—	(2,004)
	(134)	(59)	(308)	(1,515)

POSTRETIREMENT MEDICAL PLANS	13 Weeks Ended		39 Weeks Ended	
(Thousands of Dollars)	June 26 2011	June 27 2010	June 26 2011	June 27 2010
Service cost for benefits earned during the period	232	41	715	368
Interest cost on projected benefit obligation	350	600	1,278	2,371
Expected return on plan assets	(563)	(571)	(1,675)	(1,702)
Amortization of net gain	(598)	(629)	(1,872)	(1,819)
Amortization of prior service benefit	(380)	(398)	(1,091)	(1,598)
Curtailment gains	(3,974)	—	(16,137)	(43,008)
	(4,933)	(957)	(18,782)	(45,388)

Based on our forecast at September 26, 2010, we expect to contribute $1,504,000 to our pension plans for the remainder of 2011. Based on our forecast at June 26, 2011, we do not expect to make significant contributions to our postretirement plans for the remainder of 2011.

2011 Changes to Plans

In May 2011, a new bargaining unit contract eliminated postretirement medical coverage for affected active employees and froze defined pension benefits. The elimination of postretirement medical coverage resulted in a non-cash curtailment gain of $3,974,000 which was recognized in the 13 weeks ended June 26, 2011, will reduce 2011 net periodic postretirement medical expense by $82,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by $3,371,000. The freeze of defined pension benefits will reduce 2011 net periodic pension expenses by $188,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by $592,000.

In March 2011, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in a non-cash curtailment gain of $1,991,000 which was recognized in the 13 weeks ended March 27, 2011 and reduced the benefit obligation liability at March 27, 2011 by $3,030,000.

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

2010 Changes to Plans

In March 2010, members of the St. Louis Newspaper Guild voted to approve a new 5.5 year contract, effective April 1, 2010. The new contract eliminated postretirement medical coverage for active employees and defined pension benefits were frozen. The elimination of postretirement medical coverage resulted in non-cash curtailment gains of $11,878,000, which were recognized in the 13 weeks ended March 28, 2010 and reduced the benefit

Table of Contents

obligation liability at March 28, 2010 by $6,576,000. The freeze of defined pension benefits resulted in non-cash curtailment gains of $2,004,000, which were recognized in the 13 weeks ended March 28, 2010, reduced 2010 net periodic pension expenses by $668,000 beginning in the 13 weeks ended June 27, 2010, and reduced the benefit obligation liability at March 28, 2010 by $2,004,000.

In December 2009, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in non-cash curtailment gains of $31,130,000, which were recognized in the 13 weeks ended December 27, 2009, reduced 2010 net periodic postretirement medical cost by $1,460,000 beginning in the 13 weeks ended March 28, 2010, and reduced the benefit obligation liability at December 27, 2009 by $28,750,000.

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

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

Table of Contents

6 INCOME TAXES

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

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

(Percent of Income Before Income Taxes)	13 Weeks Ended		39 Weeks Ended	
	June 26 2011	June 27 2010	June 26 2011	June 27 2010
Computed "expected" income tax expense (benefit)	(35.0)	35.0	(35.0)	35.0
State income taxes, net of federal tax benefit	(3.0)	3.0	(3.0)	3.0
Impairment of non deductible goodwill	21.6	—	26.0	—
Restricted Common Stock	—	—	(0.9)	2.0
Medicare Part D	—	—	(0.1)	5.3
Other	(1.8)	(10.6)	0.4	(4.6)
	(18.2)	27.4	(12.6)	40.7

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.

7 EARNINGS (LOSS) PER COMMON SHARE

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

(Thousands of Dollars and Shares, Except Per Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 26 2011	June 27 2010	June 26 2011	June 27 2010
Income (loss) attributable to Lee Enterprises, Incorporated:	(155,517)	10,019	(138,048)	40,916
Weighted average common shares	44,897	44,898	44,897	44,888
Less non-vested restricted Common Stock	—	334	87	335
Basic average common shares	44,897	44,564	44,810	44,553
Dilutive stock options and restricted Common Stock	—	477	—	306
Diluted average common shares	44,897	45,041	44,810	44,859

Earnings (loss) per common share:				
Basic	(3.46)	0.22	(3.08)	0.92
Diluted	(3.46)	0.22	(3.08)	0.91

For the 13 weeks ended June 26, 2011 and June 27, 2010, we have 1,912,000 and 198,000 weighted average shares, respectively, subject to issuance under our stock option plan that have no intrinsic value and are not considered in the computation of diluted earnings per common share. For the 39 weeks ended June 26, 2011

16

Table of Contents

and June 27, 2010, the weighted average shares not considered in the computation of diluted earnings per common share are 1,982,000 and 207,000, respectively.

8 STOCK OWNERSHIP PLANS

Stock Options

A summary of stock option activity during the 39 weeks ended June 26, 2011 follows:

(Thousands of Dollars and Shares, Except Per Share Data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 26, 2010	940	8.77		
Granted	1,105	2.57		
Exercised	(15)	2.17		
Cancelled	(149)	9.26		
Outstanding, June 26, 2011	1,881	5.14	8.4	—
Exercisable, June 26, 2011	370	16.33	6.2	—

Total unrecognized compensation expense for unvested stock options as of June 26, 2011 is $2,012,000, which will be recognized over a weighted average period of 1.9 years.

Determining Fair Value

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

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

The following assumptions were used to estimate the fair value of 2011 option awards:

Volatility (Percent)	111
Risk-free interest rate (Percent)	1.01
Expected term (Years)	4.7
Estimated fair value (Dollars)	2.00

17

Table of Contents

Restricted Common Stock

A summary of restricted Common Stock activity during the 39 weeks ended June 26, 2011 follows:

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 26, 2010	299	15.02
Vested	(297)	15.02
Forfeited	(2)	15.02
Outstanding, June 26, 2011	—	—

The fair value of restricted Common Stock vested during the 39 weeks ended June 26, 2011 totals $723,000.

9 FAIR VALUE MEASUREMENTS

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

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

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

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

The following table summarizes the financial instruments measured at fair value in the accompanying Consolidated Financial Statements as of June 26, 2011:

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling $8,155,000, including our 17% ownership of the nonvoting common stock of TCT, are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. Our fixed rate debt consists of the $142,500,000 principal amount of Pulitzer Notes, as discussed more fully in Note 4, which is not traded on an active market and is held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists, we are unable, as of June 26, 2011, to determine the fair value of such debt. The value, if determined, may be less than the carrying amount.

Subject to the final determination of impairment charges, there were no realized or unrealized gains or losses, purchases, sales, or transfers related to the Herald Value in the 39 weeks ended June 26, 2011. See Note 3. The determination of the amount of the Herald Value is based on an estimate of fair value using both market and income-based approaches.

In 2010, we reduced the carrying value of equipment no longer in use by $3,290,000, based on estimates of the related fair value in the current market. Based on age, condition and marketability we estimated the equipment had no value.

Table of Contents

10 COMMITMENTS AND CONTINGENT LIABILITIES

Redemption of PD LLC Minority Interest

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

The redemption of Herald's interest in PD LLC and DS LLC 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.

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 violation of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court judge granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. Discovery in the case is proceeding in the normal course and we intend to bring a motion to reverse the class certification ruling upon completion of that process. At this time we are unable to predict whether the ultimate economic outcome, if any, could have a material effect on our Consolidated Financial Statements, taken as a whole. We deny the allegations of employee status, consistent with our past practices and industry practices, and intend to vigorously contest the action, which is not covered by insurance.

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

11 COMMON STOCK AND CLASS B COMMON STOCK

In March 1986, one share of Class B Common Stock was issued as a dividend for each share of Common Stock held by stockholders of record at the time. The transfer of Class B Common Stock was restricted. As originally anticipated, the number of outstanding Class B shares has decreased over time through trading and reached the sunset level of 5,600,000 shares in March 2011.

In March 2011, in accordance with the sunset provisions established in 1986, we effected conversion of all outstanding shares of Class B Common Stock to Common Stock. As a result, all stockholders will have one vote per share on all future matters. Class B shares formerly had 10 votes per share.

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks and 39 weeks ended June 26, 2011. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2010 Annual Report on Form 10-K.

Table of Contents

NON-GAAP FINANCIAL MEASURES

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

Operating Cash Flow and Operating Cash Flow Margin

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

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

	13 Weeks Ended			
(Thousands of Dollars)	June 26 2011	Percent of Revenue	June 27 2010	Percent of Revenue
Operating cash flow	40,161	21.4	46,334	23.6
Depreciation and amortization	(17,606)	(9.4)	(18,151)	(9.2)
Impairment of goodwill and other assets	(187,325)	(100.0)	—	—
Curtailment gains	3,974	2.1	—	—
Equity in earnings of associated companies	1,225	0.7	1,934	1.0
Reduction of investment in TNI	(12,000)	(6.4)	—	—
Operating income (loss)	(171,571)	(91.6)	30,117	15.3

	39 Weeks Ended			
(Thousands of Dollars)	June 26 2011	Percent of Revenue	June 27 2010	Percent of Revenue
Operating cash flow	123,700	21.6	132,772	22.4
Depreciation and amortization	(53,907)	(9.4)	(55,313)	(9.3)
Impairment of goodwill and other assets	(187,325)	(32.7)	(3,290)	(0.6)
Curtailment gains	16,137	2.8	45,012	7.6
Equity in earnings of associated companies	5,078	0.9	5,401	0.9
Reduction of investment in TNI	(12,000)	(2.1)	—	—
Operating income (loss)	(108,317)	(18.9)	124,582	21.0

Adjusted Net Income and Adjusted Earnings Per Common Share

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

business operating results or are of a substantially non-recurring nature.

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

Table of Contents

SAME PROPERTY COMPARISONS

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

CRITICAL ACCOUNTING POLICIES

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

Our critical accounting policies include the following:

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

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

EXECUTIVE OVERVIEW

We are the leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. Our 53 markets, across 23 states, are principally midsize or smaller. Through our print and digital platforms, we reach an overwhelming majority of adults in our markets.

Our platforms include:

- 53 daily and 40 Sunday newspapers with average total circulation of 1.4 million and 1.7 million, respectively, for the 13 weeks ended June 26, 2011, read by nearly 4 million people in print;
- Websites that complement our newspapers which attracted almost 22 million unique visitors in the month of June 2011, a 29% increase from June 2010, with nearly 210 million page views;
- Mobile sites in all of our markets that attracted almost 18 million views in June 2011, a 220% increase from June 2010;
- Smartphone applications in 38 locations;
- Tablet applications in operation and in development; and
- Nearly 300 weekly newspapers and classified and niche publications.

Our markets have established retail bases, and most are regional shopping hubs. We are located in four state capitals. Six of our top ten markets by revenue include major universities, and seven are home to major corporate headquarters. Based on data from the Bureau of Labor of Statistics as of May 2011, the unemployment rate in nine of our top ten markets by revenue was lower than the national average. We believe that all of these factors have had a positive impact on advertising revenue.

Unlike many other newspaper publishers, we do not face significant competition from other local daily newspapers in most of our markets, although there is significant competition for readers and viewers in those markets from other

Table of Contents

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.

Approximately 71% of our revenue is derived from advertising. Our strategies are to increase our share of local advertising through increased sales activities in our existing markets and, over time, to increase print and digital audiences through internal expansion into existing and contiguous markets and enhancement of digital products.

ECONOMIC CONDITIONS

According to the National Bureau of Economic Research, the United States economy was in a recession from December 2007 until June 2009. It is widely believed that certain elements of the economy, such as housing, auto sales and employment, were in decline before December 2007, and have still not recovered to pre-recession levels. 2010, 2009 and 2008 revenue, operating results and cash flows were significantly impacted by the recession. The duration and depth of an economic recession, and pace of economic recovery, which has deteriorated over the last several quarters, 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.

As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill, nonamortized and amortizable intangible assets in 2008 and 2009, and recorded estimated pretax, non-cash charges to reduce the carrying value of goodwill in the 13 weeks ended June 26, 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 and 2010. We recorded deferred income tax benefits related to these charges.

We have determined that an impairment of our customer and newspaper subscriber lists is probable. However, because of the timing of the determination of impairment and complexity of the calculations required, we have not completed the required determination of fair value of amortizable and nonamortized intangible assets and real property. Accordingly, we are not able to estimate the impairment loss related to these asset groups and we have recorded an estimated impairment loss as a reduction of goodwill, nonamortized intangible assets and our investment in TNI as of June 26, 2011. The final determination of reductions in the amounts of goodwill and other assets included in the June 26, 2011 Consolidated Balance Sheet, including any additional impairment losses and the related tax impact, could change significantly. Such changes would not impact our cash flows. Definitive amounts will be included in our Annual Report on Form 10-K for the year ending September 25, 2011.

DEBT AND LIQUIDITY

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

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

offering costs, would have been used to refinance the Credit Agreement and Pulitzer Notes. As a result of market conditions, we terminated the offering process in May 2011 and charged $4,198,000 of related debt financing costs to expense in the 13 weeks ended June 26, 2011. Refinancing of our debt is among our highest priorities and in July 2011, we announced that we are engaged in substantive discussions with existing lenders about an extension of our Credit Agreement. We expect our overall financial expense to increase as a result of the refinancing process. We will continue to pursue alternatives and intend to extend or refinance the Credit Agreement and Pulitzer Notes before their April 2012 maturity.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at June 26, 2011.

Table of Contents

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. On July 8, 2011, the NYSE notified us that we did not meet the continued listing standards due to our failure to maintain an adequate share price and that we would have until January 8, 2012 to cure the deficiency relating to the minimum market price. As of June 26, 2011, we also do not meet the NYSE listing standard requiring a minimum of $50 million in total market capitalization or stockholders' equity. We expect to be notified by the NYSE with regard to our failure to meet this standard, which would normally involve an 18 month cure period. Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and minimum capitalization requirement, after expiration of the applicable cure periods, our Common Stock could be removed from the NYSE and traded in the over-the-counter market. Based upon the number of shares of Common Stock outstanding as of June 26,2011, the 30-day average closing price of our Common Stock would need to be equal to approximately $1.12 per share to be in compliance with the NYSE minimum market price and minimum capitalization standards. These factors, along with volatile equity market conditions, could limit our ability to raise new equity capital in the future.

Table of Contents

13 WEEKS ENDED JUNE 26, 2011

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

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended June 26 2011	June 27 2010	Percent Change
Advertising revenue:			
Retail	73,678	79,886	(7.8)
Classified:			
Daily newspapers:			
Employment	6,026	5,775	4.3
Automotive	5,979	6,545	(8.7)
Real estate	4,599	5,754	(20.1)
All other	11,218	12,560	(10.7)
Other publications	6,450	7,267	(11.2)
Total classified	34,272	37,901	(9.6)
Digital	15,696	12,863	22.0
National	6,261	7,198	(13.0)
Niche publications	3,088	2,965	4.1
Total advertising revenue	132,995	140,813	(5.6)
Circulation	44,875	45,072	(0.4)
Commercial printing	3,055	3,275	(6.7)
Digital services and other	6,381	7,245	(11.9)
Total operating revenue	187,306	196,405	(4.6)
Compensation	74,458	78,372	(5.0)
Newsprint and ink	14,632	13,618	7.4
Other operating expenses	55,969	57,686	(3.0)
Workforce adjustments	2,086	395	NM
	147,145	150,071	(1.9)
Operating cash flow	40,161	46,334	(13.3)
Depreciation and amortization	17,606	18,151	(3.0)
Impairment of goodwill and other assets	187,325	—	NM
Curtailment gains	3,974	—	NM
Equity in earnings of associated companies	1,225	1,934	(36.7)
Reduction of investment in TNI	12,000	—	NM
Operating income (loss)	(171,571)	30,117	NM
Non-operating expense, net	(18,506)	(16,288)	13.6
Income (loss) before income taxes	(190,077)	13,829	NM
Income tax expense (benefit)	(34,637)	3,790	NM
Net income (loss)	(155,440)	10,039	NM
Net income attributable to non-controlling interests	(77)	(20)	NM
Income (loss) attributable to Lee Enterprises, Incorporated	(155,517)	10,019	NM
Other comprehensive income (loss), net	1,725	(609)	NM
Comprehensive income (loss)	(153,792)	9,410	NM
Earnings (loss) per common share:			
Basic	(3.46)	0.22	NM
Diluted	(3.46)	0.22	NM

References to the "2011 Quarter" refer to the 13 weeks ended June 26, 2011. Similarly, references to the "2010 Quarter" refer to the 13 weeks ended June 27, 2010.

Table of Contents

Year-over-year revenue trends improved significantly overall as 2010 progressed. In the 13 weeks ended September 27, 2009, total operating revenue decreased 20.0%, compared to the prior year period. In the 13 weeks ended September 26, 2010, total operating revenue declined 3.7%. Certain categories of advertising, such as digital, and employment and auto classified advertising, turned positive compared to 2009 at different points in 2010. In the 13 weeks ended December 26, 2010, total operating revenue decreased 1.0%. For the 2011 Quarter, total operating revenue decreased $9,099,000, or 4.6%, compared to the 2010 Quarter and same property revenue decreased 4.2%. From January through June 2011, the pace of economic growth slowed significantly. We expect year over year revenue comparisons to improve as economic conditions in our markets also improve.

Advertising Revenue

In the 2011 Quarter, advertising revenue decreased $7,818,000, or 5.6%. On a combined basis, print and digital retail advertising decreased 4.9%. Print retail revenue decreased $6,208,000, or 7.8%, in the 2011 Quarter while daily newspaper retail advertising lineage increased 0.6%. Retail preprint insertion revenue decreased 7.2%. Digital retail advertising increased 37.5%, partially offsetting print declines.

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

(Thousands of Dollars)	13 Weeks Ended June 26 2011	June 27 2010	Percent Change
Retail	80,262	84,387	(4.9)
Classified:			
Employment	9,994	9,600	4.1
Automotive	10,391	10,759	(3.4)
Real estate	6,216	7,721	(19.5)
Other	15,753	17,712	(11.1)
Total classified	42,354	45,792	(7.5)
National	7,290	7,668	(4.9)

On a combined basis, print and digital classified revenue decreased 7.5%. Print classified advertising revenue decreased $3,629,000, or 9.6%, in the 2011 Quarter. Digital classified advertising decreased 2.8%. Print employment advertising (including advertising in publications other than our daily newspapers) increased 2.7% and digital employment advertising increased 6.6%. As a result, this category increased 4.1% overall. Print automotive advertising increased 0.7% and digital automotive advertising decreased 33.2%. As a result, this category decreased 3.4% overall. Print real estate advertising decreased 19.4%. Digital real estate advertising decreased 19.9%. Other print classified advertising decreased 10.9%.

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

(Thousands of Inches)	13 Weeks Ended June 26 2011	June 27 2010	Percent Change
Retail	2,601	2,587	0.6
Classified	2,787	2,917	(4.5)
National	98	109	(10.5)
	5,486	5,613	(2.3)

On a stand-alone basis, digital advertising revenue increased 22.0% in the 2011 Quarter representing 11.8% of total advertising revenue. Year-over-year total digital advertising turned positive in the month of December 2009 and has been rising steadily since that time.

National print advertising decreased $937,000, or 13.0%, due primarily to a 10.5% decrease in lineage. Digital national advertising increased 119.7%. Advertising in niche publications increased 4.1%.

Table of Contents

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

Circulation and Other Revenue

Circulation revenue decreased $197,000, or 0.4%, in the 2011 Quarter due primarily to decreased unit sales, which were partially offset by selective price increases.

Our unaudited, average total newspaper circulation units, including TNI and MNI, were 1.4 million daily and 1.7 million Sunday for the 2011 Quarter. Comparable amounts for the 2010 Quarter are not available due to extensive changes made by the Audit Bureau of Circulations (“ABC”) to the measurement of circulation units. The new ABC standards include updated measures for newspaper subscriptions that include hybrid or bundled digital editions, while continuing to address the growing market for paid content across multiple platforms, such as e-readers and mobile apps. These changes were effective in October 2010.

Our digital sites attracted 21.6 million unique visitors in the month of June 2011, an increase of 29.1% from a year ago, with approximately 209.9 million page views. The number of mobile page views grew 219.6% to 17.8 million in June 2011. Research in our larger markets indicates we are reaching an increasingly larger audience through the combination of rapid digital audience growth and stable newspaper readership.

Commercial printing revenue decreased $220,000, or 6.7%, in the 2011 Quarter. Digital services and other revenue decreased $864,000, or 11.9%, in the 2011 Quarter, primarily due to the sale of a book publishing business in February 2011.

Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased $4,617,000, or 3.1%, in the 2011 Quarter and same property costs decreased 2.3%.

Compensation expense decreased $3,914,000, or 5.0%, in the 2011 Quarter, driven by a decline in average full time equivalent employees of 4.8%.

Newsprint and ink costs increased $1,014,000, or 7.4%, in the 2011 Quarter as a result of higher prices partially offset by a reduction in newsprint volume of 5.7%. See Item 3, “Commodities”, included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, decreased $1,717,000, or 3.0%, in the 2011 Quarter.

Reductions in staffing resulted in workforce adjustment costs totaling $2,086,000 and $395,000 in the 2011 Quarter and 2010 Quarter, respectively.

We are engaged in various efforts to continue to contain future growth in operating expenses. Despite the increased cost of newsprint, operating expenses, excluding depreciation, amortization and unusual matters, are expected to decrease approximately 4-5% in the 13 weeks ending September 25, 2011. Cash costs for 2012 are expected to decrease 1-2% from the 2011 level.

Results of Operations

As a result of the factors noted above, operating cash flow decreased 13.3%, to $40,161,000, in the 2011 Quarter compared to $46,334,000 in the 2010 Quarter. Operating cash flow margin decreased to 21.4% from 23.6% a year ago reflecting a larger percentage decrease in operating revenue than the decrease in operating expenses.

Depreciation expense decreased $285,000, or 4.2%, in the 2011 Quarter and amortization expense decreased $260,000, or 2.3%, in the 2011 Quarter.

Due primarily to the difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets as of June 26, 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analysis. We concluded the fair value of our business did not exceed

the carrying value of our net assets as of June 26, 2011.

As a result, we recorded estimated pretax, non-cash charges to reduce the carrying value of goodwill and nonamortized intangible assets by $174,125,000 and $13,200,000, respectively, in the 13 weeks ended June 26, 2011. Additional pretax, non-cash charges of $12,000,000 were recorded to reduce the carrying value of TNI. We recorded $37,524,000 of income tax benefits related to these charges.

We have determined that an impairment of our customer and newspaper subscriber lists is probable. However, because of the timing of the determination of impairment and complexity of the calculations required, we have not completed the required determination of fair value of amortizable and nonamortized intangible assets and real property. Accordingly, we are not able to estimate the impairment loss related to these asset groups and we have recorded an estimated impairment loss as a reduction of goodwill, nonamortized intangible assets and our investment in TNI as of June 26, 2011. The final determination of reductions in the amounts of goodwill and other assets included in the June 26, 2011 Consolidated Balance Sheet, including any additional impairment losses and the related tax impact, could change significantly. Such changes would not impact our cash flows. Definitive amounts will be included in our Annual Report on Form 10-K for the year ending September 25, 2011.

In May 2011, a new bargaining unit contract eliminated postretirement medical coverage for affected active employees and froze defined pension benefits. The elimination of postretirement medical coverage resulted in a non-cash curtailment gain of $3,974,000 which was recognized in the 13 weeks ended June 26, 2011, will reduce 2011 net periodic postretirement medical expense by $82,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by $3,371,000. The freeze of defined pension benefits will reduce 2011 net periodic pension expenses by $188,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by $592,000.

In March 2011, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in a non-cash curtailment gain of $1,991,000 which was recognized in the 13 weeks ended March 27, 2011 and reduced the benefit obligation liability at March 27, 2011 by $3,030,000.

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

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

In December 2009, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in non-cash curtailment gains of $31,130,000, which were recognized in the 13 weeks ended December 27, 2009, reduced 2010 net periodic postretirement medical cost by $1,460,000 beginning in the 13 weeks

ended March 28, 2010, and reduced the benefit obligation liability at December 27, 2009 by $28,750,000.

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

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

Table of Contents

Affordable Care Act cannot be made at this time. However, we do not expect the Affordable Care Act will have a significant impact on our postretirement medical benefit obligation liability.

Equity in earnings in associated companies decreased $709,000 in the 2011 Quarter.

The factors noted above resulted in an operating loss of $171,571,000 in the 2011 Quarter and operating income of $30,117,000 in the 2010 Quarter.

Nonoperating Income and Expense

Financial expense, including amortization of debt financing costs, increased $2,925,000, or 17.9%, to $19,276,000 in the 2011 Quarter due primarily to the write-off of $4,198,000 of debt financing costs associated with the notes offerings in April 2011, partially offset by lower debt balances. Our weighted average cost of debt was 5.07% at the end of the 2011 Quarter, compared to 5.04% at the end of the 2010 Quarter.

As more fully discussed in Note 4 of the Notes to Consolidated Financial Statements, included herein, amendments to our Credit Agreement consummated in 2009 increased financial expense in 2009 in relation to LIBOR. We are now subject to minimum LIBOR levels, which are currently in excess of actual LIBOR. The maximum rate has been increased to the LIBOR minimum plus 4.5%, and we could also be subject to additional non-cash payment-in-kind interest if leverage increases above specified levels. At the June 2011 leverage level, our debt under the Credit Agreement will be priced at the applicable LIBOR minimum of 1.25% plus 3.0% . The interest rate on the Pulitzer Notes increased 1% to 9.05% in February 2009, increased 0.5% in April 2010 to 9.55% and increased 0.5% in April 2011 to 10.05%.

Overall Results

We recognized an income tax benefit of 18.2% of loss before income taxes in the 2011 Quarter and income tax expense of 27.4% of income before income taxes in the 2010 Quarter. See Note 6 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

As a result of the factors noted above, loss attributable to Lee Enterprises, Incorporated totaled $155,517,000 in the 2011 Quarter compared to income attributable to Lee Enterprises, Incorporated of $10,019,000 in the 2010 Quarter. We recorded loss per diluted common share of $3.46 in the 2011 Quarter and earnings per diluted common share of $0.22 in the 2010 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, was $0.21 in the 2011 Quarter, compared to $0.26 in the 2010 Quarter. Per share amounts may not add due to rounding.

	13 Weeks Ended			
	June 26		June 27	
	2011		2010	
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income (loss) attributable to Lee Enterprises, Incorporated, as reported	(155,517)	(3.46)	10,019	0.22
Adjustments:				
Impairment of goodwill and other assets	199,325		—	
Curtailment gains	(3,974)		—	
Debt financing costs	6,053		1,997	
Other, net	2,248		399	

	203,652		2,396	
Income tax effect of adjustments, net, and unusual tax matters	(38,742	)	(838	)
	164,910	3.67	1,558	0.03
Income attributable to Lee Enterprises, Incorporated, as adjusted	9,393	0.21	11,577	0.26

28

Table of Contents

39 WEEKS ENDED JUNE 26, 2011

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

(Thousands of Dollars, Except Per Share Data)	39 Weeks Ended June 26 2011	June 27 2010	Percent Change
Advertising revenue:			
Retail	232,680	248,200	(6.3)
Classified:			
Daily newspapers:			
Employment	16,883	15,674	7.7
Automotive	17,671	18,830	(6.2)
Real estate	13,989	17,888	(21.8)
All other	32,429	34,250	(5.3)
Other publications	19,181	20,516	(6.5)
Total classified	100,153	107,158	(6.5)
Digital	44,658	34,824	28.2
National	22,022	26,577	(17.1)
Niche publications	9,301	9,016	3.2
Total advertising revenue	408,814	425,775	(4.0)
Circulation	135,173	135,205	—
Commercial printing	8,998	8,901	1.1
Digital services and other	20,714	22,106	(6.3)
Total operating revenue	573,699	591,987	(3.1)
Compensation	229,008	239,806	(4.5)
Newsprint and ink	45,156	39,373	14.7
Other operating expenses	173,114	178,954	(3.3)
Workforce adjustments	2,721	1,082	NM
	449,999	459,215	(2.0)
Operating cash flow	123,700	132,772	(6.8)
Depreciation and amortization	53,907	55,313	(2.5)
Impairment of goodwill and other assets	187,325	3,290	NM
Curtailment gains	16,137	45,012	(64.1)
Equity in earnings of associated companies	5,078	5,401	(6.0)
Reduction of investment in TNI	12,000	—	NM
Operating income (loss)	(108,317)	124,582	NM
Non-operating expense, net	(49,550)	(55,504)	(10.7)
Income (loss) before income taxes	(157,867)	69,078	NM
Income tax expense (benefit)	(19,955)	28,099	NM
Net income (loss)	(137,912)	40,979	NM
Net income attributable to non-controlling interests	(136)	(63)	NM
Income (loss) attributable to Lee Enterprises, Incorporated	(138,048)	40,916	NM
Other comprehensive income (loss), net	3,936	(9,150)	NM
Comprehensive income (loss)	(134,112)	31,766	NM
Earnings (loss) per common share:			
Basic	(3.08)	0.92	NM
Diluted	(3.08)	0.91	NM

References to the "2011 Period" refer to the 39 weeks ended June 26, 2011. Similarly, references to the "2010 Period" refer to the 39 weeks ended June 27, 2010.

Table of Contents

Year-over-year revenue trends improved significantly overall as 2010 progressed. In the 13 weeks ended September 27, 2009, total operating revenue decreased 20.0%, compared to the prior year period. In the 13 weeks ended September 26, 2010, total operating revenue declined 3.7%. Certain categories of advertising, such as digital, and employment and auto classified advertising, turned positive compared to 2009 at different points in 2010. In the 13 weeks ended December 26, 2010, total operating revenue decreased 1.0%. For the 2011 Period, total operating revenue decreased $18,288,000, or 3.1%, compared to the 2010 Period, and same property revenue decreased 2.9%. From January through June 2011, the pace of economic growth slowed significantly. We expect year over year revenue comparisons to improve as economic conditions in our markets also improve.

Advertising Revenue

In the 2011 Period, advertising revenue decreased $16,961,000, or 4.0%. On a combined basis, print and digital retail advertising decreased 3.7%. Print retail revenue decreased $15,520,000, or 6.3%, in the 2011 Period while daily newspaper retail advertising lineage increased 0.4%. Retail preprint insertion revenue decreased 3.6%. Digital retail advertising increased 43.1%, partially offsetting print declines.

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

(Thousands of Dollars)	39 Weeks Ended June 26 2011	June 27 2010	Percent Change	
Retail	250,026	259,512	(3.7	)
Classified:				
Employment	27,843	25,901	7.5	
Automotive	31,533	31,128	1.3	
Real estate	18,847	23,892	(21.1	)
Other	45,866	48,556	(5.5	)
Total classified	124,089	129,477	(4.2	)
National	25,397	27,771	(8.5	)

On a combined basis, print and digital classified revenue decreased 4.2%. Print classified advertising revenue decreased $7,005,000, or 6.5%, in the 2011 Period. Digital classified advertising increased 1.0%. Print employment advertising (including advertising in publications other than our daily newspapers) increased 5.8% and digital employment advertising increased 10.7%. As a result, this category increased 7.5% overall. Print automotive advertising increased 2.6% and digital automotive advertising decreased 8.5%. As a result, this category increased 1.3% overall. Print real estate advertising decreased 21.1%. Digital real estate advertising decreased 21.8%. Other print classified advertising decreased 5.2%.

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

(Thousands of Inches)	39 Weeks Ended June 26 2011	June 27 2010	Percent Change	
Retail	7,858	7,827	0.4	
Classified	8,087	8,180	(1.1	)
National	307	380	(19.2	)
	16,252	16,387	(0.8	)

On a stand-alone basis, digital advertising revenue increased 28.2% in the 2011 Period representing 10.9% 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.

National print advertising decreased $4,555,000, or 17.1%, due primarily to a 19.2% decrease in lineage. Digital national advertising increased 174.2%. Advertising in niche publications increased 3.2%.

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

Circulation and Other Revenue

Circulation revenue remained flat in the 2011 Period.

Our unaudited, average total newspaper circulation units, including TNI and MNI, were 1.4 million daily and 1.7 million Sunday for the 2011 Period. Comparable amounts for the 2010 Period are not available due to extensive changes made by the ABC to the measurement of circulation units. The new ABC standards include updated measures for newspaper subscriptions that include hybrid or bundled digital editions, while continuing to address the growing market for paid content across multiple platforms, such as e-readers and mobile apps. These changes were effective in October 2010.

Our digital sites attracted 21.6 million unique visitors in the month of June 2011, an increase of 29.1% from a year ago, with approximately 209.9 million page views. The number of mobile page views grew 219.6% to 17.8 million in June 2011. Research in our larger markets indicates we are reaching an increasingly larger audience through the combination of rapid digital audience growth and stable newspaper readership.

Commercial printing revenue increased $97,000, or 1.1%, in the 2011 Period. Digital services and other revenue decreased $1,392,000, or 6.3%, in the 2011 Period.

Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased $10,855,000, or 2.4%, in the 2011 Period and same property costs decreased 1.7%.

Compensation expense decreased $10,798,000, or 4.5%, in the 2011 Period, driven by a decline in average full time equivalent employees of 3.9%.

Newsprint and ink costs increased $5,783,000, or 14.7%, in the 2011 Period as a result of higher prices, which were partially offset by a reduction in newsprint volume of 4.2%. 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 $5,840,000, or 3.3%, in the 2011 Period.

Reductions in staffing resulted in workforce adjustment costs totaling $2,721,000 and $1,082,000 in the 2011 Period and 2010 Period, respectively.

We are engaged in various efforts to continue to contain future growth in operating expenses. Despite the increased cost of newsprint, operating expenses, excluding depreciation, amortization and unusual matters, are expected to decrease approximately 4-5% in the 13 weeks ending September 25, 2011. Cash costs for 2012 are expected to decrease 1-2% from the 2011 level.

Results of Operations

As a result of the factors noted above, operating cash flow decreased 6.8%, to $123,700,000, in the 2011 Period compared to $132,772,000 in the 2010 Period. Operating cash flow margin decreased to 21.6% from 22.4% a year ago

reflecting a larger percentage decrease in operating revenue than the decrease in operating expenses.

Depreciation expense decreased $1,002,000, or 4.7%, in the 2011 Period due to lower levels of capital spending in 2010 and 2009. Amortization expense decreased $404,000, or 1.2%, in the 2011 Period.

Due primarily to the difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets as of June 26, 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analysis. We concluded the fair value of our business did not exceed the carrying value of our net assets as of June 26, 2011.

Table of Contents

As a result, we recorded estimated pretax, non-cash charges to reduce the carrying value of goodwill and nonamortized intangible assets by $174,125,000 and $13,200,000, respectively, in the 13 weeks ended June 26, 2011. Additional pretax, non-cash charges of $12,000,000 were recorded to reduce the carrying value of TNI. We recorded $37,524,000 of income tax benefits related to these charges.

We have determined that an impairment of our customer and newspaper subscriber lists is probable. However, because of the timing of the determination of impairment and complexity of the calculations required, we have not completed the required determination of fair value of amortizable and nonamortized intangible assets and real property. Accordingly, we are not able to estimate the impairment loss related to these asset groups and we have recorded an estimated impairment loss as a reduction of goodwill, nonamortized intangible assets and our investment in TNI as of June 26, 2011. The final determination of reductions in the amounts of goodwill and other assets included in the June 26, 2011 Consolidated Balance Sheet, including any additional impairment losses and the related tax impact, could change significantly. Such changes would not impact our cash flows. Definitive amounts will be included in our Annual Report on Form 10-K for the year ending September 25, 2011.

In May 2011, a new bargaining unit contract eliminated postretirement medical coverage for affected active employees and froze defined pension benefits. The elimination of postretirement medical coverage resulted in a non-cash curtailment gain of $3,974,000 which was recognized in the 13 weeks ended June 26, 2011, will reduce 2011 net periodic postretirement medical expense by $82,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by $3,371,000. The freeze of defined pension benefits will reduce 2011 net periodic pension expenses by $188,000 beginning in the 13 weeks ended June 26, 2011 and reduced the benefit obligation liability at June 26, 2011 by $592,000.

In March 2011, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in a non-cash curtailment gain of $1,991,000 which was recognized in the 13 weeks ended March 27, 2011 and reduced the benefit obligation liability at March 27, 2011 by $3,030,000.

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

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

In December 2009, we notified certain participants in our postretirement medical plans of changes to be made to the plans, including increases in participant premium cost-sharing and elimination of coverage for certain participants. The changes resulted in non-cash curtailment gains of $31,130,000, which were recognized in the 13 weeks ended December 27, 2009, reduced 2010 net periodic postretirement medical cost by $1,460,000 beginning in the 13 weeks ended March 28, 2010, and reduced the benefit obligation liability at December 27, 2009 by $28,750,000.

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

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

Table of Contents

Equity in earnings in associated companies decreased $323,000 in the 2011 Period.
The factors noted above resulted in an operating loss of $108,317,000 in the 2011 Period and operating income of $124,582,000 in the 2010 Period.

Nonoperating Income and Expense

Financial expense, including amortization of debt financing costs, decreased $6,053,000, or 10.9%, to $49,713,000 in the 2011 Period due primarily to lower debt balances, partially offset by the write-off of $4,198,000 of debt financing costs associated with the notes offerings in April 2011. Our weighted average cost of debt was 5.07% at the end of the 2011 Period, compared to 5.04% at the end of the 2010 Period.

As more fully discussed in Note 4 of the Notes to Consolidated Financial Statements, included herein, amendments to our Credit Agreement consummated in 2009 increased financial expense in 2009 in relation to LIBOR. We are now subject to minimum LIBOR levels, which are currently in excess of actual LIBOR. The maximum rate has been increased to the LIBOR minimum plus 4.5%, and we could also be subject to additional non-cash payment-in-kind interest if leverage increases above specified levels. At the June 2011 leverage level, our debt under the Credit Agreement will be priced at the applicable LIBOR minimum of 1.25% plus 3.0%. The interest rate on the Pulitzer Notes increased 1% to 9.05% in February 2009, increased 0.5% in April 2010 to 9.55% and increased 0.5% in April 2011 to 10.05%.

Overall Results

We recognized an income tax benefit of 12.6% of loss before income taxes in the 2011 Period and income tax expense of 40.7% of income before income taxes in the 2010 Period. See Note 6 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

As a result of the factors noted above, loss attributable to Lee Enterprises, Incorporated totaled $138,048,000 in the 2011 Period compared to income attributable to Lee Enterprises, Incorporated of $40,916,000 in the 2010 Period. We recorded loss per diluted common share of $3.08 in the 2011 Period and earnings per diluted common share of $0.91 in the 2010 Period. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were $0.51 in the 2011 Period compared to $0.55 in the 2010 Period. Per share amounts may not add due to rounding.

	39 Weeks Ended			
	June 26 2011		June 27 2010	
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income (loss) attributable to Lee Enterprises, Incorporated, as reported	(138,048)	(3.08)	40,916	0.91
Adjustments:				
Curtailment gains	(16,137)		(45,012)	
Impairment of goodwill and other assets	199,325		3,290	
Debt financing costs	9,913		5,964	
Other, net	3,038		1,493	
	196,139		(34,265)	
Income tax adjustment related to new health care legislation	—		2,012	
Income tax effect of adjustments, net, and other unusual tax matters	(35,331)		16,175	
	160,808	3.59	(16,078)	(0.36)

Income attributable to Lee Enterprises, Incorporated, as adjusted	22,760	0.51	24,838	0.55

33

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities was $83,828,000 in the 2011 Period and $79,487,000 in the 2010 Period. Depreciation and amortization decreased in the 2011 Period as discussed under “Results of Operations” above. In the 2011 Period and 2010 Period, we recognized estimated charges for the impairment of goodwill and other assets, including TNI Partners, of $199,325,000 and $3,290,000, respectively. In the 2011 Period and 2010 Period, we also recognized non-cash curtailment gains totaling $16,137,000 and $45,012,000, respectively. The net change in all of the aforementioned factors, as well as changes in deferred income taxes, accounted for the majority of the increase in cash provided between periods. Changes in operating assets and liabilities and the timing of income tax payments accounted for the bulk of the remainder of the change in cash provided by operating activities in both periods.

Investing Activities

Cash provided by investing activities totaled $2,817,000 in the 2011 Period and cash required for investing activities totaled $5,519,000 in the 2010 Period. Restricted cash was reduced $4,651,000 in the 2011 Period. Capital spending totaled $3,641,000 in the 2011 Period and $6,695,000 in the 2010 Period and accounted for substantially all of the net usage of funds in the 2010 Period.

We anticipate that funds necessary for capital expenditures, which are expected to total between $6,000,000 and $10,000,000 in 2011, and other requirements, will be available from internally generated funds, or availability under our Credit Agreement. The 2009 Amendments, as more fully discussed in Note 4 of the Notes to Consolidated Financial Statements, included herein, limit capital expenditures to $30,000,000 in 2011.

Financing Activities

Cash required for financing activities totaled $82,143,000 in the 2011 Period and $66,696,000 in the 2010 Period. We paid $4,608,000 of debt financing costs in the 2011 Period; of which $4,198,000 relates to the notes offerings in April 2011. Debt reduction accounted for the remainder of the usage of funds in the 2011 Period and substantially all of the usage of funds in the 2010 Period.

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

Liquidity

At June 26, 2011, we had $272,425,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, have approximately $89,677,000 available for future use. Including cash and restricted cash, our liquidity at June 26, 2011 totals $118,573,000. This liquidity amount excludes any future cash flows. At June 26, 2011, remaining mandatory principal payments on debt in 2011 total $20,000,000. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows. We expect all interest and principal payments due in 2011 will be satisfied by our continuing cash flows, which will allow us to maintain, or increase, the current level of liquidity.

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

and in July 2011, we announced that we are engaged in substantive discussions with existing lenders about an extension of our Credit Agreement. We expect our overall financial expense to increase as a result of the refinancing process. We will continue to pursue alternatives and intend to extend or refinance the Credit Agreement and Pulitzer Notes before their April 2012 maturity.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at June 26, 2011.

Table of Contents

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

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

CHANGES IN LAWS AND REGULATIONS

Energy Costs

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

Health Care

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

We expect the Affordable Care Act will be supported by a substantial number of underlying regulations, many of which have not been issued. Certain provisions are now subject to judicial challenges on constitutional and other grounds. Accordingly, a complete determination of the impact of the Affordable Care Act cannot be made at this time. However, we expect our future health care costs to increase more rapidly based on analysis published by the United States Department of Health and Human Services, input from independent advisors and our understanding of various provisions of the Affordable Care Act that differ from our current medical plans, such as a higher maximum age for dependent coverage and elimination of lifetime benefit caps.

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

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

Income Taxes

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

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

Table of Contents

these market risks is managed as described below.
INTEREST RATES

Restricted Cash and Investments

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

Debt

Our debt structure and interest rate risk are managed through the use of fixed and floating rate debt. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately $8,618,000, based on $861,760,000 of floating rate debt outstanding at June 26, 2011.

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

Since November 30, 2009, the full amount of the outstanding balance under the Credit Agreement has been subject to floating interest rates, as all interest rate swaps and collars expired or were terminated at or prior to that date. At June 26, 2011, approximately 86% of the principal amount of our debt is subject to floating interest rates. We regularly evaluate alternatives to hedge the related interest rate risk.

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

COMMODITIES

Certain materials used by us are exposed to commodity price changes. We manage this risk through instruments such as purchase orders and non-cancelable supply contracts. We are a participant in a buying cooperative with other publishing companies, primarily for the acquisition of newsprint. We are also involved in continuing programs to mitigate the impact of cost increases through identification of sourcing and operating efficiencies. Primary commodity price exposures are newsprint and, to a lesser extent, ink and energy costs.

Newsprint prices rose steadily throughout 2010. Since October 2010, newsprint prices have been relatively stable as producers utilize export shipments outside of North America, and manage capacity in an attempt to balance production against significant demand declines. Declining demand trends continue to influence price levels despite upward input cost pressures, particularly fiber costs, and an unfavorable Canadian exchange rate. The final extent of future price changes, if any, is subject to negotiations with each newsprint producer.

A $10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately $935,000 based on anticipated consumption in 2011, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which may help to mitigate the impact of future price increases.

SENSITIVITY TO CHANGES IN VALUE

Our fixed rate debt consists of the Pulitzer Notes, which are not traded on an active market and are held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists we are unable, as of June 26, 2011, to measure the maximum potential impact on fair value of fixed rate debt from adverse changes in market interest rates under normal market conditions. The change in value, if determined, could be significant.

Table of Contents

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision of our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including its consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended June 26, 2011 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

In 2008, a group of newspaper carriers filed suit against us in the United States District Court for the Southern District of California, claiming to be our employees and not independent contractors. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court judge granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. Discovery in the case is proceeding in the normal course and we intend to bring a motion to reverse the class certification ruling upon completion of that process. At this time we are unable to predict whether the ultimate economic outcome, if any, could have a material effect on our Consolidated Financial Statements, taken as a whole. We deny the allegations of employee status, consistent with our past practices and industry practices, and intend to vigorously contest the action, which is not covered by insurance.

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

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 August 5, 2011
Carl G. Schmidt
Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)