

LEE ENTERPRISES, INC
Form 10-Q
August 11, 2010

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

FORM 10-Q

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

For The Quarterly Period Ended June 27, 2010

OR

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

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

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

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

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of June 27, 2010, 39,253,967 shares of Common Stock and 5,692,901 shares of Class B Common Stock of the Registrant were outstanding.

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

FORWARD-LOOKING STATEMENTS

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

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

Any statements that are not statements of historical fact (including statements containing the words “may”, “will”, “would”, “could”, “believes”, “expects”, “anticipates”, “intends”, “plans”, “projects”, “considers” and similar expressions) generally should be considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. We do not undertake to publicly update or revise our forward-looking statements.

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FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars, Except Per Share Data)	June 27 2010	September 27 2009
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ASSETS

Current assets:

Cash and cash equivalents	15,177	7,905
Accounts receivable, net	78,631	79,731
Income taxes receivable	—	5,625
Inventories	12,436	13,854
Deferred income taxes	3,638	3,638
Other	11,290	7,354
Total current assets	121,172	118,107

Investments:

Associated companies	58,836	58,073
Restricted cash and investments	9,448	9,324
Other	9,661	9,498
Total investments	77,945	76,895

Property and equipment:

Land and improvements	28,075	30,365
Buildings and improvements	193,902	195,573
Equipment	312,045	316,364
Construction in process	4,166	1,985
	538,188	544,287
Less accumulated depreciation	298,847	281,318
Property and equipment, net	239,341	262,969
Goodwill	433,552	433,552
Other intangible assets, net	569,413	603,348
Other	15,546	20,741

Total assets	1,456,969	1,515,612
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The accompanying Notes are an integral part of the Consolidated Financial Statements.

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(Thousands of Dollars and Shares, Except Per Share Data)	June 27 2010	September 27 2009
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	72,000	89,800
Accounts payable	24,687	31,377
Compensation and other accrued liabilities	37,824	42,755
Income taxes payable	4,255	—
Unearned revenue	37,997	37,001
Total current liabilities	176,763	200,933
Long-term debt, net of current maturities	1,030,998	1,079,993
Pension obligations	44,196	45,953
Postretirement and postemployment benefit obligations	7,293	40,687
Other retirement and compensation obligations	1,580	1,539
Deferred income taxes	112,037	93,766
Income taxes payable	13,244	12,839
Other	13,805	16,052
Total liabilities	1,399,916	1,491,762
Equity:		
Stockholders' equity:		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, \$2 par value; authorized 120,000 shares; issued and outstanding:	78,508	78,278
June 27, 2010; 39,254 shares;		
September 27, 2009; 39,139 shares		
Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding:	11,386	11,552
June 27, 2010; 5,693 shares;		
September 27, 2009; 5,776 shares		
Additional paid-in capital	139,055	137,713

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Accumulated deficit	(184,384)	(225,299)
Accumulated other comprehensive income	12,204	21,354
Total stockholders' equity	56,769	23,598
Non-controlling interests	284	252
Total equity	57,053	23,850
Total liabilities and equity	1,456,969	1,515,612

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

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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 27 2010	June 28 2009	June 27 2010	June 28 2009
Operating revenue:				
Advertising	140,813	148,034	425,775	474,146
Circulation	45,072	45,320	135,205	139,962
Other	10,520	10,451	31,007	32,096
Total operating revenue	196,405	203,805	591,987	646,204
Operating expenses:				
Compensation	78,372	80,703	239,806	259,481
Newsprint and ink	13,618	15,752	39,373	61,570
Other operating expenses	57,686	61,118	178,954	193,939
Depreciation	6,844	8,055	21,378	24,759
Amortization of intangible assets	11,307	11,597	33,935	35,792
Impairment of goodwill and other assets	—	29,665	3,290	244,572
Workforce adjustments and transition costs	395	1,541	1,082	4,730
Total operating expenses	168,222	208,431	517,818	824,843
Curtailed gains	—	—	45,012	—
Equity in earnings of associated companies	1,934	838	5,401	4,250
Reduction of investment in TNI	—	10,000	—	19,951
Operating income (loss)	30,117	(13,788)	124,582	(194,340)
Non-operating income (expense):				
Financial income	63	56	262	1,876
Financial expense	(14,354)	(19,806)	(49,802)	(54,922)
Debt financing costs	(1,997)	(784)	(5,964)	(15,634)
Other, net	—	—	—	1,823
Total non-operating expense, net	(16,288)	(20,534)	(55,504)	(66,857)
Income (loss) from continuing operations before income taxes	13,829	(34,322)	69,078	(261,197)
Income tax expense (benefit)	3,790	(9,830)	28,099	(79,353)
Income (loss) from continuing operations	10,039	(24,492)	40,979	(181,844)
Discontinued operations, net	—	—	—	(5)
Net income (loss)	10,039	(24,492)	40,979	(181,849)
Net income (loss) attributable to non-controlling interests	20	20	63	152
Decrease in redeemable non-controlling interest	—	—	—	57,055

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Income (loss) attributable to Lee Enterprises, Incorporated	10,019	(24,512)	40,916	(124,946)
Other comprehensive income (loss), net	(609)	(610)	(9,150)	10,466
Comprehensive income (loss)	9,410	(25,122)	31,766	(114,480)
Income (loss) from continuing operations attributable to Lee Enterprises, Incorporated	10,019	(24,512)	40,916	(124,941)
Earnings (loss) per common share attributable to Lee Enterprises, Incorporated:				
Basic:				
Continuing operations	0.22	(0.55)	0.92	(2.81)
Discontinued operations	—	—	—	—
	0.22	(0.55)	0.92	(2.81)
Diluted:				
Continuing operations	0.22	(0.55)	0.91	(2.81)
Discontinued operations	—	—	—	—
	0.22	(0.55)	0.91	(2.81)

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

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

(Thousands of Dollars)	39 Weeks Ended	
	June 27 2010	June 28 2009
Cash provided by (required for) operating activities:		
Net income (loss)	40,979	(181,849)
Results of discontinued operations	—	(5)
Income (loss) from continuing operations	40,979	(181,844)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	55,313	60,551
Impairment of goodwill and other assets	3,290	244,572
Curtailed gains	(45,012)	—
Reduction of investment in TNI	—	19,951
Accretion of debt fair value adjustment	(465)	(3,633)
Stock compensation expense	1,573	2,337
Distributions greater (less) than current earnings of associated companies	(830)	32
Deferred income tax expense (benefit)	18,579	(78,768)
Debt financing costs	5,932	15,634
Changes in operating assets and liabilities:		
Decrease in receivables	6,725	20,179

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Decrease in inventories and other	1,934		8,451	
Decrease in accounts payable, accrued expenses and unearned revenue	(10,573))	(38,525))
Decrease in pension, postretirement and post employment benefits	(1,929))	(4,695))
Change in income taxes receivable or payable	4,660		(6,319))
Other, net	(689))	1,520	
Net cash provided by operating activities of continuing operations	79,487		59,443	
Cash provided by (required for) investing activities of continuing operations:				
Purchases of marketable securities	—		(47,777))
Sales or maturities of marketable securities	—		166,109	
Purchases of property and equipment	(6,695))	(10,686))
Decrease (increase) in restricted cash	(124))	2,114	
Proceeds from sales of assets	1,253		779	
Other	47		2,484	
Net cash provided by (required for) investing activities of continuing operations	(5,519))	113,023	
Cash provided by (required for) financing activities of continuing operations:				
Proceeds from long-term debt	73,800		155,950	
Payments on long-term debt	(140,130))	(299,950))
Debt financing costs paid	(200))	(26,005))
Cash dividends paid	—		(8,539))
	(166))	49	

Common stock transactions, net		
Other	—	(2,173)
Net cash required for financing activities of continuing operations	(66,696)	(180,668)
Net cash required for discontinued operations	—	(5)
Net increase (decrease) in cash and cash equivalents	7,272	(8,207)
Cash and cash equivalents:		
Beginning of period	7,905	23,459
End of period	15,177	15,252

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

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

1
BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the “Company”) as of June 27, 2010 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2009 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 27, 2010 are not necessarily indicative of the results to be expected for the full year.

References to “we”, “our”, “us” and the like throughout this document refer to the Company. References to “2010”, “2009” and the like refer to the fiscal year 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. (“INN”).

Accounting Standards Codification

In 2009, the Financial Accounting Standards Board (“FASB”) issued Statement 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“ASC”), which became the source of accounting principles to be applied in the preparation of financial statements for nongovernmental entities. ASC was effective for us as of September 27, 2009. ASC did not have any impact on our Consolidated Financial Statements since it was not intended to change existing accounting principles generally accepted in the United States of America (“GAAP”), except as related to references for authoritative literature.

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 and, until May 2009, the Tucson Citizen, as well as their related digital operations 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.

In May 2009, Citizen discontinued print publication of the Tucson Citizen. The change resulted in workforce adjustments and other transition costs of approximately \$1,925,000 in 2009, of which \$1,093,000 was incurred directly by TNI.

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Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 27 2010	June 28 2009	June 27 2010	June 28 2009
Operating revenue	15,792	17,560	49,880	58,350
Operating expenses, excluding curtailment gain, workforce adjustments, transition costs, depreciation and amortization	13,278	15,877	42,051	51,739
Curtailment gain	—	—	—	(1,332)
Workforce adjustments and transition costs	—	1,093	783	1,195
Operating income	2,514	590	7,046	6,748
Company's 50% share of operating income	1,257	295	3,523	3,374
Less amortization of intangible assets	304	333	852	1,092
Equity in earnings (loss) of TNI	953	(38)	2,671	2,282

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 in our Consolidated Statements of Operations and Comprehensive Income (Loss). These amounts totaled \$219,000 and \$166,000 in the 13 weeks ended June 27, 2010 and June 28, 2009, respectively, and \$87,000 and \$1,295,000 in the 39 weeks ended June 27, 2010 and June 28, 2009, respectively.

Annual amortization of intangible assets is estimated to be \$1,215,000 in each of the 52 week periods ending June 2011 and June 2012, \$1,189,000 in the 52 week period ending June 2013 and \$911,000 in the 52 week periods ending June 2014 and June 2015.

Madison Newspapers, Inc.

We have a 50% ownership interest in MNI, which publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and operates their related digital sites. 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 27 2010	June 28 2009	June 27 2010	June 28 2009
Operating revenue	18,977	19,468	57,147	61,173
	15,203	15,957	46,556	52,647

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Operating expenses, excluding
depreciation and amortization

Workforce adjustment and transition costs	12	—	63	302
Depreciation and amortization	598	774	1,750	2,426
Operating income	3,164	2,737	8,778	5,798
Net income	1,962	1,752	5,460	3,936
Equity in earnings of MNI	981	876	2,730	1,968

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GOODWILL AND OTHER INTANGIBLE ASSETS

There were no changes in the carrying value of goodwill in the 39 weeks ended June 27, 2010.

Identified intangible assets consist of the following:

(Thousands of Dollars)	June 27 2010	September 27 2009
Nonamortized intangible assets:		
Mastheads	44,754	44,754
Amortizable intangible assets:		
Customer and newspaper subscriber lists	885,713	885,713
Less accumulated amortization	361,062	327,133
	524,651	558,580
Noncompete and consulting agreements	28,658	28,658
Less accumulated amortization	28,650	28,644
	8	14
	569,413	603,348

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 recovery of these assets by comparing the estimated undiscounted cash flows associated with the asset or asset group with their carrying amount. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

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

Due primarily to the continuing and (at the time) increasing difference between our stock price and the per share carrying value of our net assets, we analyzed the carrying value of our net assets as of December 28, 2008 and again as of March 29, 2009. Deterioration in our revenue and the overall recessionary operating environment for us and other publishing companies were also factors in the timing of the analyses.

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As a result, we recorded pretax, non-cash charges to reduce the carrying value of goodwill, nonamortized and amortizable intangible assets in the 13 weeks ended December 28, 2008 and March 29, 2009. Additional pretax, non-cash charges were recorded to reduce the carrying value of TNI. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment. We recorded deferred income tax benefits related to these charges.

Because of the timing of the determination of impairment and complexity of the calculations required, the amounts recorded in the 13 weeks ended March 29, 2009 were preliminary. The final analysis, which was completed in the 13 weeks ended June 28, 2009, resulted in additional charges.

2009 impairment charges and the related income tax benefit are summarized as follows:

	13 Weeks Ended				
(Thousands of Dollars)	December 28 2008	March 29 2009	June 28 2009	September 27 2009	Total
Goodwill	67,781	107,115	18,575	—	193,471
Mastheads	—	17,884	(3,829)	—	14,055
Customer and newspaper subscriber lists	—	18,928	14,920	—	33,848
Property and equipment	2,264	935	—	1,380	4,579
	70,045	144,862	29,666	1,380	245,953
Reduction in investment in TNI	—	9,951	10,000	—	19,951
Income tax benefit	(14,261)	(39,470)	(11,720)	(489)	(65,940)
	55,784	115,343	27,946	891	199,964

Annual amortization of intangible assets for each of the 52 week periods ending June 2011, June 2012, June 2013, June 2014 and June 2015 is estimated to be \$44,806,000, \$43,797,000, \$39,347,000, \$39,033,000 and \$38,993,000, 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.

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Interest Payments

Debt under the A Term Loan, which has a balance of \$651,080,000 at June 27, 2010, and the \$375,000,000 revolving credit facility, which has a balance of \$286,425,000 at June 27, 2010, bear interest, at our option, at either a base rate or an adjusted Eurodollar rate (“LIBOR”), plus an applicable margin. The base rate for the facility is the greater of (i) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (ii) 0.5% in excess of the overnight federal funds rate at such time; or (iii) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: for revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon our total leverage ratio at such time.

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively, are also in effect. At June 27, 2010, all of our outstanding debt under the Credit Agreement is based on one month borrowing. At the June 27, 2010 leverage level, our debt under the Credit Agreement will be priced at a LIBOR margin of 287.5 basis points.

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 27, 2010, this provision is not applicable. Such non-cash charges, if any, will be added to the principal amount of debt and will be reversed, in whole or in part, in the event our total leverage ratio is below 6.0:1 in September 2011 or we refinance the Credit Agreement in advance of its April 2012 maturity.

Principal Payments

We may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. We are required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in the 13 weeks ended June 27, 2010 were \$15,526,000. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. Remaining payments in 2010 and 2011 total \$15,000,000 and \$65,000,000, respectively. Payments in 2012 prior to the April 2012 maturity total \$70,000,000. The scheduled payment at maturity is \$501,080,000, plus the balance of the revolving credit facility outstanding at that time.

In addition to the scheduled payments, we are required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires us to apply the net proceeds from asset sales to repayment of the A Term Loan. In the 13 weeks ended June 27, 2010, we made a \$526,000 payment related to this provision.

The Credit Agreement also requires us to accelerate future payments under the A Term Loan in the amount of 75% of our annual excess cash flow, as defined. We had no excess cash flow in 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.

Covenants and Other Matters

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At June 27, 2010, we were 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 all our debt, which equals \$1,102,005,000 at June 27, 2010, plus letters of credit and certain other factors, divided by a measure of trailing 12

month operating results, which includes several elements, including distributions from TNI and MNI and curtailment gains.

The 2009 Amendments amended our covenants to take into account economic conditions and the changes to amortization of debt noted above. Our total leverage ratio at June 27, 2010 was 4.95:1. Under the 2009 Amendments, our maximum total leverage ratio limit will decrease from 8.5:1 in June 2010 to 7.75:1 in September 2010, decrease to 7.5:1 in December 2010, decrease to 7.25:1 in March 2011 and decrease to 7.0:1 in June 2011. Each change in the leverage ratio limit noted above is effective on the last day of the quarter.

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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 27, 2010 was 2.89:1. The minimum interest expense coverage ratio is 1.45:1 in June 2010 and will increase periodically thereafter until it reaches 2.25:1 in March 2012.

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

Pulitzer Notes

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

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the "Notes Amendment"). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28, 2008. The remaining debt balance of \$186,000,000, of which \$164,500,000 remains outstanding at June 27, 2010, was refinanced by the Noteholders until April 2012.

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

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

Pulitzer may voluntarily prepay principal amounts outstanding or reduce commitments under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice and consent from the Noteholders and the Lenders, and subject to certain limitations as to minimum amounts of prepayments. The Notes Amendment provides for mandatory scheduled prepayments, including quarterly principal payments of \$4,000,000 which began on June 29, 2009 and an additional principal payment from restricted cash, if any, of up to \$4,500,000 in October 2010. In 2010, the \$4,000,000 payments due December 28, 2009, March 29, 2010 and June 28, 2010 were made prior to the end of the previous fiscal quarters. In 2009, the \$4,000,000 payments due on June 29, 2009 and September 30, 2009 were made prior to the end of the previous fiscal quarters.

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 27, 2010, we made a \$500,000 payment related to this

provision.

The Notes Amendment establishes a reserve of restricted cash of up to \$9,000,000 (reducing 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 May 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. There was no excess cash

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flow in the 13 weeks ended December 27, 2009, 13 weeks ended June 27, 2010 or in 2009.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the maximum ratio of debt to EBITDA (limit of 4.0:1 at June 27, 2010), as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage (limit of 2.6:1 at June 27, 2010), as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At June 27, 2010, Pulitzer was 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 27, 2010, the unaccrued balance totals \$993,000. 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.

Liquidity

We expect to utilize a portion of our capacity under our revolving credit facility to fund a portion of future principal payments required under the Credit Agreement. At June 27, 2010, we had \$286,425,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, have approximately \$74,154,000 available for future use. Including cash and restricted cash, our liquidity at June 27, 2010 totals \$98,779,000. This liquidity amount excludes any future cash flows. Remaining mandatory principal payments on debt in 2010 total \$15,000,000. 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 remaining interest payments and substantially all principal payments due in 2010 will be satisfied by our continuing cash flows.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at June 27, 2010.

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

The 2010 Redemption, as discussed more fully in Note 10, eliminated the potential requirement for a substantial cash outflow in April 2010. This event also substantially enhanced our liquidity.

Other

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 27, 2010, we have total unamortized financing costs of \$13,742,000.

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Debt is summarized as follows:

	(Thousands of Dollars)	June 27 2010	September 27 2009	Interest Rates June 27 2010
Credit Agreement:				
A Term Loan		651,080	714,885	4.25
Revolving credit facility		286,425	275,450	4.25
Pulitzer Notes:				
Principal amount		164,500	178,000	9.55
Unaccreted fair value adjustment		993	1,458	
		1,102,998	1,169,793	
Less current maturities		72,000	89,800	
		1,030,998	1,079,993	

At June 27, 2010, our weighted average cost of debt was 5.04%.

Aggregate maturities of debt in the 52 weeks ending June 2011 and 2012 are \$72,000,000 and \$1,030,005,000, respectively. In addition, as discussed above, an additional principal payment from restricted cash of up to \$4,500,000 may be required in October 2010 under the Pulitzer Notes.

5 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT DEFINED BENEFIT PLANS

We have several noncontributory defined benefit pension plans that together cover certain St. Louis Post-Dispatch and selected other employees. Benefits under the plans are generally based on salary and years of service. Our liability and related expense for benefits under the plans are recorded over the service period of active employees based upon annual actuarial calculations. Plan funding strategies are influenced by tax 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 at the St. Louis Post-Dispatch. 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.

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

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

Pension Plans

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 27 2010	June 28 2009	June 27 2010	June 28 2009
Service cost for benefits earned during the period	63	269	729	807
Interest cost on projected benefit obligation	2,217	2,388	6,671	7,164
Expected return on plan assets	(2,418)	(2,917)	(7,148)	(8,751)
Amortization of net (gain) loss	113	(295)	339	(885)
Amortization of prior service cost	(34)	(34)	(102)	(102)
	(59)	(589)	489	(1,767)

Postretirement Medical Plans

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 27 2010	June 28 2009	June 27 2010	June 28 2009
Service cost for benefits earned during the period	41	65	368	592
Interest cost on projected benefit obligation	600	981	2,371	3,843
Expected return on plan assets	(571)	(600)	(1,702)	(1,805)
Amortization of net gain	(629)	(979)	(1,819)	(2,115)
Amortization of prior service cost	(398)	(808)	(1,598)	(1,564)
	(957)	(1,341)	(2,380)	(1,049)

Based on our forecast at June 27, 2010, we expect to contribute \$2,600,000 to our postretirement medical plans in 2010.

2010 Changes to Plans

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

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

Increases in employee cost sharing discussed 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. 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.

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INCOME TAXES

The provision for income taxes includes deferred taxes and is based upon estimated annual effective tax rates in the tax jurisdictions in which we operate.

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

(Percent of Income (Loss) from Continuing Operations Before Income Taxes)	13 Weeks Ended		39 Weeks Ended	
	June 27 2010	June 28 2009	June 27 2010	June 28 2009
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)
Curtailment gains	—	—	2.4	—
Affordable Care Act	—	—	2.9	—
Impairment of goodwill and other assets	—	9.0	—	12.3
Valuation allowance	—	—	—	(6.1)
Resolution of uncertain tax positions	(2.5)	(0.3)	(0.1)	(0.3)
Other	(8.1)	0.7	(2.5)	1.7
	27.4	(28.6)	40.7	(30.4)

In March 2010, as a result of the Affordable Care Act, 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 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 and at various stages of completion, but generally the income tax returns have been audited or closed to audit through 2005.

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EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per common share. Per share amounts may not add due to rounding.

(Thousands of Dollars and Shares, Except Per Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 27 2010	June 28 2009	June 27 2010	June 28 2009
Income (loss) attributable to Lee Enterprises, Incorporated:				
Continuing operations	10,019	(24,512)	40,916	(124,941)
Discontinued operations	—	—	—	(5)
	10,019	(24,512)	40,916	(124,946)
Weighted average common shares	44,898	44,918	44,888	44,962
Less non-vested restricted Common Stock	334	465	335	527
Basic average common shares	44,564	44,453	44,553	44,435
Plus dilutive stock options and restricted Common Stock	477	—	306	—
Diluted average common shares	45,041	44,453	44,859	44,435
Earnings (loss) per common share attributable to Lee Enterprises, Incorporated:				
Basic:				
Continuing operations	0.22	(0.55)	0.92	(2.81)
Discontinued operations	—	—	—	—
	0.22	(0.55)	0.92	(2.81)
Diluted:				
Continuing operations	0.22	(0.55)	0.91	(2.81)
Discontinued operations	—	—	—	—
	0.22	(0.55)	0.91	(2.81)

For the 13 weeks ended June 27, 2010 and June 28, 2009, we have 198,000 and 229,000 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 27, 2010 and June 28, 2009, the weighted average shares not considered in the computation of diluted earnings per share are 207,000 and 229,000, respectively.

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STOCK OWNERSHIP PLANS

Stock Options

A summary of activity related to our stock option plan is as 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 27, 2009	1,009	9.40		
Cancelled	(49)	21.68		
	960	8.77	8.2	381
Exercisable, June 27, 2010	198	34.56	4.7	—

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Total unrecognized compensation expense for unvested stock options as of June 27, 2010 is \$820,000, which will be recognized over a weighted average period of 2.1 years.

Restricted Common Stock

The following table summarizes restricted Common Stock activity during the 39 weeks ended June 27, 2010:

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 27, 2009	453	19.35
Vested	(143)	28.73
Forfeited	(7)	15.02
Outstanding, June 27, 2010	303	15.02

The fair value of restricted Common Stock vested during the 39 weeks ended June 27, 2010 totals \$554,000.

Total unrecognized compensation expense for unvested restricted Common Stock as of June 27, 2010 is \$673,000, which will be recognized over a weighted average period of less than one year.

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FAIR VALUE MEASUREMENTS

We adopted FASB ASC Topic 820, Fair Value Measurements and Disclosures, in 2009. FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about 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 and 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 27, 2010:

(Thousands of Dollars)	Level 3	Total
	2,300	2,300

Herald
Value -
liability
(see Note
10)

There were no realized or unrealized gains or losses, purchases, sales, or transfers related to the Herald liability in the 39 weeks ended June 27, 2010.

In the 13 weeks ended March 28, 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. In 2009, we reduced the carrying value of equipment no longer in use by \$4,579,000, 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.

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. Other investments, consisting of debt and equity securities in a deferred compensation trust, are carried at fair value based upon quoted market prices. Investments totaling \$8,608,000, 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 \$164,500,000 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

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exists, we are unable, as of June 27, 2010, to determine the fair value of such debt. The value, if determined, would likely be less than the carrying amount.

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COMMITMENTS AND CONTINGENT LIABILITIES

Redemption of PD LLC Minority Interest

In 2000, Pulitzer and The Herald Company Inc. ("Herald Inc.") completed the transfer of their respective interests in the assets and operations of the St. Louis Post-Dispatch and certain related businesses to a new joint venture, known as PD LLC. Pulitzer is the managing member of PD LLC. Under the terms of the related Operating Agreement, Pulitzer and another subsidiary held a 95% interest in the results of operations of PD LLC and The Herald Publishing Company, LLC ("Herald"), as successor to Herald Inc., held a 5% interest. Until February 2009, Herald's 5% interest was reported as minority interest in the Consolidated Statements of Operations and Comprehensive Income (Loss) at historical cost, plus accumulated earnings since the acquisition of Pulitzer.

Also, under the terms of the Operating Agreement, Herald Inc. received on May 1, 2000 a cash distribution of \$306,000,000 from PD LLC. This distribution was financed by the Pulitzer Notes. Pulitzer's investment in PD LLC was treated as a purchase for accounting purposes and a leveraged partnership for income tax purposes.

The Operating Agreement provided Herald a one-time right to require PD LLC to redeem Herald's interest in PD LLC, together with its interest, if any, in STL Distribution Services LLC ("DS LLC ") (the "2010 Redemption"). The 2010 Redemption price for Herald's interest was to be determined pursuant to a formula. We recorded the present value of the remaining amount of this potential liability in our Consolidated Balance Sheet in 2008, with the offset primarily to goodwill in the amount of \$55,594,000, and the remainder recorded as a reduction of retained earnings. In 2009 and 2008, we accrued increases in the liability totaling \$1,466,000 and \$8,838,000, respectively, which increased loss available to common stockholders. The present value of the 2010 Redemption in February 2009 was approximately \$73,602,000.

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and DS LLC owned by 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 determination of the amount of the Herald Value was based on an estimate of fair value using both market and income-based approaches. The actual amount of the Herald Value at the date of settlement 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.

The Redemption Agreement also terminated Herald's right to exercise its rights under the 2010 Redemption. As a result, we reversed substantially all of our liability for the 2010 Redemption in 2009. The reversal reduced liabilities by \$71,302,000 and increased comprehensive income by \$58,521,000 and stockholders' equity by \$68,824,000.

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

Pursuant to an Indemnity Agreement dated May 1, 2000 (the "Indemnity Agreement") between Herald Inc. and Pulitzer, Herald agreed to indemnify Pulitzer for any payments that Pulitzer may make under the Guaranty Agreement. The Indemnity Agreement and related obligations of Herald to indemnify Pulitzer were also terminated pursuant to the Redemption Agreement.

Legal Proceedings

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

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these 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.

In 2008, a group of newspaper carriers filed suit against us in the United States District Court for the Southern District of California, claiming to be employees and not independent contractors of ours. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. In July 2010, the trial court judge granted the plaintiffs' petition for class certification, which we intend to appeal. During the appeal process, the trial court judge has discretion to determine which aspects of the matter will proceed. 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.

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IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2010, we adopted FASB ASC 810, Consolidation. FASB ASC 810 requires that noncontrolling interests be reported as a separate component of equity. Net income (loss), including the portion attributable to our noncontrolling interests is included in net income (loss) in the Consolidated Statements of Operations and Comprehensive Income (Loss) and will continue to be used to determine earnings (loss) per common share. FASB ASC 810 also requires certain prospective changes in accounting for noncontrolling interests, primarily related to increases and decreases in ownership and changes in control. As required, the presentation and disclosure requirements were adopted through retrospective application, and prior period information has been reclassified accordingly. The adoption did not have a material effect on our Consolidated Financial Statements.

In December 2008, the FASB issued FSP 132(R)-1, Disclosures about Postretirement Benefit Plan Assets, codified in ASC 715, Compensation-Retirement Benefits. FSP 132(R)-1 requires additional disclosures relating to investment strategies, major categories of plan assets, concentrations of risk within plan assets and valuation techniques used to measure the fair value of plan assets. FSP 132(R)-1 is effective for us on September 26, 2010. The adoption will not have a material effect on our Consolidated Financial Statements.

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks and 39 weeks ended June 27, 2010. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2009 Annual Report on Form 10-K.

NON-GAAP FINANCIAL MEASURES

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

Operating Cash Flow and Operating Cash Flow Margin

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

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

(Thousands of Dollars)	13 Weeks Ended			
	June 27 2010	Percent of Revenue	June 28 2009	Percent of Revenue
Operating cash flow	46,334	23.6	44,691	21.9
Less depreciation and amortization	18,151	9.2	19,652	9.6
Less impairment of goodwill and other assets	—	—	29,665	NM
Plus equity in earnings of associated companies	1,934	1.0	838	0.4
Less reduction of investment in TNI	—	—	10,000	NM
Operating income (loss)	30,117	15.3	(13,788)	NM

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39 Weeks Ended

(Thousands of Dollars)	June 27 2010	Percent of Revenue	June 28 2009	Percent of Revenue
Operating cash flow	132,772	22.4	126,484	19.6
Less depreciation and amortization	55,313			