LEE ENTERPRISES, INC
Form 10-K/A
October 11, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
Amendment No. 1
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended September 30, 2012
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED
(Exact name of Registrant as specified in its Charter)

Delaware	42-0823980
(State of incorporation)	(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

Title of Each Class	Name of Each Exchange On Which Registered
Securities registered pursuant to Section 12(b) of the Act:	
Common Stock - $0.01 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Class B Common Stock - $2 par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 such shorter period that the Registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (S 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [ ] Accelerated filer [X] 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 Act). Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter. Based on the closing price of the Registrant's Common Stock on the New York Stock Exchange on March 25, 2012, such aggregate market value is approximately $57,507,000. For purposes of the foregoing calculation only, as required, the Registrant has included in the shares owned by affiliates the beneficial ownership of Common Stock of officers and directors of the Registrant and members of their families, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of November 30, 2012. Common Stock, $0.01 par value, 52,296,241 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Lee Enterprises, Incorporated Definitive Proxy Statement to be filed in January 2013 are incorporated by reference in Part III of this Form 10-K.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the “Form 10-K/A”) is being filed to amend the Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (the “Form 10-K”) of Lee Enterprises, Incorporated (the “Company”) originally filed with the Securities and Exchange Commission on December 14, 2012, with updated audit reports of the Company's independent registered public accounting firm, KPMG LLP ("KPMG"), with regard to the Company’s consolidated financial statements for the fiscal years ended September 26, 2010, September 25, 2011 and September 30, 2012, as well as the Company’s internal control over financial reporting as of September 30, 2012 ("KPMG Audit Reports").

The original audit report of KPMG on the consolidated financial statements made reference to the report of other auditors on the consolidated financial statements of Madison Newspapers, Inc., and Subsidiary ("MNI") for the fiscal years ended September 26, 2010, September 25, 2011 and September 30, 2012 (the “McGladrey Audit Report”). MNI is a 50% owned equity method investment of the Company.

On September 12, 2013, MNI informed the Company that it had been notified by its auditors, McGladrey LLP (“McGladrey”), that reliance should not be placed on the McGladrey Audit Report. On September 13, 2013, the Company received a letter from McGladrey withdrawing the McGladrey Audit Report, revoking its consent that was included in the Company's Annual Report on Form 10-K to incorporate the McGladrey Audit Report by reference in the Company's registration statements and resigning as MNI's auditor. Accordingly, the original KPMG audit report on the Company’s consolidated financial statements was withdrawn, as KPMG was no longer able to make reference to the McGladrey Audit Report.

In accordance with Rule 2-01 of Regulation S-X and the Public Company Accounting Oversight Board (United States) auditing and related professional practice standards, McGladrey determined that its independence was impaired with respect to MNI. Prior to such determination, the Company did not believe there were any issues relating to McGladrey's independence, and the Company continues to believe that the services provided by McGladrey to MNI, which involved drafting consolidated financial statements and related notes, did not compromise McGladrey's integrity or objectivity with respect to the McGladrey Audit Report.

This Form 10-K/A reflects dual dated audit reports of KPMG, removing the reference to the report of other auditors from the report on the Company’s consolidated financial statements. There were no changes to account balances or disclosures as a result of the additional procedures performed by KPMG that made it possible for them to issue the KPMG Audit Reports on the Company’s consolidated financial statements without reference to the report of other auditors and the Company’s internal control over financial reporting.

For the convenience of the reader, this Form 10-K/A sets forth the Company's Form 10-K in its entirety, as modified and superseded, where necessary, to reflect the matters discussed above. The following items have been amended to reflect the KPMG Audit Reports on the Company’s consolidated financial statements:

- Part II - Item 8 - Report of Independent Registered Public Accounting Firm on the Company’s consolidated financial statements;
- Part II - Item 9A - Controls and Procedures - Report of Independent Registered Public Accounting Firm on the Company's internal control over financial reporting;
- Signatures;
- Substitution of Exhibit 23.1, Exhibit 31.1, Exhibit 31.2 and Exhibit 32; and
- Removal of Exhibit 23.2- Consent of McGladrey LLP and Exhibit 23.3- Report of McGladrey LLP from the Exhibit Index.

In accordance with applicable SEC rules, this Form 10-K/A includes certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing.

With the exception of the foregoing, no other information in the Form 10-K has been amended.

This Form 10-K/A has not been updated for any other events occurring after the filing of the Form 10-K and no attempt has been made in this Form 10-K/A to modify or update other disclosures as presented in the original filing of the Form 10-K.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated and subsidiaries (the "Company"). References to 2012, 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 in certain aspects of the economy affecting our business, changes in advertising demand, potential changes in newsprint and other commodity prices, energy costs, interest rates, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, maintaining our listing status on the NYSE, competition and other risks detailed from time to time in our publicly filed documents.

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

PART I

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

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

We experienced significant net losses in 2012, 2011, 2009 and 2008, due primarily to reorganization costs in 2012 and non-cash charges for impairment of goodwill and other assets in 2011, 2009 and 2008. 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 September 30, 2012. The information included herein should be evaluated in that context. See Item 1A, “Risk Factors”, and Notes 4 and 5 of the Notes to Consolidated Financial Statements, included herein, for additional information.

ITEM 1. BUSINESS

We are a leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. With the exception

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of St. Louis, Missouri, our 51 markets, across 23 states, are principally midsize or small. Through our print and digital platforms, we reach an overwhelming majority of adults in our markets.

Our platforms include:

- 51 daily and 39 Sunday newspapers with circulation totaling 1.2 million and 1.4 million, respectively, for the six months ended September 2012, read by nearly four million people in print;
- Websites and mobile and tablet products in all of our markets that complement our newspapers and attracted 22.8 million unique visitors in September 2012 with 192.6 million page views; and
- Nearly 300 weekly newspapers and classified and niche publications.

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

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

Lee Enterprises, Incorporated was founded in 1890, incorporated in 1950, and listed on the New York Stock Exchange ("NYSE") in 1978. Until 2001, we also operated a number of network-affiliated and satellite television stations. We have acquired and divested a number of businesses since 2001. The acquisition of Pulitzer Inc., the most significant of these transactions, is discussed more fully below.

STRATEGIC INITIATIVES

We are focused on five broad strategic initiatives:

Build On Our Position As A Leading Source Of Local News And Information, And A Major Platform For Advertising, In Attractive, Geographically Diverse, Midsize And Small Markets

We are a leading provider of local news and information, and a major platform for advertising, in our markets and have been for many years. Our brands are well known in our markets. We believe we have more journalists than any other local news and information source in our markets and, in many cases, more than all of our local competitors combined. We believe our brand strength and the size of our news staff allow us to provide more comprehensive coverage of local news than our competitors in our markets.

We believe our longstanding commitment to our markets, leading news staffs and close relationships with advertisers in our markets serve as a platform from which to thrive in the future.

Drive Revenue

Revenue is a key imperative among our top priorities. We pursue revenue opportunities by gaining new local advertisers, introducing new products and increasing our share of advertising spending from existing clients. Our sales force is larger, and we believe of higher quality, than any local competitor, and we invest heavily in training, especially with respect to our expanding array of digital products. As a result of our focus on revenue, our advertising revenue since 2000 has outperformed the industry average in 43 of the last 47 quarters, as measured by the Newspaper Association of America ("NAA").

Expand Our Audiences

The number of customers we reach in our markets is critical to our value to advertisers. As measured in 11 of our top markets by independent, third-party research, we deliver unduplicated reach of print and digital readers and users of print products of an average of 81.5% of all adults over a seven-day period through our print and digital platforms. Our 2012 combined print and digital readership in percentage terms is comparable to 2007, the first time it was measured. Among those 18-29 years old, we reach an average of 83.7% of readers and users. We believe our non-daily print

publications further expand our audiences.

We continually strive to increase our reach by creatively and energetically improving our content across print and digital platforms. Increasingly, we are also using various forms of social media to enhance our audiences.

Seize Digital Opportunities

We offer advertisers a wide array of digital products, including video, digital couponing, behavioral targeting, banner ads and social networking. Digital advertising revenue increased 9.7% in 2012 and we expect that digital revenue will continue to grow.

On our digital sites, we provide news stories 24 hours a day and post continual updates of developing stories, often including video. Customers access our stories digitally on websites, mobile devices and tablets. As a result, our digital audience has grown rapidly. In September 2012, unique visitors to our digital sites increased 10.1% from September 2011 to 22.8 million.

We have developed mobile sites in all of our markets as well as separate smart phone applications in all markets, and, as a result, we have enjoyed significant audience growth, with mobile page views increasing 146% in September 2012 from September 2011. In most of our markets, our websites are the leading local digital news source. As with mobile, we have moved quickly to develop applications for tablets, including the iPad, and with our mobile audience growth and high advertiser interest we expect mobile and tablet advertising revenue to increase in the next few years. As new digital technologies emerge, we expect to move rapidly to make our content available on them.

In 2011, we began to implement charges for digital access to to our content in certain of our markets using a metered model. By December 2012, that program will be rolled out in most of our markets, and is contributing to our circulation revenue.

Aggressively Control Costs

Throughout the recent economic downturn, we have aggressively transformed our business model and carefully managed our costs to maintain our margins and profitability. Since 2007, we reduced cash costs of our continuing operations (i.e., compensation, newsprint and ink, other operating expenses and workforce adjustments) by $256 million, or 32%. We regionalized staff functions, selectively consolidated and/or outsourced printing, discontinued unprofitable niche publications, reduced newsprint volume 52%, and sharpened our focus on cost control in all areas. We have reduced personnel while protecting our strengths in news, sales and digital products.

Our cost actions allowed us to maintain significant cash flows and reduce debt, despite declining revenues. While future cost reductions will be more difficult to accomplish as a result of the significant reductions to our cost structure that we have achieved, we remain committed to maintaining strong cash flows. We expect 2013 operating expenses, excluding depreciation, amortization and unusual matters, to decrease 3.0-4.0% from their 2012 level.

PULITZER ACQUISITION

In 2005, we acquired Pulitzer Inc. (“Pulitzer”). Pulitzer published 14 daily newspapers and more than 100 weekly newspapers and specialty publications. Pulitzer also owned a 50% interest in TNI Partners (“TNI”), as discussed more fully below. The acquisition of Pulitzer increased our paid circulation by more than 50% and revenue by more than 60% at that time. The acquisition was financed primarily with debt.

Pulitzer newspaper operations include St. Louis, Missouri, where its subsidiary, St. Louis Post-Dispatch LLC (“PD LLC”), publishes the St. Louis Post-Dispatch, the only major daily newspaper serving the greater St. Louis

metropolitan area, and a variety of specialty publications, and supports its related digital products. St. Louis newspaper operations also include the Suburban Journals of Greater St. Louis, a group of weekly newspapers and niche publications that focus on separate communities within the metropolitan area.

Pulitzer and its subsidiaries and affiliates currently publish 12 daily newspapers and support the related digital products, as well as publish approximately 75 weekly newspapers, shoppers and niche publications that serve markets in the Midwest, Southwest and West.

TNI Partners

As a result of the acquisition of Pulitzer, we own a 50% interest in TNI, the Tucson, Arizona newspaper partnership. TNI, acting as agent for our subsidiary, Star Publishing Company ("Star Publishing"), and the owner of the remaining 50%, Citizen Publishing Company ("Citizen"), a subsidiary of Gannett Co., Inc., ("Gannett"), 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 products and specialty publications. In May 2009, Citizen discontinued print publication of the Tucson Citizen.

TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspapers and other media. Under the amended and restated operating agreement between Star Publishing and Citizen, the Arizona Daily Star remains the separate property of Star Publishing. Results of TNI are accounted for using the equity method. Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

Until the May 2009 discontinuation of print publication of the Tucson Citizen, TNI was subject to the provisions of the Newspaper Preservation Act of 1970, which permits joint operating agreements between newspapers under certain circumstances without violation of the Federal antitrust laws. Agency agreements generally allow newspapers operating in the same market to share certain printing and other facilities and to pool certain revenue and expenses in order to decrease aggregate expenses and thereby allow the continuing operation of multiple newspapers in the same market.

The TNI agency agreement ("Agency Agreement"), which remains in effect, has governed the operation since 1940. Both the Company and Citizen incur certain administrative costs and capital expenditures that are reported by their individual companies. The Agency Agreement expires in 2015, but contains an option, which may be exercised by either party, to renew the agreement for successive periods of 25 years each. Star Publishing and Citizen also have a reciprocal right of first refusal to acquire the 50% interest in TNI owned by Citizen and Star Publishing, respectively, under certain circumstances.

MADISON NEWSPAPERS

We own 50% of the capital stock of Madison Newspapers, Inc. ("MNI") and 17% of the nonvoting common stock of The Capital Times Company ("TCT"). TCT owns the remaining 50% of the capital stock of MNI. MNI publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and supports their related digital products. MNI conducts business under the trade name Capital Newspapers. We have a contract to furnish the editorial and news content for the Wisconsin State Journal, which is published by MNI, and periodically provide other services to MNI. Results of MNI are accounted for using the equity method. Net income or loss of MNI (after income taxes) is allocated equally to the Company and TCT.

ADVERTISING

Approximately 70% of our 2012 revenue was 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 our print and digital audiences through internal expansion into existing and contiguous markets and enhancement of digital products. Our advertising results since 2000 have benchmarked favorably to industry averages compiled by the NAA in 43 of the last 47 quarters.

Several of our businesses operate in geographic groups of publications, or "clusters," which provide operational efficiencies and extend sales penetration. Operational efficiencies are obtained through consolidation of sales forces, back office operations such as finance, human resources, management and/or production of the publications. Sales

penetration can improve if the sales effort is successful in cross-selling advertising into multiple publications and digital products. A table under the caption “Daily Newspapers and Markets” in Item 1, included herein, identifies those groups of our newspapers operating in clusters.

Our newspapers, classified and specialty publications, and digital products compete with newspapers having national or regional circulation, magazines, radio, network, cable and satellite television, other advertising media such as outdoor, mobile, and movie theater promotions, other classified and specialty publications, direct mail, yellow pages directories, as well as other information content providers such as digital sites. Competition for advertising is based on audience size and composition, circulation levels, readership demographics, distribution and display mechanisms, price and advertiser results. In addition, several of our daily and Sunday newspapers compete with other local daily

or weekly newspapers. We believe we capture a substantial share of the total advertising dollars spent in each of our markets.

The number of competitors in any given market varies. However, all of the forms of competition noted above exist to some degree in our markets, including those listed in the table under the caption “Daily Newspapers and Markets” in Item 1, included herein.

The following broadly define major categories of advertising revenue:

Retail advertising is revenue earned from sales of display advertising space in the publication, or for preprinted advertising inserted in the publication, to local accounts or regional and national businesses with local retail operations.

Classified advertising, which includes employment, automotive, real estate for sale or rent, legal and other categories, is revenue earned from sales of advertising space in the classified section of the publication or from publications consisting primarily of such advertising. Classified publications are periodic advertising publications available in racks or delivered free, by carriers or third-class mail, to all, or selected, households in a particular geographic area. Classified publications offer advertisers a cost-effective local advertising vehicle and are particularly effective in larger markets with higher media fragmentation.

National advertising is revenue earned from display advertising space, or for preprinted advertising inserted in the publication, to national accounts, if there is no local retailer representing the account in the market.

Digital advertising consists of display, banner, behavioral targeting, search, rich media, directories, classified or other advertising on websites or mobile devices associated and integrated with our print publications, other digital applications, or on third party affiliated websites, such as Yahoo! Inc. (“Yahoo!”). Digital advertising is reported in combination with print advertising in the retail, classified and national categories.

Niche publications are specialty publications, such as lifestyle, business, health or home improvement publications that contain significant amounts of advertising.

The advertising environment is influenced by the state of the overall economy, including unemployment rates, inflation, energy prices and consumer interest rates. Our enterprises are primarily located in midsize and small markets. Historically these markets have been more stable than major metropolitan markets during downturns in advertising spending but may not experience increases in such spending as significant as those in major metropolitan markets in periods of economic improvement.

DIGITAL ADVERTISING AND SERVICES

Our digital activities include websites supporting each of our daily newspapers and certain of our other publications. Certain of our website content is also available through output to mobile devices, including telephones and tablet devices. In addition, we also support a number of discrete mobile applications, such as for high school, college and professional sports. Digital activities of the newspapers are reported and managed as a part of our publishing operations.

In 2007, in conjunction with several other major publishing organizations (“Consortium”), we entered into a strategic alliance with Yahoo!, in which the Consortium offered its classified employment advertising customer base the opportunity to also post job listings and other employment products on Yahoo!'s HotJobs national platform. The HotJobs platform was acquired in 2010 by Monster Worldwide, Inc., which has assumed the relationship with the Consortium under an amended contract. In addition, the Consortium and Yahoo! have worked together to provide new

behavioral targeting, search, content and local applications across the newspapers' digital products, further enhancing the value of these sites as a destination for digital users. The Consortium currently includes more than 30 companies and more than 800 local newspapers across the United States.

We also own 82.5% of an Internet service company, INN Partners, L.C. (doing business as TownNews.com), which provides digital infrastructure and digital publishing services for nearly 1,500 daily and weekly newspapers and shoppers, including those of the Company.

Our digital businesses experienced rapid growth in the second half of 2010 and again in 2011 and 2012 after recession-related declines in 2008 and 2009. Digital advertising represented 13.0% of total advertising revenue in the 14 weeks

ended September 30, 2012.

AUDIENCES

Based on independent research, we estimate that, in an average week, our newspapers and digital products reach approximately 81.5% of adults in our larger markets. Scarborough Research from 2011 ranks the St. Louis Post-Dispatch and STLtoday.com as the market with the 5th highest combination of newspaper and web reach of the 25 most populated U.S. markets. Readership by young adults is also significant in our larger markets. We are maintaining large audiences in our markets through the combination of rapid digital audience growth and strong newspaper readership, as illustrated in the table below, as well as through additional specialty and niche publications. In 2010, for the first time, we measured use of our daily newspapers by non-readers ("print users").

Audience reach is summarized as follows:

	All Adults						Age 18-29					
(Percent, Past Seven Days)	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Print only	52.0	49.6	46.6	43.8	43.4	37.8	36.1	38.7	41.0	32.1	33.0	31.5
Print and digital	13.2	16.9	16.4	15.9	16.4	19.6	13.8	19.4	16.4	15.6	13.7	18.4
Digital only	4.6	6.1	6.6	8.4	7.9	9.4	6.4	9.5	8.3	9.5	11.6	9.3
Total readership	69.8	72.6	69.6	68.1	67.7	66.8	56.3	67.6	65.7	57.2	58.3	59.2
Print users (1)	NA	NA	NA	14.9	14.5	14.7	NA	NA	NA	21.8	21.1	24.5
Total reach	69.8	72.6	69.6	83.0	82.2	81.5	56.3	67.6	65.7	79.0	79.4	83.7
Total print reach (1)	65.2	66.5	63.0	74.6	74.3	72.1	49.9	58.1	57.4	69.5	67.8	74.4
Total digital reach	17.8	23.0	23.0	24.3	24.3	29.0	20.2	28.9	24.7	25.1	25.3	27.7

(1) Print users were not measured prior to 2010. As a result, print reach in 2010-2012 is not comparable to 2007-2009.

Source: Lee Enterprises Audience Report, Thoroughbred Research. January-June 2007-2012.

Markets: 11 largest markets in 2008-2012. 2007 data excludes Tucson, AZ and La Crosse, WI.

Margin of Error: Total sample +/- 1.1%, Total digital sample +/- 1.3%

After advertising, print circulation is our largest source of revenue. In 2011 we began to implement charges for digital access to our content in certain of our markets using a metered model. By December 2012, that program will be rolled out in most of our markets, and is contributing to our circulation revenue. According to Editor and Publisher International Yearbook data as reported by the NAA, nationwide daily newspaper circulation unit sales peaked in 1984 and Sunday circulation unit sales peaked in 1990. For the six months ended September 2012, our daily circulation units, which include TNI and MNI, as measured by the Alliance for Audited Media ("AAM"), formerly known as the Audit Bureau of Circulations, were 1.2 million and Sunday circulation units were 1.4 million.

Growth in audiences can, over time, also positively impact advertising revenue. Our strategies to improve audiences include continuous improvement of content and promotional efforts. Content can include focus on local news, features, scope of coverage, accuracy, presentation, writing style, tone and type style. Promotional efforts include advertising, contests and other initiatives to increase awareness of our products. Customer service can also influence print circulation. The introduction in 2010, and expansion in 2011 and 2012, of new mobile and tablet applications positively impacted our digital audiences.

Our enterprises are also focused on increasing the number of subscribers who pay for their subscriptions via automated payment mechanisms, such as credit cards or bank account withdrawals. We have historically experienced higher retention of customers using these payment methods. Other initiatives vary from location to location and are determined principally by management at the local level in collaboration with our senior management. Competition

for print circulation is generally based on the content, journalistic quality and price of the publication.

Audience competition exists in all markets, even from unpaid products, but is most significant in markets with competing local daily newspapers. These markets tend to be near major metropolitan areas, where the size of the population may be sufficient to support more than one daily newspaper.

Our circulation sales channels continue to evolve through an emphasis on targeted direct mail and email to acquire new subscribers and retain current subscribers.

DAILY NEWSPAPERS AND MARKETS

The Company, TNI and MNI publish the following daily newspapers and maintain the following primary digital sites:

Newspaper	Primary Website	Location	Circulation [1] Daily [2]	Sunday
St. Louis Post-Dispatch	stltoday.com	St. Louis, MO	178,801	299,227
The Times	nwitimes.com	Munster, Valparaiso, and Crown Point, IN	86,841	91,627
Arizona Daily Star [3]	azstarnet.com	Tucson, AZ	82,305	133,558
Capital Newspapers [4]				
Wisconsin State Journal	madison.com	Madison, WI	81,228	112,677
Daily Citizen	wiscnews.com/bdc	Beaver Dam, WI	8,113	—
Portage Daily Register	wiscnews.com/pdr	Portage, WI	4,102	—
Baraboo News Republic	wiscnews.com/bnr	Baraboo, WI	3,576	—
Lincoln Group				
Lincoln Journal Star	journalstar.com	Lincoln, NE	50,171	62,909
Columbus Telegram	columbustelegram.com	Columbus, NE	7,321	8,318
Fremont Tribune	fremonttribune.com	Fremont, NE	6,647	—
Beatrice Daily Sun	beatricedailysun.com	Beatrice, NE	4,803	—
Quad-Cities Group				
Quad-City Times	qctimes.com	Davenport, IA	41,705	53,528
Muscatine Journal	muscatinejournal.com	Muscatine, IA	5,430	—
Billings Gazette	billingsgazette.com	Billings, MT	38,901	44,702
Central Illinois Newspaper Group				
The Pantagraph	pantagraph.com	Bloomington, IL	33,757	38,795
Herald & Review	herald-review.com	Decatur, IL	27,510	42,060
Journal Gazette & Times-Courier	jg-tc.com	Mattoon/Charleston, IL	12,268	—
The Courier	wcfcourier.com	Waterloo and Cedar Falls, IA	32,247	42,767
Sioux City Journal	siouxcityjournal.com	Sioux City, IA	30,997	34,445
The Post-Star	poststar.com	Glens Falls, NY	25,651	29,785
Missoula Group				
Missoulian	missoulian.com	Missoula, MT	25,331	30,662
Ravalli Republic	ravallinews.com	Hamilton, MT	2,700 [5]	3,977 [5]
The Southern Illinoisan	thesouthern.com	Carbondale, IL	24,920	31,302
The Bismarck Tribune	bismarcktribune.com	Bismarck, ND	24,769	27,973
River Valley Newspaper Group				
La Crosse Tribune	lacrossetribune.com	La Crosse, WI	24,601	34,339
Winona Daily News	winonadailynews.com	Winona, MN	8,798	10,065
The Chippewa Herald	chippewa.com	Chippewa Falls, WI	5,073	5,084
The Journal Times	journaltimes.com	Racine, WI	24,275	26,662
The Daily Herald	heraldextra.com	Provo, UT	23,886	37,257
Casper Star-Tribune	trib.com	Casper, WY	23,513	22,751
Rapid City Journal	rapidcityjournal.com	Rapid City, SD	23,202	27,743

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Newspaper	Primary Website	Location	Circulation [1] Daily [2]	Sunday
Northwest Group				
The Daily News	tdn.com	Longview, WA	21,255	18,931
Albany Democrat-Herald	democratherald.com	Albany, OR	13,799	14,619
Corvallis Gazette-Times	gazettetimes.com	Corvallis, OR	9,815	9,844
Magic Valley Group				
The Times-News	magicvalley.com	Twin Falls, ID	17,915	20,404
Elko Daily Free Press	elkodaily.com	Elko, NV	5,374 (5)	—
Globe Gazette	globegazette.com	Mason City, IA	13,374	17,590
Central Coast Newspapers				
Santa Maria Times	santamariatimes.com	Santa Maria, CA	12,969	17,943
The Lompoc Record	lompocrecord.com	Lompoc, CA	3,424	3,319
Napa Valley Register	napavalleyregister.com	Napa, CA	12,547	12,530
Helena/Butte Group				
Independent Record	helenair.com	Helena, MT	12,399	12,818
The Montana Standard	mtstandard.com	Butte, MT	11,695	11,770
The Sentinel	cumberlink.com	Carlisle, PA	12,395	13,598
The Times and Democrat	thetandd.com	Orangeburg, SC	11,494	11,711
The Garden Island	kauaiworld.com	Lihue, HI	11,257	8,413
Arizona Daily Sun	azdailysun.com	Flagstaff, AZ	9,246	9,651
The World	theworldlink.com	Coos Bay, OR	8,891	—
The Sentinel	hanfordsentinel.com	Hanford, CA	8,311	—
The Citizen	auburnpub.com	Auburn, NY	7,702	9,589
The Ledger Independent	maysville-online.com	Maysville, KY	6,315	—
Daily Journal	dailyjournalonline.com	Park Hills, MO	5,636	—
			1,189,255	1,444,943

(1) Source: AAM: Six months ended September 2012, unless otherwise noted.
(2) Not all newspapers are published Monday through Saturday
(3) Owned by Star Publishing but published through TNI.
(4) Owned by MNI.
(5) Source: Company statistics.

NEWSPRINT

The basic raw material of newspapers, and classified and specialty publications, is newsprint. We purchase newsprint from U.S. and Canadian producers. We believe we will continue to receive a supply of newsprint adequate for our needs and consider our relationships with newsprint producers to be good. Newsprint purchase prices can be volatile and fluctuate based upon factors that include foreign currency exchange rates and both foreign and domestic production capacity and consumption. In 2012 and 2011, newsprint prices were stable after rising throughout 2010. Price fluctuations can have a significant effect on our results of operations. We have not entered into derivative contracts for newsprint. For the quantitative impacts of these fluctuations, see Item 7A, “Quantitative and Qualitative Disclosures about Market Risk”, included herein.

EXECUTIVE TEAM

The following table lists our executive team members as of November 30, 2012:

Name	Age	Service With The Company	Named To Current Position	Current Position
Mary E. Junck	65	June 1999	January 2002	Chairman, President and Chief Executive Officer
Joyce L. Dehli	54	August 1987	February 2006	Vice President - News
Suzanna M. Frank	42	December 2003	March 2008	Vice President - Audience
Michael R. Gulledge	52	October 1982	September 2012	Vice President - Sales and Marketing
Daniel K. Hayes	67	September 1969	September 2005	Vice President - Corporate Communications
Michele Fennelly White	50	June 1994	June 2011	Vice President - Information Technology and Chief Information Officer
Vytenis P. Kuraitis	64	August 1994	January 1997	Vice President - Human Resources
William T. Masterson Jr.	52	September 2000	September 2012	Vice President - Publishing
Kevin D. Mowbray	50	September 1986	November 2004	Vice President - Publishing
Gregory P. Schermer	58	February 1989	October 2012	Vice President - Strategy
Carl G. Schmidt	56	May 2001	May 2001	Vice President, Chief Financial Officer and Treasurer
Greg R. Veon	60	April 1976	November 1999	Vice President - Publishing

Mary E. Junck was elected Chairman, President and Chief Executive Officer in 2002. She was elected to the Board of Directors of the Company in 1999.

Joyce L. Dehli was appointed Vice President - News in 2006.

Suzanna M. Frank was appointed Vice President - Audience in March 2008. From 2003 to March 2008 she served as Director of Research and Marketing.

Michael R. Gulledge was elected Vice President - Sales and Marketing in September 2012 and named Publisher of the Billings Gazette in 2000. From 2005 to September 2012 he served as a Vice President - Publishing.

Daniel K. Hayes was appointed Vice President - Corporate Communications in 2005.

Michele Fennelly White was appointed Vice President - Information Technology and Chief Information Officer in June 2011. From 1999 to June 2011, she served as Director of Technical Support.

Vytenis P. Kuraitis was elected Vice President - Human Resources in 1997.

William T. Masterson Jr. was elected a Vice President - Publishing in September 2012 and was named Publisher of The Times in Northwest Indiana in 2006. From June 2011 to September 2012, he served as a Group Publisher.

Kevin D. Mowbray was elected a Vice President - Publishing in 2004 and named Publisher of the St. Louis Post-Dispatch in 2006.

Gregory P. Schermer was elected Vice-President - Interactive Media in 1997, and assumed new responsibilities as Vice President - Strategy in October 2012. He was elected to the Board of Directors of the Company in 1999.

Carl G. Schmidt was elected Vice President, Chief Financial Officer and Treasurer in 2001. Since 2007, he has also served as a Vice President - Publishing.

Greg R. Veon was elected a Vice President - Publishing in 1999 and named Publisher of the Quad-City Times in June 2011.

Elected officers are considered to be executive officers for United States Securities and Exchange Commission ("SEC") reporting purposes.

EMPLOYEES

At September 30, 2012, we had approximately 6,100 employees, including approximately 1,200 part-time employees, exclusive of TNI and MNI. Full-time equivalent employees in 2012 totaled approximately 5,200. We consider our relationships with our employees to be good.
Bargaining unit employees represent 450, or 68%, of the total employees of the St. Louis Post-Dispatch, which has seven contracts with bargaining unit employees with expiration dates through 2015.
Approximately 49 employees in five additional locations are represented by collective bargaining units. A contract at one of these locations has expired and negotiations are ongoing.

CORPORATE GOVERNANCE AND PUBLIC INFORMATION

We have a long, substantial history of sound corporate governance practices. The Board of Directors has a lead independent director, and has had one for many years. Currently, nine of eleven members of the Board of Directors are independent, as are all members of the Board's Audit, Executive Compensation and Nominating and Corporate Governance committees. The Audit Committee approves all services to be provided by our independent registered public accounting firm and its affiliates.

At www.lee.net, one may access a wide variety of information, including news releases, SEC filings, financial statistics, annual reports, investor presentations, governance documents, newspaper profiles and digital links. We make available via our website all filings made by the Company under the Securities Exchange Act of 1934 (the "Exchange Act"), including Forms 10-K, 10-Q and 8-K, and related amendments, as soon as reasonably practicable after they are filed with, or furnished to, the SEC. All such filings are available free of charge. The content of any website referred to in this Annual Report is not incorporated by reference unless expressly noted.

ITEM 1A. RISK FACTORS

Risk exists that our past results may not be indicative of future results. A discussion of our risk factors follows. See also, “Forward-Looking Statements”, included herein. In addition, a number of other factors (those identified elsewhere in this document) may cause actual results to differ materially from expectations.

DEBT AND LIQUIDITY

We May Have Insufficient Earnings Or Liquidity To Meet Our Future Debt Obligations

We have a substantial amount of debt, as discussed more fully (and certain capitalized terms used below defined) in Item 7,"Liquidity" and Note 5 of the Notes to Consolidated Financial Statements, included herein. In February 2009, we completed a comprehensive restructuring of our then-existing credit agreement and a refinancing of our Pulitzer Notes debt, substantially enhancing our liquidity and operating flexibility. Since February 2009, we have satisfied all

interest payments and substantially all principal payments due under our debt facilities with our cash flows.

Substantially all of our debt was scheduled to mature in April 2012. We used a voluntary, prepackaged petition under the U. S. Bankruptcy Code to accomplish a comprehensive refinancing that extends the maturity to December 2015 for most of our debt, with the remainder maturing in April 2017. Interest expense has increased as a result of the refinancing and mandatory principal payments were reduced. Our ability to make payments on our indebtedness will

depend on our ability to generate future cash flows. This ability, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

At December 14, 2012, the principal amount of our outstanding debt totals $919,100,000. This amount is already less than the $938,700,000 amount projected in the Plan in September 2013. Lower cash balances and asset sales have contributed to the improvement in debt repayment compared to the Plan.

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

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

ECONOMIC CONDITIONS

General Economic Conditions May Continue To Impact Our Revenue And Operating Results

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

OPERATING REVENUE

Our Revenue May Not Return To Historical Levels

A significant portion of our revenue is derived from advertising. The demand for advertising is sensitive to the overall level of economic activity, both locally and nationally.

Operating revenue in most categories has decreased since 2007 and may decrease in the future. Such decreases may not be offset by growth in advertising in other categories, such as digital revenue which, until 2008, had been rising significantly and began to rise again in 2010. Historically, newspaper publishing has been viewed as a cost-effective method of delivering various forms of advertising. There can be no guarantee that this historical perception will guide future decisions on the part of advertisers. Web sites and applications for mobile devices distributing news and other content continue to gain popularity. As a result, audience attention and advertising spending are shifting and may continue to shift from traditional media to digital media. We expect that advertisers will allocate greater portions of their future budgets to digital media, which can offer more measurable returns than traditional print media through pay for performance and keyword-targeted advertising. If our efforts to adapt to evolving technological developments in the media industry are unsuccessful, or if we fail to correctly anticipate shifts in audience demand and digital media trends, we may be unable to provide the services, media and content that audiences and potential audiences in our markets prefer and we may be unable to provide the returns that our advertisers seek. To the extent that advertisers shift advertising expenditures to other media outlets, including those on the Internet, the profitability of our business

may continue to be impacted.

The rates we charge for advertising are, in part, related to the size of the audience of our publications and digital products. There is significant competition for readers and viewers from other media. Our business may be adversely affected to the extent individuals decide to obtain news, entertainment, classified listings and local shopping information from Internet-based or other media, to the exclusion of our outlets for such information.

Retail Advertising

Many advertisers, including major retail store chains, automobile manufacturers and dealers, banks and telecommunications companies, have experienced significant merger and acquisition activity over the last several years, and some have gone out of business, effectively reducing the number of brand names under which the merged entities operate. Our retail revenue is also being impacted by the pace of the current economic recovery. For example, a decline in the housing market negatively impacts retail advertising related to home improvement, furniture and home electronics.

Classified Advertising

Classified advertising is the category that has been most significantly impacted by changing advertising trends and the current economic environment. All categories of classified advertising have generally declined since 2007. Neither the unemployment rate, nor auto sales or the housing industry have, as yet, recovered to pre-recession levels.

See Item 1, “Advertising”, included herein, for additional information on the risks associated with advertising revenue.

Circulation

Although our overall audience is stable and our circulation unit results have historically benchmarked favorably to national averages, as compiled by the AAM, circulation unit sales have nonetheless been declining for several years. The possibility exists that future circulation price increases may be difficult to accomplish as a result of future declines in circulation unit sales, and that price decreases may be necessary to retain or grow circulation unit volume. We are maintaining our share of audience through rapid digital audience growth and strong newspaper readership.

In addition, as audience attention increasingly focuses on digital media, circulation of our newspapers may be adversely affected, which may decrease circulation revenue and exacerbate declines in print advertising. If we are not successful in growing our digital businesses to offset declines in revenues from our print products, our business, financial condition and prospects will be adversely affected.

See Item 1, “Audiences”, included herein, for additional information on the risks associated with circulation revenue.

OPERATING EXPENSES

We May Not Be Able To Reduce Future Expenses To Offset Potential Revenue Declines

We reduced cash costs of our continuing operations (i.e., compensation, newsprint and ink, other operating expenses and workforce adjustments) by $256 million, or 32%, since 2007. Such expense reductions are not expected to significantly impact our ability to deliver advertising and content to our customers.

As a result of the significant reductions of our cost structure we have achieved since 2007, future cost reductions will be more difficult to accomplish. Cash costs are expected to decrease 3.0-4.0% in 2013 from their 2012 level.

Newsprint comprises a significant amount of our operating costs. See Item 1, “Newsprint” and Item 7A, “Commodities” included herein, for additional information on the risks associated with changes in newsprint costs.

In addition, technological developments and any changes we make to our business may require significant capital investments. We may be limited in our ability to invest funds and resources in digital products, services or opportunities and we may incur costs of research and development in building and maintaining the necessary and continually evolving technology infrastructure. As a result, our digital business could suffer.

We May Incur Additional Non-Cash Impairment Charges

We have significant amounts of goodwill and identified intangible assets. In 2011, 2009 and 2008, we recorded substantial impairment charges to reduce the value of certain of these assets. Should general economic, market or business conditions decline, and have a negative impact on our stock price or projected future cash flows, we may be required to record additional impairment charges in the future. Such charges would not impact our cash flows or debt covenant compliance. See Item 7, “Critical Accounting Policies”, included herein, for additional information on the risks associated with such assets.

Sustained Increases In Funding Requirements Of Our Pension And Postretirement Obligations May Reduce The Cash Available For Our Business

Our pension and postretirement plans invest in a variety of equity and debt securities, many of which were affected by the disruption in the credit and capital markets in 2008 and thereafter. Future volatility and disruption in the stock and bond markets could cause further declines in the asset values of our pension plans. In addition, a decrease in the discount rate used to determine the liability for pension obligations could result in increased future contributions. If either occurs, we may need to make additional cash contributions above what is currently estimated, which could reduce the cash available for our business. Moreover, under the Pension Protection Act of 2006, continued losses of asset values may necessitate accelerated funding of pension plans in the future to meet minimum federal statutory requirements. Legislation passed in 2012 temporarily reduced funding requirements for our pension plans, but those payments will eventually need to be restored unless discount rates and/or plan assets increase.

EQUITY CAPITAL

A Decrease In Our Stock Price May Limit The Ability To Trade Our Stock Or For The Company To Raise Equity Capital

As of July 1, 2011, our Common Stock traded at an average 30-day closing market price of less than $1 per share. Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization of less than $50,000,000, our Common Stock could be removed from the NYSE and traded in the over the counter market. In July 2011, the NYSE first notified us that our Common Stock did not meet the NYSE continued listing standards due to the failure to maintain an adequate share price. Under the NYSE rules, our Common Stock is allowed to continue to be listed during a cure period. In February 2012, the NYSE notified the Company that it was again in compliance with the minimum closing price standard. At September 30, 2012, our average market capitalization also exceeds the $50,000,000 minimum required by the NYSE. However, the NYSE has not yet notified us that the Company has returned to compliance with the market capitalization standard. Continued listing is subject to ongoing reassessment by the NYSE. We are currently operating under an NYSE-approved plan and expect any issues to be successfully addressed within the time frames required under the NYSE rules.

OTHER

Cybersecurity Risks Could Harm Our Ability To Operate Effectively

In 2012, 12.8% of our advertising revenue was obtained from advertising in our digital products and one of our businesses provides digital infrastructure and digital publishing services for other companies. We use computers in substantially all aspects of our business operations. Such uses give rise to cybersecurity risks, including the misappropriation of personally identifiable information that we store and manage. We have preventive systems and processes in place to protect against the risk of cyber incidents. Prolonged system outages or a cyber incident that would be undetected for an extended period could reduce our digital revenue, increase our operating costs, disrupt our operations, harm our reputation, lead to legal exposure to customers or subject us to liability under laws that protect personal data.

We maintain insurance coverage against certain of such risks.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located in leased facilities at 201 North Harrison Street, Suite 600, Davenport, Iowa. The initial lease term expires in 2019.

All of our principal printing facilities are owned, except Madison, Wisconsin (which is owned by MNI), Tucson (which is jointly owned by Star Publishing and Citizen), St. Louis (as described below) and leased land for the Helena, Montana and Lihue, Hawaii plants. All facilities are well maintained, in good condition, suitable for existing office and publishing operations, as applicable, and adequately equipped. With the exception of St. Louis, none of our facilities is individually significant to our business.

Information related to St. Louis facilities at September 30, 2012 is as follows:

(Square Feet)	Owned	Leased
PD LLC	749,000	15,000
Suburban Journals	41,000	16,000

Several of our daily newspapers, as well as many of our nearly 300 other publications, are printed at other Company facilities, or such printing is outsourced, to enhance operating efficiency. We are continuing to evaluate additional insourcing and outsourcing opportunities in order to more effectively manage our operating and capital costs.

Our newspapers and other publications have formal or informal backup arrangements for printing in the event of a disruption in production capability.

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is listed on the NYSE. 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. The table below includes the high and low prices of Common Stock for each calendar quarter during the past three years and the closing price at the end of each quarter.

	Quarter Ended			
(Dollars)	December	March	June	September
2012				
High	0.91	1.73	1.99	1.67
Low	0.49	0.69	1.07	1.15
Closing	0.70	1.28	1.62	1.48
2011				
High	2.94	3.41	3.47	1.15
Low	1.72	2.24	0.79	0.58
Closing	2.46	2.70	0.89	0.78
2010				
High	4.50	4.77	4.52	3.15
Low	2.15	2.96	2.49	1.93
Closing	3.47	3.39	2.57	2.68

As of July 1, 2011, our Common Stock traded at an average 30-day closing market price of less than $1 per share. Under the NYSE listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization of less than $50,000,000, our Common Stock could be removed from the NYSE and traded in the over the counter market. In July 2011, the NYSE first notified us that our Common Stock did not meet the NYSE continued listing standards due to the failure to maintain an adequate share price. Under the NYSE rules, our Common Stock is allowed to continue to be listed during a cure period. In February 2012, the NYSE notified the Company that it was again in compliance with the minimum closing price standard. At September 30, 2012, our average market capitalization also exceeds the $50,000,000 minimum required by the NYSE. However, the NYSE has not yet notified us that the Company has returned to compliance with the market capitalization standard. Continued listing is subject to ongoing reassessment by the NYSE. We are currently operating under an NYSE-approved plan and expect any issues to be successfully addressed within the time frames required under the NYSE rules.

At September 30, 2012, we had 7,309 holders of record of our Common Stock.

Our debt agreements require us to suspend stockholder dividends and share repurchases through December 2015. See Note 5 of the Notes to Consolidated Financial Statements, included herein.

Performance Presentation

The following graph compares the quarterly percentage change in the cumulative total return of the Company, the Standard & Poor's ("S&P") 500 Stock Index, and two peer group indices, in each case for the five years ended September 30, 2012 (with September 30, 2007 as the measurement point). Total return is measured by dividing (a) the sum of (i) the cumulative amount of dividends declared for the measurement period, assuming dividend reinvestment and (ii) the difference between the issuer's share price at the end and the beginning of the measurement period, by (b) the share price at the beginning of the measurement period.

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The value of $100 invested on September 30, 2007 in stock of the Company, the New Peer Group Index, the Old Peer Group Index and in the S&P 500 Stock Index, including reinvestment of dividends, is summarized in the table below.

	September 30					
(Dollars)	2007	2008	2009	2010	2011	2012
Lee Enterprises, Incorporated	100.00	25.06	19.69	19.19	5.59	10.60
New Peer Group Index	100.00	58.37	45.64	43.67	34.18	53.21
Old Peer Group Index	100.00	58.13	45.35	43.49	33.43	52.31
S&P 500 Stock Index	100.00	78.02	72.63	80.01	80.93	105.37

The S&P 500 Stock Index includes 500 U.S. companies in the industrial, transportation, utilities and financial sectors and is weighted by market capitalization. The New Peer Group Index is comprised of seven U.S. publicly traded companies with significant newspaper publishing operations (excluding the Company) and is weighted by market capitalization. The New Peer Group Index includes A.H. Belo Corp., Gannett, Journal Communications, Inc., The McClatchy Company, The New York Times Company, The E.W. Scripps Company and The Washington Post Company.   Media General, Inc., which is included in the Old Peer Group Index, has been excluded from the New Peer Group Index due to the sale of its publishing business in 2012.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data is as follows: (Thousands of Dollars and Shares, Except Per Common Share Data)	2012	2011	2010	2009	2008
OPERATING RESULTS [1] [2]					
Operating revenue	710,486	727,319	748,444	805,908	982,361
Operating expenses, excluding depreciation, amortization, and impairment of goodwill and other assets	547,592	564,296	579,382	641,439	775,901
Depreciation and amortization	65,917	70,306	71,924	78,207	88,123
Impairment of goodwill and other assets [3]	1,388	204,439	899	244,733	999,846
Curtailment gains	—	16,137	45,012	—	—
Equity in earnings of associated companies	7,231	6,151	7,746	5,120	10,212
Reduction in investment in TNI [3]	—	11,900	—	19,951	104,478
Operating income (loss)	102,820	(101,334)	148,997	(173,302)	(975,775)
Financial income	236	296	411	1,886	5,857
Financial expense	(85,901)	(65,308)	(71,631)	(92,892)	(71,472)
Income (loss) from continuing operations	(13,772)	(145,435)	47,297	(180,009)	(825,747)
Discontinued operations, net of income taxes	(2,527)	(1,246)	(1,119)	(58)	(45,196)
Net income (loss)	(16,299)	(146,681)	46,178	(180,067)	(870,943)
Income (loss) attributable to Lee Enterprises, Incorporated	(16,698)	(146,868)	46,105	(123,191)	(880,316)
Income (loss) from continuing operations attributable to Lee Enterprises, Incorporated	(14,171)	(145,622)	47,224	(123,133)	(835,120)
EARNINGS (LOSS) PER COMMON SHARE					
Basic:					
Continuing operations	(0.29)	(3.25)	1.06	(2.77)	(18.64)
Discontinued operations	(0.05)	(0.03)	(0.03)	—	(1.01)
	(0.34)	(3.27)	1.03	(2.77)	(19.64)
Diluted:					
Continuing operations	(0.29)	(3.25)	1.05	(2.77)	(18.64)
Discontinued operations	(0.05)	(0.03)	(0.02)	—	(1.01)
	(0.34)	(3.27)	1.03	(2.77)	(19.64)
Weighted average common shares:					
Basic	49,261	44,847	44,555	44,442	44,813
Diluted	49,261	44,847	44,955	44,442	44,813
Dividends per common share	—	—	—	—	0.76
BALANCE SHEET INFORMATION (End of Year)					

Total assets	1,061,136	1,158,248	1,440,116	1,515,612	2,016,367
Debt, including current maturities (4)	945,850	994,550	1,081,590	1,168,335	1,332,375
Debt, net of cash, restricted cash and investments (4)	931,930	966,023	1,052,545	1,151,106	1,182,856
Stockholders' equity (deficit)	(114,633)	(101,346)	56,823	23,598	155,518

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(1) Results of discontinued operations have been restated for all periods presented.
(2) 2012 includes 53 weeks of business operations. All other years include 52 weeks.
(3) The Company recorded pretax, non-cash impairment charges to reduce the carrying value of assets as follows:

(Thousands of Dollars)	2012	2011	2010	2009	2008
Continuing operations:					
Goodwill	—	186,281	—	193,471	886,755
Nonamortized intangible assets	—	13,259	—	12,835	10,444
Amortizable intangible assets	—	4,199	—	33,848	97,628
Property and equipment	1,388	700	899	4,579	5,019
	1,388	204,439	899	244,733	999,846
Reduction in investment in TNI	—	11,900	—	19,951	104,478
	1,388	216,339	899	264,684	1,104,324
Discontinued operations	3,606	700	2,391	1,220	70,963

(4) Principal amount of debt, excluding fair value adjustments. See Note 5 of the Notes to Consolidated Financial Statements, included herein.

ITEM 7. 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 each of the three years ended, September 30, 2012. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein.

NON-GAAP FINANCIAL MEASURES

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

Operating Cash Flow and Operating Cash Flow Margin

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

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

(Thousands of Dollars)	2012	Percent of Revenue	2011	Percent of Revenue	2010	Percent of Revenue
Operating cash flow	162,894	22.9	163,023	22.4	169,062	22.6
Depreciation and amortization	(65,917)	(9.3)	(70,306)	(9.7)	(71,924)	(9.6)
Impairment of goodwill and other assets	(1,388)	(0.2)	(204,439)	(28.1)	(899)	(0.1)
Curtailment gains	—	—	16,137	2.2	45,012	6.0
Equity in earnings of associated companies	7,231	1.0	6,151	0.8	7,746	1.0
Reduction in investment in TNI	—	—	(11,900)	(1.6)	—	—
Operating income (loss)	102,820	14.5	(101,334)	NM	148,997	19.9

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 (loss) attributable to Lee Enterprises, Incorporated and earnings (loss) per common share, respectively, the most directly comparable measures under GAAP, are set forth in Item 7, included herein, under the caption “Overall Results”.

SAME PROPERTY COMPARISONS

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

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations 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. Additional information follows with regard to certain of the most critical of our accounting policies.

Goodwill and Other Intangible Assets

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

We analyze goodwill and other nonamortized intangible assets for impairment more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate and operating

or cash flow losses related to such assets.

Should we determine that a goodwill impairment is more likely than not, we make a determination of the fair value of our business. Fair value is determined using a combination of an income approach, which estimates fair value based upon future revenue, expenses and cash flows discounted to their present value, and a market approach, which estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the publishing industry. A non-cash impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.

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

The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by us. These judgments include, but are not limited to, long term 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.

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

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

A summary of impairment charges is included in the table below:

(Thousands of Dollars)	2012	2011	2010
Continuing operations:			
Goodwill	—	186,281	—
Nonamortized intangible assets	—	13,259	—
Amortizable intangible assets	—	4,199	—
Property and equipment	1,388	700	899
	1,388	204,439	899
Reduction in investment in TNI	—	11,900	—
	1,388	216,339	899
Discontinued operations	3,606	700	2,391

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

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

Future decreases in our market value, or significant differences in revenue, expenses or cash flows from estimates used to determine fair value, could result in additional impairment charges in the future.

Pension, Postretirement and Postemployment Benefit Plans

We evaluate our liability for pension, postretirement and postemployment benefit plans based upon computations made by consulting actuaries, incorporating estimates and actuarial assumptions of future plan service costs, future interest costs on projected benefit obligations, rates of compensation increases, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors. If we used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, resulting in recognition of different amounts of expense over future periods.

Increases in market interest rates, which may impact plan assumptions, generally result in lower service costs for current employees, higher interest expense and lower liabilities. Actual returns on plan assets that are lower than the plan assumptions will generally result in decreases in a plan's funded status and may necessitate additional contributions.

Income Taxes

Deferred income taxes are provided using the liability method, whereby deferred income tax assets are recognized for deductible temporary differences and loss carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. Deferred income tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Changes in accounting for uncertain tax positions can result in additional variability in our effective income tax rate.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits as a component of income tax expense.

We file income tax returns with the Internal Revenue Service (“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.

Revenue Recognition

Advertising revenue is recorded when advertisements are placed in the publication or on the related digital product. Circulation revenue is recorded over the print or digital product subscription term or as such newspapers are individually sold. Other revenue is recognized when the related product or service has been delivered. Unearned revenue arises in the ordinary course of business from advance subscription payments for print or digital products or advance payments for advertising.

Uninsured Risks

We are self-insured for health care, workers compensation and certain long-term disability costs of our employees, subject to stop loss insurance, which limits exposure to large claims. We accrue our estimated health care costs in the

period in which such costs are incurred, including an estimate of incurred but not reported claims. Other risks are insured and carry deductible losses of varying amounts.

Our accrued reserves for health care and workers compensation claims are based upon estimates of the remaining liability for retained losses made by consulting actuaries. The amount of workers compensation reserve has been determined based upon historical patterns of incurred and paid loss development factors from the insurance industry.

An increasing frequency of large claims, deterioration in overall claim experience or changes in federal or state laws affecting our liability for such claims could increase the volatility of expenses for such self-insured risks.

CONTINUING OPERATIONS

2012 vs. 2011

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

(Thousands of Dollars and Shares, Except Per Share Data)	2012	2011	Percent Change
Advertising revenue:			
Retail	306,085	315,072	(2.9)
Classified:			
Employment	37,079	37,286	(0.6)
Automotive	39,062	40,169	(2.8)
Real estate	20,942	23,794	(12.0)
All other	52,301	56,974	(8.2)
Total classified	149,384	158,223	(5.6)
National	29,173	31,639	(7.8)
Niche publications	11,230	12,414	(9.5)
Total advertising revenue	495,872	517,348	(4.2)
Circulation	174,747	172,245	1.5
Commercial printing	12,768	11,303	13.0
Other	27,099	26,423	2.6
Total operating revenue	710,486	727,319	(2.3)
Compensation	276,379	283,527	(2.5)
Newsprint and ink	52,003	56,191	(7.5)
Other operating expenses	214,570	220,656	(2.8)
Workforce adjustments	4,640	3,922	18.3
	547,592	564,296	(3.0)
Operating cash flow	162,894	163,023	(0.1)
Depreciation	23,620	25,833	(8.6)
Amortization	42,297	44,473	(4.9)
Impairment of goodwill and other assets	1,388	204,439	(99.3)
Curtailment gains	—	16,137	NM
Equity in earnings of associated companies	7,231	6,151	17.6
Reduction of investment in TNI Partners	—	11,900	NM
Operating income (loss)	102,820	(101,334)	NM
Non-operating expense, net	(88,198)	(64,417)	36.9
Income (loss) from continuing operations before reorganization costs and income taxes	14,622	(165,751)	NM
Reorganization costs	37,765	—	NM
Loss from continuing operations before income taxes	(23,143)	(165,751)	(86.0)
Income tax benefit	(9,371)	(20,316)	(53.9)
Net loss from continuing operations	(13,772)	(145,435)	(90.5)
Discontinued operations, net of income taxes	(2,527)	(1,246)	NM
Net loss	(16,299)	(146,681)	(88.9)
Net income attributable to non-controlling interests	(399)	(187)	NM
Loss attributable to Lee Enterprises, Incorporated	(16,698)	(146,868)	(88.6)
Other comprehensive loss, net	(7,348)	(12,737)	NM
Comprehensive loss	(24,046)	(159,605)	(84.9)

Loss from continuing operations attributable to Lee Enterprises, Incorporated	(14,171)	(145,622)	(90.3)
Loss per common share:			
Basic	(0.34)	(3.27)	(89.6)
Diluted	(0.34)	(3.27)	(89.6)

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Due to our fiscal calendar, 2012 includes 53 weeks of business operations. 2011 includes 52 weeks. The analysis below includes only continuing operations, unless otherwise noted.

2012 total operating revenue decreased 2.3% compared to the prior year. Excluding the additional week of operations in 2012, total revenue decreased approximately 4.0%. We expect year over year revenue comparisons to improve as economic conditions in our markets also improve.

Advertising Revenue

In 2012, combined print and digital advertising revenue decreased $21,476,000, or 4.2%, compared to 2011. Retail advertising decreased 2.9%. Retail preprint insertion revenue decreased 2.5%. Digital retail advertising increased 15.9%, partially offsetting print declines.

On a combined basis, print and digital classified revenue decreased 5.6% in 2012. Employment revenue decreased 0.6% while automotive advertising decreased 2.8%, real estate decreased 12.0% and other classified decreased 8.2%. Digital classified revenue increased 3.8%, partially offsetting print declines.

National advertising decreased $2,466,000, or 7.8%. Digital national advertising decreased 8.9%. Advertising in niche publications decreased 9.5%.

On a stand-alone basis, digital advertising revenue increased 9.7% in 2012, representing 12.8% of total advertising revenue. Year-over-year total digital advertising has been rising steadily since December 2009. Print advertising revenue on a stand-alone basis decreased 5.9% in 2012.

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

Circulation and Other Revenue

Circulation revenue increased $2,502,000, or 1.5%, in 2012, resulting primarily from price increases, which were partially offset by unit declines.

Our average daily newspaper circulation units, including TNI and MNI, as measured by the AAM, decreased 5.8% and Sunday circulation decreased 7.3% in 2012 compared to 2011.

Our digital sites, including TNI and MNI, attracted 22.8 million unique visitors in the month of September 2012, an increase of 10.1% from a year ago, with 192.6 million page views. The number of mobile page views grew 146.0% to 53.6 million in September 2012. Research in our larger markets indicates we are maintaining our share of audience through the combination of rapid digital audience growth and strong newspaper readership.

Commercial printing revenue increased $1,465,000, or 13.0%, in 2012. Other revenue increased $676,000, or 2.6%, in 2012.

Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased $17,422,000, or 3.1%, in 2012. Excluding the additional week of operations in 2012, costs excluding depreciation, amortization and unusual matters decreased approximately 4.6%.

Compensation expense decreased $7,148,000, or 2.5%, in 2012, driven by a decline in average full time equivalent employees of 7.2%.

Newsprint and ink costs decreased $4,188,000, or 7.5%, in 2012 as a result of a reduction in newsprint volume of 6.3%. See Item 7A, “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 $6,086,000, or 2.8%, in 2012.

Reductions in staffing resulted in workforce adjustment costs, primarily severance, totaling $4,640,000 and $3,922,000 in 2012 and 2011, respectively.

We are engaged in various efforts to contain future growth in our operating expenses. We expect 2013 operating expenses, excluding depreciation, amortization and unusual matters, to decrease 3.0-4.0% from their 2012 level.

Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 0.1%, to $162,894,000, in 2012 compared to $163,023,000 in 2011. Operating cash flow margin increased to 22.9% in 2012 from 22.4% in 2011, reflecting a larger percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased $2,213,000, or 8.6%, in 2012 and amortization expense decreased $2,176,000, or 4.9%, in 2012.

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

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

A summary of impairment charges is included in the table below:

(Thousands of Dollars)	2012	2011
Continuing operations:		
Goodwill	—	186,281
Nonamortized intangible assets	—	13,259
Amortizable intangible assets	—	4,199
Property and equipment	1,388	700
	1,388	204,439
Reduction in investment in TNI	—	11,900
	1,388	216,339
Discontinued operations	3,606	700

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

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

March 27, 2011 and reduced the benefit obligation liability at March 27, 2011 by $3,030,000.

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

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

The Patient Protection and Affordable Care Act, along with its companion reconciliation legislation (together the "Affordable Care Act"), were enacted into law in 2010. The Affordable Care Act will be supported by a substantial number of underlying regulations, some of which have not been issued. Accordingly, a complete determination of the impact of the Affordable Care Act cannot be made at this time. However, we expect our future health care costs to increase more rapidly based on analysis published by the United States Department of Health and Human Services, input from independent advisors and our understanding of various provisions of the Affordable Care Act that differ from our current medical plans. 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.

Equity in earnings in associated companies increased $1,080,000 in 2012.

The factors noted above resulted in operating income of $102,820,000 in 2012 compared to an operating loss of $101,334,000 in 2011.

Nonoperating Income and Expense

Financial expense increased $20,593,000, or 31.5%, to $85,901,000 in 2012 due primarily to higher interest rates on our debt. Our weighted average cost of debt was 9.2% at September 30, 2012, compared to 5.1% at September 25, 2011. Financial expense in 2012 includes $4,085,000 of non-cash amortization of a present value adjustment of debt.

The increase in financial expense from the refinancing of our debt in January 2012 will cycle in January 2013. Absent a significant increase in LIBOR, we expect financial expense to begin to decline after January 2013 due to lower debt balances, which decreased $48,410,000 in 2012 and have decreased an additional $26,750,000 since September 30, 2012.

Several of the plan changes noted above were the subject of litigation, or arbitration claims, under the terms of the respective collective bargaining agreements. In 2012, we settled all such claims with payments to plan participants totaling $2,802,000. These payments are classified as other, net in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Overall Results

We recognized $37,765,000 of reorganization costs in 2012. We recognized income tax benefit of 40.5% of loss from continuing operations before income taxes in 2012 and income tax benefit of 12.3% of loss from continuing operations before income taxes in 2011. See Note 11 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 (which includes discontinued operations) totaled $16,698,000 in 2012 compared to a loss of $146,868,000 in 2011. We recorded loss per diluted common share of $0.34 in 2012 and $3.27 in 2011. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were $0.42 in 2012, compared to $0.71 in 2011. Per share amounts may not add due to rounding.

(Thousands of Dollars, Except Per Share Data)	2012 Amount	2012 Per Share	2011 Amount	2011 Per Share
Loss attributable to Lee Enterprises, Incorporated, as reported	(16,698)	(0.34)	(146,868)	(3.27)
Adjustments:				
Curtailment gains	—		(16,137)	
Impairment of goodwill and other assets, including TNI Partners	1,388		216,339	
Debt financing and reorganization costs	45,378		12,612	
Litigation settlement	2,802		—	
Unusual matters related to discontinued operations	4,145		1,011	
Other, net	4,789		5,502	
	58,502		219,327	
Income tax effect of adjustments, net, and other unusual tax matters	(20,940)		(40,779)	
	37,562	0.76	178,548	3.98
Income attributable to Lee Enterprises, Incorporated, as adjusted	20,864	0.42	31,680	0.71

DISCONTINUED OPERATIONS

In October 2012, we sold the North County Times in Escondido, CA for $11,950,000, before income taxes. The transaction resulted in a gain of approximately $2,000,000, after income taxes, which was recorded in October 2012. Operating results of the North County Times have been classified as discontinued operations for all periods presented.

Results of discontinued operations consist of the following:

(Thousands of Dollars)	2012	2011
Operating revenue	27,852	28,785
Loss from discontinued operations, before income taxes	(4,076)	(2,011)
Income tax benefit	(1,549)	(765)
Net loss	(2,527)	(1,246)

CONTINUING OPERATIONS

2011 vs. 2010

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

(Thousands of Dollars and Shares, Except Per Share Data)	2011	2010	Percent Change
Advertising revenue:			
Retail	315,072	325,929	(3.3)
Classified:			
Employment	37,286	34,895	6.9
Automotive	40,169	40,443	(0.7)
Real estate	23,794	30,159	(21.1)
All other	56,974	59,303	(3.9)
Total classified	158,223	164,800	(4.0)
National	31,639	34,234	(7.6)
Niche publications	12,414	12,260	1.3
Total advertising revenue	517,348	537,223	(3.7)
Circulation	172,245	171,155	0.6
Commercial printing	11,303	11,485	(1.6)
Other	26,423	28,581	(7.6)
Total operating revenue	727,319	748,444	(2.8)
Compensation	283,527	298,873	(5.1)
Newsprint and ink	56,191	51,707	8.7
Other operating expenses	220,656	227,603	(3.1)
Workforce adjustments	3,922	1,199	NM
	564,296	579,382	(2.6)
Operating cash flow	163,023	169,062	(3.6)
Depreciation	25,833	26,716	(3.3)
Amortization	44,473	45,208	(1.6)
Impairment of goodwill and other assets	204,439	899	NM
Curtailment gains	16,137	45,012	(64.1)
Equity in earnings of associated companies	6,151	7,746	(20.6)
Reduction of investment in TNI Partners	11,900	—	NM
Operating income (loss)	(101,334)	148,997	NM
Non-operating expense, net	(64,417)	(72,392)	(11.0)
Income (loss) from continuing operations before income taxes	(165,751)	76,605	NM
Income tax expense (benefit)	(20,316)	29,308	NM
Net income (loss) from continuing operations	(145,435)	47,297	NM
Discontinued operations, net of income taxes	(1,246)	(1,119)	11.3
Net income (loss)	(146,681)	46,178	NM
Net income attributable to non-controlling interests	(187)	(73)	NM
Income (loss) attributable to Lee Enterprises, Incorporated	(146,868)	46,105	NM
Other comprehensive loss, net	(12,737)	(14,704)	(13.4)
Comprehensive income (loss)	(159,605)	31,401	NM
Income (loss) from continuing operations attributable to Lee Enterprises, Incorporated	(145,622)	47,224	NM

Earnings (loss) per common share:			
Basic	(3.27)	1.03	NM
Diluted	(3.27)	1.03	NM

2011 total operating revenue decreased 2.8% compared to the prior year. The analysis below includes only continuing operations, unless otherwise noted.

Advertising Revenue

In 2011, combined print and digital advertising revenue decreased $19,875,000, or 3.7%, compared to 2010. Retail advertising decreased 3.3%. Retail preprint insertion revenue decreased 3.7%. Digital retail advertising increased 43.9%, partially offsetting print declines.

On a combined basis, print and digital classified revenue decreased 4.0% in 2011. Employment revenue increased 6.9% while automotive advertising decreased 0.7%, real estate decreased 21.1% and other classified decreased 3.9%. Digital classified revenue decreased 0.2%.

National advertising decreased $2,595,000, or 7.6%. Digital national advertising increased 162.6%. Advertising in niche publications increased 1.3%.

On a stand-alone basis, digital advertising revenue increased 27.5% in 2011, representing 11.2% of total advertising revenue. Year-over-year total digital advertising has been rising steadily since December 2009. Print advertising revenue on a stand-alone basis decreased 6.6% in 2011.

Circulation and Other Revenue

Circulation revenue increased $1,090,000, or 0.6%, in 2011.

Our average daily newspaper circulation units, including TNI and MNI, as measured by the AAM, were 1.3 million daily and 1.6 million Sunday for the six months ended September 2011. Comparable amounts for 2010 are not available due to extensive changes made by the AAM to the measurement of circulation units.

Our digital sites, including TNI and MNI, attracted 20.7 million unique visitors in the month of September 2011, an increase of 12.1% from a year ago, with 187.6 million page views. The number of mobile page views grew 228.7% to 21.8 million in September 2011. Research in our larger markets indicates we are maintaining our share of audience through the combination of rapid digital audience growth and strong newspaper readership.

Commercial printing revenue decreased $182,000, or 1.6%, in 2011. Other revenue decreased $2,158,000, or 7.6%, in 2011.

Operating Expenses

Costs other than depreciation, amortization and unusual matters decreased $17,809,000, or 3.1%, in 2011.

Compensation expense decreased $15,346,000, or 5.1%, in 2011, driven by a decline in average full time equivalent employees of 4.6%.