

LEE ENTERPRISES, INC  
Form 10-Q  
February 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For The Quarterly Period Ended December 29, 2013

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

Yes  No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

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

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

As of January 31, 2014, 53,497,041 shares of Common Stock of the Registrant were outstanding.

---

Table Of Contents	PAGE
<u>FORWARD LOOKING STATEMENTS</u>	<u>1</u>
PART I <u>FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Financial Statements (unaudited)</u>	<u>2</u>
<u>Consolidated Balance Sheets - December 29, 2013 and September 29, 2013</u>	<u>2</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) - 13 weeks ended December 29, 2013 and December 30, 2012</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows - 13 weeks ended December 29, 2013 and December 30, 2012</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>32</u>
PART II <u>OTHER INFORMATION</u>	<u>32</u>
Item 1. <u>Legal Proceedings</u>	<u>32</u>
Item 6. <u>Exhibits</u>	<u>32</u>
<u>SIGNATURES</u>	<u>33</u>

References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the "Company"). References to "2014", "2013" 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 that the second lien financing described herein will not be consummated, or if consummated, the terms will differ substantially from those described herein, and the possibility that the warrants to be granted in conjunction therewith will not be exercised, 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 conditions in certain aspects of the economy affecting our business, changes in advertising demand, potential changes in newsprint and other commodity prices, energy costs, interest rates, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, maintaining our listing status on the NYSE, competition and other risks detailed from time to time in our publicly filed documents.

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

PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Thousands of Dollars)	December 29 2013	September 29 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	12,655	17,562
Accounts receivable, net	76,850	63,215
Income taxes receivable	—	6,634
Inventories	6,093	6,409
Deferred income taxes	2,017	2,017
Other	8,148	8,488
Total current assets	105,763	104,325
Investments:		
Associated companies	39,593	39,489
Other	10,928	10,558
Total investments	50,521	50,047
Property and equipment:		
Land and improvements	23,597	23,626
Buildings and improvements	184,790	184,838
Equipment	296,565	299,828
Construction in process	3,652	2,868
	508,604	511,160
Less accumulated depreciation	342,669	342,247
Property and equipment, net	165,935	168,913
Goodwill	243,729	243,729
Other intangible assets, net	235,292	242,184
Postretirement assets, net	15,584	14,956
Other	3,412	3,551
Total assets	820,236	827,705

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



(Thousands of Dollars and Shares, Except Per Share Data)	December 29 2013	September 29 2013	
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Current maturities of long-term debt	9,146	14,371	
Accounts payable	22,176	22,448	
Compensation and other accrued liabilities	22,989	28,493	
Accrued interest	8,846	9,074	
Income taxes payable	584	—	
Unearned revenue	32,138	32,605	
Total current liabilities	95,879	106,991	
Long-term debt, net of current maturities	812,109	820,187	
Pension obligations	30,161	30,583	
Postretirement and postemployment benefit obligations	7,449	7,253	
Deferred income taxes	20,833	21,224	
Income taxes payable	5,492	5,257	
Other	5,705	5,900	
Total liabilities	977,628	997,395	
<b>Equity (deficit):</b>			
<b>Stockholders' equity (deficit):</b>			
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—	
Common Stock, \$0.01 par value; authorized 120,000 shares; issued and outstanding:	534	524	
December 29, 2013; 53,449 shares;			
September 29, 2013; 52,434 shares			
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—	
Additional paid-in capital	243,328	242,537	
Accumulated deficit	(409,185)	(421,077)	)
Accumulated other comprehensive income	7,225	7,666	
Total stockholders' deficit	(158,098)	(170,350)	)
Non-controlling interests	706	660	
Total deficit	(157,392)	(169,690)	)
Total liabilities and deficit	820,236	827,705	

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

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended	
	December 29 2013	December 30 2012
Operating revenue:		
Advertising and marketing services	122,391	128,899
Subscription	45,550	46,056
Other	9,444	9,701
Total operating revenue	177,385	184,656
Operating expenses:		
Compensation	62,142	65,955
Newsprint and ink	10,562	12,174
Other operating expenses	55,157	54,211
Depreciation	5,141	5,487
Amortization of intangible assets	6,893	9,554
Workforce adjustments	207	803
Total operating expenses	140,102	148,184
Equity in earnings of associated companies	2,919	3,045
Operating income	40,202	39,517
Non-operating income (expense):		
Financial income	120	80
Interest expense	(20,827)	(23,466)
Debt financing costs	(104)	(47)
Other, net	94	7,007
Total non-operating expense, net	(20,717)	(16,426)
Income before income taxes	19,485	23,091
Income tax expense	7,383	9,439
Income from continuing operations	12,102	13,652
Discontinued operations, net of income taxes	—	1,046
Net income	12,102	14,698
Net income attributable to non-controlling interests	(210)	(118)
Income attributable to Lee Enterprises, Incorporated	11,892	14,580
Other comprehensive loss, net of income taxes	(441)	(93)
Comprehensive income attributable to Lee Enterprises, Incorporated	11,451	14,487
Income from continuing operations attributable to Lee Enterprises, Incorporated	11,892	13,534
Earnings per common share:		
Basic:		
Continuing operations	0.23	0.26
Discontinued operations	—	0.02
	0.23	0.28
Diluted:		
Continuing operations	0.22	0.26
Discontinued operations	—	0.02
	0.22	0.28

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





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

(Thousands of Dollars)	13 Weeks Ended	
	December 29 2013	December 30 2012
Cash provided by operating activities:		
Net income	12,102	14,698
Results of discontinued operations	—	(1,046 )
Income from continuing operations	12,102	13,652
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	12,034	15,041
Amortization of debt present value adjustment	1,198	1,359
Stock compensation expense	264	368
Distributions greater (less) than earnings of MNI	371	(21 )
Deferred income tax expense (benefit)	(84	)(1,740 )
Debt financing costs	104	52
Gain on sale of investments	—	(7,093 )
Changes in operating assets and liabilities:		
Increase in receivables	(13,635	)(9,048 )
Decrease in inventories and other	618	1,328
Decrease in accounts payable, compensation and other accrued liabilities and unearned revenue	(6,471	)(4,782 )
Decrease in pension, postretirement and postemployment benefit obligations	(1,602	)(873 )
Change in income taxes receivable or payable	7,453	10,874
Other, net	(359	)(536 )
Net cash provided by operating activities of continuing operations	11,993	18,581
Cash provided by (required for) investing activities of continuing operations:		
Purchases of property and equipment	(2,295	)(2,068 )
Proceeds from sales of assets	132	7,215
Distributions less than earnings of TNI	(474	)(954 )
Other, net	—	(114 )
Net cash provided by (required for) investing activities of continuing operations	(2,637	)(4,079 )
Cash provided by (required for) financing activities of continuing operations:		
Payments on long-term debt	(14,500	)(29,000 )
Debt financing and reorganization costs paid	(2	)—
Common stock transactions, net	239	6
Net cash required for financing activities of continuing operations	(14,263	)(28,994 )
Net cash provided by discontinued operations:		
Investing activities	—	12,698
Net (increase) decrease in cash and cash equivalents	(4,907	)(6,364
Cash and cash equivalents:		
Beginning of period	17,562	13,920
End of period	12,655	20,284

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



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

## 1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the "Company") as of December 29, 2013 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2013 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 29, 2013 are not necessarily indicative of the results to be expected for the full year.

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

References to "we", "our", "us" and the like throughout the Consolidated Financial Statements refer to the Company. References to "2014", "2013" and the like refer to the fiscal years ended the last Sunday in September.

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

On December 12, 2011, the Company and certain of its subsidiaries filed voluntary, prepackaged petitions in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for relief under Chapter 11 of the U.S. Bankruptcy Code (the "U.S. Bankruptcy Code") (collectively, the "Chapter 11 Proceedings"). Our interests in TNI and MNI 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 the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from the Chapter 11 Proceedings. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. Implementation of the Plan resulted primarily in a comprehensive refinancing of our debt. The Chapter 11 Proceedings did not adversely affect employees, vendors, contractors, customers or any aspect of Company operations. Stockholders retained their interest in the Company, subject to modest dilution. See Notes 5 and 12.

## 2 DISCONTINUED OPERATIONS

In March 2013, we sold The Garden Island newspaper and digital operations in Lihue, HI for \$2,000,000 in cash, plus an adjustment for working capital. The transaction resulted in a loss of \$2,170,000, after income taxes, and was recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the 13 weeks ended March 31, 2013. Operating results of The Garden Island have been classified as discontinued operations for all periods presented.



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

Assets and liabilities of the The Garden Island at February 28, 2013 are summarized as follows:

(Thousands of Dollars)	February 28 2013
Current assets	433
Property and equipment, net	770
Goodwill	500
Other intangible assets, net	4,025
Current liabilities	(271)
Assets, net	5,457

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

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

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

Results of discontinued operations consist of the following:

(Thousands of Dollars)	13 Weeks Ended December 30 2012
Operating revenue	804
Costs and expenses	(998)
Gain on sale of the North County Times	1,800
Gain from discontinued operations, before income taxes	1,606
Income tax expense	560
Net gain	1,046

### 3 INVESTMENTS IN ASSOCIATED COMPANIES

#### TNI Partners

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

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

7

---

Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended December 29 2013	14 Weeks Ended December 30 2012
Operating revenue	16,072	17,544
Operating expenses, excluding workforce adjustments, depreciation and amortization	12,371	13,637
Workforce adjustments	(87	)—
Operating income	3,788	3,907
Company's 50% share of operating income	1,894	1,954
Less amortization of intangible assets	105	181
Equity in earnings of TNI	1,789	1,773

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses (income) associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Operations and Comprehensive Income (Loss). These amounts totaled \$8,000 and \$(168,000) in the 13 weeks ended December 29, 2013 and in the 14 weeks ended December 30, 2012, respectively.

Annual amortization of intangible assets is estimated to be \$418,000 in each of the 52 week periods ending December 2014, December 2015, December 2016, December 2017 and in the 53 week period ending December 2018.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended	
	December 29 2013	December 30 2012
Operating revenue	17,312	18,558
Operating expenses, excluding workforce adjustments, depreciation and amortization	13,259	14,049
Depreciation and amortization	398	383
Operating income	3,655	4,126
Net income	2,259	2,543
Equity in earnings of MNI	1,130	1,272



## 4 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	13 Weeks Ended December 29 2013
Goodwill, gross amount	1,532,458
Accumulated impairment losses	(1,288,729)
Goodwill, beginning of period	243,729
Goodwill, end of period	243,729

Identified intangible assets consist of the following:

(Thousands of Dollars)	December 29 2013	September 29 2013
Nonamortized intangible assets:		
Mastheads	27,038	27,038
Amortizable intangible assets:		
Customer and newspaper subscriber lists	686,732	686,732
Less accumulated amortization	478,480	471,589
	208,252	215,143
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,522	28,521
	2	3
	235,292	242,184

Annual amortization of intangible assets for the 52 week periods ending December 2014, December 2015, December 2016, December 2017 and the 53 week period ending December 2018 is estimated to be \$27,581,000, \$26,904,000, \$25,745,000, \$22,908,000 and \$16,653,000, respectively.

## 5 DEBT

As discussed more fully below (and certain capitalized terms used below defined), in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders ("Lenders"). We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders. In May 2013, we again refinanced the remaining balance of the Pulitzer Notes.

1<sup>st</sup> Lien Agreement

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

## Interest Payments

Debt under the 1<sup>st</sup> Lien Agreement bears interest, at our option, at either a base rate or an adjusted Eurodollar rate ("LIBOR"), plus an applicable margin. The base rate for the facility is the greater of (a) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (b) 0.5% in excess of the overnight federal funds rate at such

time; or (c) 30 day LIBOR plus 1.0%. LIBOR loans are subject to a minimum rate of 1.25%. The applicable margin for term loan base rate loans is 5.25%, and 6.25% for LIBOR loans. The applicable margin for revolving credit facility base rate loans is 4.5%, and is 5.5% for LIBOR loans. At December 29, 2013, all borrowing under the 1<sup>st</sup> Lien Agreement is based on LIBOR at a total rate of 7.5%.

## Principal Payments

At December 29, 2013, the balance outstanding under the term loan is \$603,000,000. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1<sup>st</sup> Lien Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

We are required to repay principal amounts, on a quarterly basis until maturity, under the 1<sup>st</sup> Lien Agreement. Principal payments are required quarterly beginning in June 2012, and total \$12,750,000 in 2014, \$13,500,000 in 2015 and \$3,375,000 in 2016, prior to the final maturity.

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

2014 payments made, or required to be made for the remainder of the year, under the 1<sup>st</sup> Lien Agreement, are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended December 29 2013	13 Weeks Ending March 30 2014	June 29 2014	September 28 2014
Mandatory	3,000	3,000	3,375	3,375
Voluntary	3,350	—	—	—
Asset sales	150	—	—	—
Excess cash flow	—	—	—	—
	6,500	3,000	3,375	3,375

2013 payments made under the 1<sup>st</sup> Lien Agreement are summarized as follows:

(Thousands of Dollars)	December 30 2012	March 31 2013	June 30 2013	13 Weeks Ended September 29 2013
Mandatory	2,500	2,500	3,000	3,000
Voluntary	9,750	15,350	2,260	6,000
Asset sales	7,750	—	240	—
Excess cash flow	—	—	—	—
	20,000	17,850	5,500	9,000

## Security

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

The Credit Parties have also granted a first priority security interest on substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their

obligations under the 1<sup>st</sup> Lien Agreement. Assets of Pulitzer and its subsidiaries, TNI and our ownership interest in, and assets of, MNI are excluded.

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

## Covenants and Other Matters

The 1<sup>st</sup> Lien Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is designed to assess the leverage of the Company, excluding Pulitzer, and does not reflect our overall leverage position due to the lower leverage of Pulitzer. It is based primarily on the sum of the principal amount of debt under the 1<sup>st</sup> Lien Agreement, plus debt under the 2<sup>nd</sup> Lien Agreement, as discussed more fully below, which totals \$778,000,000 at December 29, 2013, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes distributions from MNI and other elements, but excludes the operating results of Pulitzer.

Our actual total leverage ratio at December 29, 2013 under the 1<sup>st</sup> Lien Agreement was 6.22:1. Our maximum total leverage ratio covenant will decrease, in stages, from 9.9:1 at December 29, 2013 to 9.1:1 in December 2015. On a consolidated basis, using the definitions in the 1<sup>st</sup> Lien Agreement, our leverage ratio is 5.02:1 at December 29, 2013. This consolidated measure is not the subject of a covenant in any of our debt agreements.

The 1<sup>st</sup> Lien Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the sum of interest expense, as defined, incurred under the 1<sup>st</sup> Lien Agreement and 2<sup>nd</sup> Lien Agreement, divided by the same measure of trailing 12 month operating results discussed above. The interest expense coverage ratio is similarly designed to assess the interest coverage of the Company, excluding Pulitzer, and does not reflect our overall interest coverage position. Our actual interest expense coverage ratio at December 29, 2013 was 1.71:1. Our minimum interest expense coverage ratio covenant is 1.08:1 at December 29, 2013.

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

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

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

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

## Principal Payments and Redemption

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

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

## Security

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

Parties.

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

11

---

subsidiaries, excluding TNI, become subject to a first priority security interest of the 2<sup>nd</sup> Lien Lenders upon repayment in full of the Pulitzer Notes and any successor debt.

The 2<sup>nd</sup> Lien Lenders were granted a second priority security interest in our ownership interest in TNI under the New Pulitzer Notes, as discussed more fully below.

#### Covenants and Other Matters

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

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

#### Subsequent Event

In January 2014, we reached an agreement to refinance the 2<sup>nd</sup> Lien Agreement with a new \$200,000,000 facility (the "New 2<sup>nd</sup> Lien Agreement"). The size of the facility may be reduced by up to \$75,000,000 with the proceeds of a refinancing of the 1<sup>st</sup> Lien Agreement. The New 2<sup>nd</sup> Lien Agreement, which is subject to customary closing conditions, will bear interest at 12.0% per annum, payable quarterly, and mature in December 2022. Collateral under the New 2<sup>nd</sup> Lien Agreement will be substantially identical to the existing facility.

Under the New 2<sup>nd</sup> Lien Agreement, excess cash flows of Pulitzer may be used, first, to reduce the outstanding amount of the New Pulitzer Notes, second, to pay obligations under the New 2<sup>nd</sup> Lien Agreement, and third, for a three year period, to pay amounts under the 1<sup>st</sup> Lien Agreement. Voluntary prepayments under the New 2<sup>nd</sup> Lien Agreement otherwise will be subject to call premiums that step down to zero over a five-year period. Collateral under the new agreement will be substantially identical to the existing 2<sup>nd</sup> Lien Agreement.

In conjunction with the closing of the New 2<sup>nd</sup> Lien Agreement, the lenders will receive warrants for the purchase of 6,000,000 shares of our Common Stock, which represents approximately 10.1% of shares outstanding on a fully diluted basis. The exercise price of the warrants will be the lower of (1) \$4.19 or (2) the volume-weighted average trading price of our Common Stock for the ten days prior to closing.

#### Pulitzer Notes

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

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

In January 2012, in connection with the Plan, we entered into an amended Note Agreement and Guaranty Agreement, which amended the Pulitzer Notes and extended the maturity with the Noteholders. After consideration of unscheduled principal payments totaling \$15,145,000 (\$10,145,000 in December 2011 and \$5,000,000 in January

2012), offset by \$3,500,000 of non-cash fees paid to the Noteholders in the form of additional Pulitzer Notes debt, the amended Pulitzer Notes had a balance of \$126,355,000 in January 2012.

The Pulitzer Notes carried an interest rate at 10.55%, which increased 0.75% to 11.3% in January 2013 and was to increase in January of each year thereafter. Due to the increasing interest rate, interest on the Pulitzer Notes was charged to expense using a calculated effective interest rate during the period.

In May 2013, we refinanced the \$94,000,000 remaining balance of the Pulitzer Notes (the "New Pulitzer Notes") with BH Finance LLC ("Berkshire") a subsidiary of Berkshire Hathaway Inc. The New Pulitzer Notes bear



interest at a fixed rate of 9.0%, payable quarterly. Pulitzer is a co-borrower under the the New Pulitzer Notes, which eliminates the former Guaranty Agreement made by Pulitzer under the Pulitzer Notes.

### Principal Payments

At December 29, 2013, the balance of the New Pulitzer Notes is \$55,000,000. We may voluntarily prepay principal amounts outstanding under the New Pulitzer Notes at any time, in whole or in part, without premium or penalty (except as noted below), upon proper notice, and subject to certain limitations as to minimum amounts of prepayments. The New Pulitzer Notes provide for mandatory scheduled prepayments totaling \$6,400,000 annually, beginning in 2014.

In addition to the scheduled payments, we are required to make mandatory prepayments under the New Pulitzer Notes under certain other conditions, such as from the net proceeds from asset sales. The New Pulitzer Notes also require us to accelerate future payments in the amount of our quarterly excess cash flow, as defined. The acceleration of such payments due to future asset sales or excess cash flow does not change the due dates of other New Pulitzer Notes payments prior to the final maturity in April 2017.

The New Pulitzer Notes are subject to a 5% redemption premium if 100% of the remaining balance of the New Pulitzer Notes is again refinanced by lenders, the majority of which are not holders of the New Pulitzer Notes at the time of such refinancing. This redemption premium is not otherwise applicable to any of the types of payments noted above.

2014 payments made, or required to be made for the remainder of the year, under the New Pulitzer Notes are summarized below.

(Thousands of Dollars)	13 Weeks Ended		13 Weeks Ending	
	December 29 2013	March 30 2014	June 29 2014	September 28 2014
Mandatory	6,400	—	—	—
Voluntary	1,600	—	—	—
Asset sales	—	—	—	—
Excess cash flow	—	—	—	—
	8,000	—	—	—

2013 payments made under the New Pulitzer Notes or Pulitzer Notes are summarized as follows:

(Thousands of Dollars)	December 30	March 31	June 30	13 Weeks Ended
	2012	2013	2013	September 29 2013
Mandatory	3,800	2,600	—	—
Voluntary	—	1,500	14,000	17,000
Asset sales	5,200	1,900	—	—
Excess cash flow	—	—	—	—
	9,000	6,000	14,000	17,000

### Security

Obligations under the New Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries other than PD LLC and TNI. The New Pulitzer Notes are also secured by first priority security interests in the stock and other equity interests owned by Pulitzer's subsidiaries including the

50% ownership interest in TNI. Also, Pulitzer, certain of its subsidiaries and PD LLC granted a first priority security interest on substantially all of its tangible and intangible assets, excluding the assets of Star Publishing leased to, or used in the operations or business of, TNI and granted deeds of trust covering certain real estate in the St. Louis area, as collateral for the payment and performance of their obligations under the New Pulitzer Notes.

## Covenants and Other Matters

The New Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of minimum trailing 12 month EBITDA (minimum of \$24,800,000 beginning December 29, 2013), as defined in the New Pulitzer Notes agreement, and limitations on capital expenditures and the incurrence of other debt. Our actual trailing 12 month EBITDA at December 29, 2013 is \$45,237,000. The determination of this amount is not the same as the comparable amount under the 1<sup>st</sup> Lien Agreement.

Further, the New Pulitzer Notes have limitations or restrictions on distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants require that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the New Pulitzer Notes, interest due under the 2<sup>nd</sup> Lien Agreement, or accumulation of cash collateral and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

## Intercreditor Agreements

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

## Other

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

Debt under the Plan was considered compromised. As a result, the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement and Pulitzer Notes were recorded at their respective present values, which resulted in a discount to the stated principal amount totaling \$23,709,000. We used the effective rates of the respective debt agreements to discount the debt to its present value. In determining the effective rates, we considered all cash outflows of the respective debt agreements including: mandatory principal payments, interest payments, fees paid to lenders in connection with the refinancing as well as, in the case of the 2<sup>nd</sup> Lien Agreement, Common Stock issued. The present value is being amortized as a non-cash component of interest expense over the terms of the related debt.

The refinancing of the Pulitzer Notes with the New Pulitzer Notes resulted in the acceleration of \$1,565,000 of the present value adjustment discussed above, which was partially offset by eliminating deferred interest expense of \$1,189,000, and the net amount of which was recognized in the 13 weeks ended June 30, 2013. Expenses related to the issuance of the New Pulitzer Notes are capitalized as debt issuance costs and will be amortized until April 2017.

Amortization of the present value adjustment and other costs totaled \$6,681,000 in 2013. Amortization of such costs is estimated to total \$4,779,000 in 2014, \$4,742,000 in 2015, \$2,297,000 in 2016 and \$1,125,000 in 2017 before accounting for the New 2<sup>nd</sup> Lien Agreement.

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

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

Debt is summarized as follows:

(Thousands of Dollars)	December 29 2013	September 29 2013	Interest Rates (%) December 29 2013
Revolving credit facility	—	—	6.75
1 <sup>st</sup> Lien Agreement	603,000	609,500	7.50
2 <sup>nd</sup> Lien Agreement	175,000	175,000	15.00
New Pulitzer Notes	55,000	63,000	9.00
Pulitzer Notes	—	—	
Unamortized present value adjustment	(11,745)	(12,942)	)
	821,255	834,558	
Less current maturities of long-term debt	13,925	19,150	
Current amount of present value adjustment	(4,779)	(4,779)	)
Total long-term debt	812,109	820,187	

At December 29, 2013, our weighted average cost of debt was 9.2%.

Aggregate maturities of debt total \$9,750,000 for the remainder of 2014 and are estimated to total \$19,900,000 in 2015, \$586,150,000 in 2016 and \$217,200,000 in 2017.

#### Liquidity

At December 29, 2013, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at December 29, 2013 totals \$42,598,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity.

At December 29, 2013, the principal amount of our outstanding debt totals \$833,000,000.

We expect to refinance amounts outstanding under our debt agreements on or before their respective maturity dates with other loans, debt securities or equity securities, in privately negotiated transactions (including exchanges), or public offerings. The timing of such refinancing will depend on many factors, including market conditions, our liquidity requirements, our debt maturity profile, and contractual restrictions. We continuously monitor the credit and equity markets for refinancing opportunities, and have ongoing relationships with experts in debt and equity financing to assist us. As noted above, we recently reached an agreement to refinance the 2<sup>nd</sup> Lien Agreement with new \$200,000,000 facility maturing in December 2022.

There are numerous potential consequences under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the New Pulitzer Notes, if an event of default, as defined, occurs and is not remedied. Many of those consequences

15

---

are beyond our control. The occurrence of one or more events of default would give rise to the right of the 1<sup>st</sup> Lien Lenders, 2<sup>nd</sup> Lien Lenders and/or Berkshire, to exercise their remedies under the 1<sup>st</sup> Lien Agreement, 2<sup>nd</sup> Lien Agreement, and the New Pulitzer Notes, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 29, 2013.

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

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

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

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

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

PENSION PLANS (Thousands of Dollars)	13 Weeks Ended	
	December 29 2013	December 30 2012
Service cost for benefits earned during the period	39	54
Interest cost on projected benefit obligation	1,999	1,882
Expected return on plan assets	(2,483)	(2,459)
Amortization of net loss	106	572
Amortization of prior service benefit	(34)	(34)
	(373)	15
POSTRETIREMENT MEDICAL PLANS (Thousands of Dollars)	13 Weeks Ended	
	December 29 2013	December 30 2012
Service cost for benefits earned during the period	149	182
Interest cost on projected benefit obligation	228	281
Expected return on plan assets	(371)	(368)
Amortization of net gain	(455)	(331)
Amortization of prior service benefit	(365)	(365)
	(814)	(601)



Amortization of net gains (losses) and prior service benefits are recorded as Compensation in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Based on our forecast at December 29, 2013, we expect to contribute \$1,400,000 to our pension plans for the remainder of 2014. Based on our forecast at December 29, 2013, we do not expect to contribute to our postretirement plans for the remainder of 2014.

## 7 INCOME TAXES

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

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

(Percent of Income Before Income Taxes)	13 Weeks Ended	
	December 29 2013	December 30 2012
Computed "expected" income tax expense	35.0	35.0
State income taxes, net of federal tax effect	3.4	3.4
Dividends received deductions and credits	(2.6	)(5.2
Valuation allowance	(0.9	)(4.8
Resolution of tax matters	1.9	1.2
Deferred income tax rate adjustments	—	—
Other	1.1	1.7
	37.9	40.9

In connection with the refinancing of debt under the Chapter 11 Proceedings, we realized substantial cancellation of debt income ("CODI") for income tax purposes. However, this income was not immediately taxable for U.S. income tax purposes because the CODI resulted from our reorganization under the U.S. Bankruptcy Code. For U.S. income tax reporting purposes, we are required to reduce certain tax attributes, including any net operating loss carryforwards, capital losses, tax credit carryforwards, and the tax basis in other assets in a total amount equal to the tax gain on the extinguishment of debt. As a result, in February 2012 we began recognizing additional interest expense deductions for income tax purposes. The reduction in the basis of certain assets also resulted in reduced depreciation and amortization expense for income tax purposes, beginning in 2013.



## 8 EARNINGS PER COMMON SHARE

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

(Thousands of Dollars and Shares, Except Per Share Data)	13 Weeks Ended	
	December 29 2013	December 30 2012
Income attributable to Lee Enterprises, Incorporated:		
Continuing operations	11,892	13,534
Discontinued operations	—	1,046
	11,892	14,580
Weighted average common shares	52,886	52,294
Less weighted average restricted Common Stock	805	500
Basic average common shares	52,081	51,794
Dilutive stock options and restricted Common Stock	1,178	60
Diluted average common shares	53,259	51,854
Earnings per common share:		
Basic:		
Continuing operations	0.23	0.26
Discontinued operations	—	0.02
	0.23	0.28
Diluted:		
Continuing operations	0.22	0.26
Discontinued operations	—	0.02
	0.22	0.28

For the 13 weeks ended December 29, 2013 and December 30, 2012, we had 101,000 and 3,036,000 weighted average shares, respectively, not considered in the computation of diluted earnings per common share because the stock option exercise price was in excess of the fair market value of our Common Stock.

## 9 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 13 weeks ended December 29, 2013 follows:

(Thousands of Dollars and Shares, Except Per Share Data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 29, 2013	2,769	2.94		
Granted	15	2.99		
Exercised	(114)	2.09		
Cancelled	(42)	14.85		
Outstanding, December 29, 2013	2,628	2.79	7.2	4,347
Exercisable, December 29, 2013	1,647	3.73	6.5	2,117

Total unrecognized compensation expense for unvested stock options as of December 29, 2013 is \$684,000, which will be recognized over a weighted average period of 1.4 years.



## Restricted Common Stock

The table summarizes restricted Common Stock activity during the 13 weeks ended December 29, 2013.

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 29, 2013	500	1.31
Granted	801	3.61
Outstanding, December 29, 2013	1,301	2.73

Total unrecognized compensation expense for unvested restricted Common Stock at December 29, 2013 is \$3,140,000, which will be recognized over a weighted average period of 2.4 years.

## 10 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 820 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable which consists of the following levels:

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

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

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling \$8,774,000, including our 17% ownership of the nonvoting common stock of TCT, are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. Our fixed rate debt at December 29, 2013 consists of the \$175,000,000 principal amount under the 2<sup>nd</sup> Lien Agreement and \$55,000,000 principal amount of New Pulitzer Notes, as discussed more fully in Note 5, which are not traded on an active market and are held by a small group of investors and Berkshire, respectively. At December 29, 2013, we estimate the fair value of debt under the 2<sup>nd</sup> Lien Agreement to be approximately \$176,750,000, the amount at which it will be redeemed when refinanced in 2014. We are unable, as of December 29, 2013, to determine the fair value of the New Pulitzer Notes. The value, if determined, may be more or less than the carrying amount.

## 11 COMMITMENTS AND CONTINGENT LIABILITIES

## Redemption of PD LLC Minority Interest

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and STL Distribution Services LLC ("DS LLC") owned by The Herald Publishing Company, LLC ("Herald") pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest (the "Herald Value") was to be settled, based on a calculation of 10% of the fair market value of PD LLC and DS LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any. We recorded a liability of \$2,300,000 in 2009 as an estimate of the amount of the Herald Value to be disbursed. In 2011, we reduced the liability related to the Herald Value to \$300,000 based on the current

estimate of fair value.

In October 2013, we issued 100,000 shares of Common Stock in full satisfaction of the Herald Value. Such shares had a fair value of \$298,000 on the date of issuance.

19

---

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

#### Income Taxes

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

We have various income tax examinations ongoing which are at different stages of completion, but generally our income tax returns have been audited or closed to audit through 2009.

#### 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 2010, the trial court granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. After concluding discovery, a motion to decertify the class was filed, which was granted as to plaintiffs' minimum wage, overtime, unreimbursed meal, and unreimbursed rest period claims. The Company denies the allegations of employee status, consistent with our past practices and industry standards, and will continue to vigorously contest the remaining claims in the action, which are not covered by insurance. At this time we are unable to predict whether the ultimate economic outcome, if any, could have a material adverse effect on our Consolidated Financial Statements, taken as a whole.

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

#### 12COMMON STOCK

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

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

price standard. In January 2013, the NYSE notified us that we had returned to full compliance with all continued listing standards.

### 13 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2013, the Financial Accounting Standards Board issued an amendment to an existing accounting standard, which requires an entity to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line

20

---

items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. This guidance does not change the current requirements for reporting net income or other comprehensive income in the financial statements and is effective beginning in 2014. The adoption of this standard did not have a material impact on our Consolidated Financial Statements.

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks ended December 29, 2013. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2013 Annual Report on Form 10-K.

### NON-GAAP FINANCIAL MEASURES

No non-GAAP financial measure should be considered as a substitute for any related GAAP financial measure. However, we believe the use of non-GAAP financial measures provides meaningful supplemental information with which to evaluate its 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 and its ability to meet debt service requirements.

The non-GAAP financial measures utilized by us are defined as follows:

Adjusted EBITDA is defined as operating income (loss), plus depreciation, amortization, impairment charges, stock compensation and 50% of EBITDA from associated companies, minus equity in earnings of associated companies and curtailment gains.

Adjusted Income (Loss) and Adjusted Earnings (Loss) Per Common Share 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.

Operating Cash Flow is defined as operating income (loss) plus depreciation, amortization and impairment charges, minus equity in earnings of associated companies. Operating Cash Flow Margin is defined as operating cash flow divided by operating revenue.

Unlevered Free Cash Flow is defined as operating income (loss), plus depreciation, amortization, impairment charges, stock compensation, distributions from associated companies and cash income tax refunds, minus equity in earnings of associated companies, curtailment gains, cash income taxes, pension contributions and capital expenditures. Changes in working capital, asset sales, minority interest and discontinued operations are excluded. Free Cash Flow also includes financial income, interest expense and debt financing and reorganization costs.

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

The table below reconciles operating cash flow, operating cash flow margin, adjusted EBITDA, unlevered free cash flow and free cash flow to operating income (loss), the most directly comparable measures under GAAP.

(Thousands of Dollars)	13 Weeks Ended		52 Weeks Ended
	December 29 2013	December 30 2012	December 29 2013
Operating income (loss)	40,202	39,517	(56,634 )
Equity in earnings of associated companies	(2,919	)(3,045	)(8,559 )
Depreciation and amortization	12,034	15,041	52,630
Impairment of intangible and other assets	—	—	171,094
Operating cash flow	49,317	51,513	158,531
Ownership share of TNI EBITDA (50%)	1,894	1,954	5,737
Ownership share of MNI EBITDA (50%)	2,027	2,255	5,753
Stock compensation	264	368	1,157
Adjusted EBITDA	53,502	56,090	171,178
Ownership share of associated companies EBITDA (50%)	(3,921	)(4,209	)(11,490 )
Distributions from associated companies	2,815	2,070	12,143
Capital expenditures	(2,295	)(2,068	)(9,967 )
Pension contributions	—	—	(6,016 )
Cash income tax refunds (paid)	(14	)(240	)(9,352 )
Unlevered free cash flow	50,087	51,643	165,200
Financial income	120	80	340
Interest expense settled in cash	(19,628	)(21,846	)(81,794 )
Debt financing and reorganization costs paid	(2	)—	(1,073 )
Free cash flow	30,577	29,877	82,673

Reconciliations of adjusted net income and adjusted earnings per common share to income attributable to Lee Enterprises, Incorporated and earnings per common share, respectively, the most directly comparable measures under GAAP, are set forth in Item 2, included herein, under the caption “Overall Results”.

### CRITICAL ACCOUNTING POLICIES

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

Our critical accounting policies include the following:

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



Additional information regarding these critical accounting policies can be found under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2013 Annual Report on Form 10-K and the Notes to Consolidated Financial Statements, included herein.

## IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2013, the FASB issued an amendment to an existing accounting standard, which requires an entity to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. This guidance does not change the current requirements for reporting net income or other comprehensive income in the financial statements and is effective beginning in 2014. The adoption of this standard did not have a material impact on our Consolidated Financial Statements.

## EXECUTIVE OVERVIEW

We are a leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. With the exception of St. Louis, Missouri, our 50 daily newspaper markets, across 22 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:

- 50 daily and 38 Sunday newspapers with subscribers totaling 1.2 million and 1.6 million, respectively, for the 13 weeks ended December 29, 2013, read by nearly four million people in print;
- Websites, mobile and tablet products in all of our markets that complement our newspapers and attracted 25.6 million unique visitors in December 2013, with 209.7 million page views; and
- Nearly 300 weekly newspapers and classified and niche publications.

Our markets have established retail bases, and most are regional shopping hubs. We are located in four state capitals. Six of our top ten markets by revenue include major universities, and seven are home to major corporate headquarters. Based on data from the Bureau of Labor of Statistics as of December 2013, the unemployment rate in seven of our top ten markets by revenue was lower than the national average. Among all Lee markets, seven ranked among the top 25 markets nationwide with the lowest unemployment rates. 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 audience in those markets from other media. In our top ten markets by revenue, only two have significant local daily print competition.

## ECONOMIC CONDITIONS

According to the National Bureau of Economic Research, the United States economy was in a recession from December 2007 until June 2009. It is widely believed that certain elements of the economy, such as housing, auto sales and employment, were in decline before December 2007, and some elements have still not recovered to pre-recession levels in either nominal or real (inflation adjusted) terms. 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.

## IMPAIRMENT OF GOODWILL AND OTHER ASSETS

Due primarily to our stockholders' deficit in 2013 and to the difference between our stock price and the per share carrying value of our net assets in 2011, we analyzed the carrying value of our net assets in 2013 and 2011. Continued deterioration in our revenue and the weak economic environment were also factors in the timing of the analyses.

In 2013, we concluded the fair value of our business was in excess of the carrying value of our net assets. As a result no goodwill impairment was recorded. However, we determined that the cash flows from nonamortized and amortizable intangible assets were not sufficient to recover their carrying values. As a result, we recorded non-cash charges to reduce the carrying values of such assets.

## Table of Contents

In 2011, 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 values of goodwill, nonamortized and amortizable intangible assets. 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 2013, 2012 and 2011. We recorded deferred income tax benefits related to these charges.

## DEBT AND LIQUIDITY

We have a substantial amount of debt, as discussed more fully (and certain capitalized terms used below defined) in Note 1 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 extended 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. In May 2013, we again refinanced the remaining balance of the Pulitzer Notes. 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 29, 2013, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at December 29, 2013 totals \$42,598,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity.

At December 29, 2013, the principal amount of our outstanding debt totals \$833,000,000. For the last twelve months ending December 29, 2013, the principal amount of our debt, net of cash, is 4.8 times our Adjusted EBITDA, compared to a ratio of 5.5 at December 30, 2012.

As discussed more fully in Note 5 to the Consolidated Financial Statements, included herein, we recently reached an agreement to refinance the 2<sup>nd</sup> Lien Agreement with a new \$200,000,000 facility maturing in December 2022.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 29, 2013.

## EQUITY CAPITAL

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

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

13 WEEKS ENDED DECEMBER 29, 2013

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

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended		Percent Change
	December 29 2013	December 30 2012	
Advertising and marketing services revenue:			
Retail	80,103	83,207	(3.7 )
Classified:			
Employment	7,209	7,683	(6.2 )
Automotive	8,129	9,318	(12.8 )
Real estate	4,419	4,652	(5.0 )
All other	10,453	11,633	(10.1 )
Total classified	30,210	33,286	(9.2 )
National	7,517	7,794	(3.6 )
Niche publications and other	4,561	4,612	(1.1 )
Total advertising and marketing services revenue	122,391	128,899	(5.0 )
Subscription	45,550	46,056	(1.1 )
Commercial printing	3,032	3,302	(8.2 )
Digital services and other	6,412	6,399	0.2 )
Total operating revenue	177,385	184,656	(3.9 )
Operating expenses:			
Compensation	62,142	65,955	(5.8 )
Newsprint and ink	10,562	12,174	(13.2 )
Other operating expenses	55,157	54,211	1.7 )
Workforce adjustments	207	803	(74.2 )
	128,068	133,143	(3.8 )
Operating cash flow	49,317	51,513	(4.3 )
Depreciation and amortization	12,034	15,041	(20.0 )
Equity in earnings of associated companies	2,919	3,045	(4.1 )
Operating income	40,202	39,517	1.7 )
Non-operating expense, net	(20,717)	(16,426)	)26.1
Income from continuing operations before income taxes	19,485	23,091	(15.6 )
Income tax expense	7,383	9,439	(21.8 )
Income from continuing operations	12,102	13,652	(11.4 )
Discontinued operations, net of income taxes	—	1,046	NM
Net income	12,102	14,698	(17.7 )
Net income attributable to non-controlling interests	(210)	(118)	)78.0
Income attributable to Lee Enterprises, Incorporated	11,892	14,580	(18.4 )
Other comprehensive loss, net of income taxes	(441)	(93)	)NM
Comprehensive income attributable to Lee Enterprises, Incorporated	11,451	14,487	(21.0 )
Income from continuing operations attributable to Lee Enterprises, Incorporated	11,892	13,534	(12.1 )
Income per common share:			
Basic	0.23	0.28	(17.9 )
Diluted	0.22	0.28	(21.4 )

References to the "2014 Quarter" refer to the 13 weeks ended December 29, 2013. Similarly, references to the "2013 Quarter" refer to the 13 weeks ended December 30, 2012.

Total operating revenue decreased \$7,271,000, or 3.9%, in the 2014 Quarter, compared to the 2013 Quarter.

25

---

## Advertising and Marketing Services Revenue

In the 2014 Quarter, advertising and marketing services revenue decreased \$6,508,000, or 5.0%, compared to the 2013 Quarter. Retail advertising decreased 3.7%. Retail preprint insertion revenue increased 0.2%. Digital retail advertising on a stand-alone basis increased 4.7%, partially offsetting print declines.

Classified revenue decreased 9.2% in the 2014 Quarter. Employment revenue decreased 6.2% while automotive advertising decreased 12.8%, real estate decreased 5.0% and other classified decreased 10.1%. Digital classified revenue on a stand-alone basis increased 2.4%, partially offsetting print declines.

National advertising decreased \$277,000, or 3.6%. Digital national advertising on a stand-alone basis increased 175.5%. Advertising in niche publications and other decreased 1.1%.

On a stand-alone basis, digital advertising and marketing services revenue increased 9.8% in the 2014 Quarter, representing 15.2% of total advertising and marketing services revenue. Total digital revenue for the 2014 Quarter, including advertising, subscription and all other digital business, totaled \$21.6 million, an increase of 12.7% from a year ago. Print advertising and marketing services revenue on a stand-alone basis decreased 7.3%.

## Subscription and Other Revenue

Subscription revenue decreased \$506,000, or 1.1%, in the 2014 Quarter due to decreases in print subscribers, which were partially offset by price increases and increases in digital subscribers.

Our unaudited, average daily circulation, including TNI, MNI and digital subscribers, decreased 4.3% and Sunday circulation increased 10.6% in the 2014 Quarter compared to the 2013 Quarter due to increases in branded editions.

Our mobile, tablet, desktop and app sites, including TNI and MNI, attracted 25.6 million unique visitors in the month of December 2013, an increase of 19.9% from a year ago, with 209.7 million page views. Research in our larger markets indicates we are maintaining our share of audience through the combination of digital audience growth and strong newspaper readership.

Commercial printing revenue decreased \$270,000, or 8.2%, in the 2014 Quarter. Digital services and other revenue increased \$13,000, or 0.2%, in the 2014 Quarter.

## Operating Expenses

Operating expenses other than depreciation, amortization and unusual matters decreased \$4,479,000, or 3.4%, in the 2014 Quarter.

Compensation expense decreased \$3,813,000, or 5.8%, in the 2014 Quarter, driven by a decline in average full-time equivalent employees of 5.9%.

Newsprint and ink costs decreased \$1,612,000, or 13.2%, in the 2014 Quarter, primarily as a result of a reduction in newsprint volume of 10.1%. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, increased \$946,000, or 1.7%, in the 2014 Quarter due primarily to new products and the impact of outsourcing, which generally reduces compensation costs but increases other operating expenses.



Reductions in staffing resulted in workforce adjustment costs totaling \$207,000 and \$803,000 in the 2014 Quarter and 2013 Quarter, respectively.

For the full year, 2014 cash costs are expected to decrease 0.5-1.5%, excluding the impact of circulation-related expense reclassification as a result of moving to fee-for-service delivery contracts at several newspapers. The reclassification will increase both revenue and operating expenses beginning in the June 2014 quarter, with no impact on operating cash flow or operating income.

### Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 4.3%, to \$49,317,000, in the 2014 Quarter compared to \$51,513,000 in the 2013 Quarter. Operating cash flow margin decreased to 27.8% from 27.9% a year ago, reflecting a smaller percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased \$346,000, or 6.3%, in the 2014 Quarter. Amortization expense decreased \$2,661,000, or 27.9%, in the 2014 Quarter due to the impairments recorded in 2013.

Equity in earnings in associated companies decreased \$126,000 in the 2014 Quarter.

The factors noted above resulted in operating income of \$40,202,000 in the 2014 Quarter compared to \$39,517,000 in the 2013 Quarter. Operating income margin increased to 22.7% from 21.4% a year ago.

### Nonoperating Income and Expense

Interest expense decreased \$2,639,000, or 11.2%, to \$20,827,000 in the 2014 Quarter due to lower debt balances and refinancing of the Pulitzer Notes. Our weighted average cost of debt was 9.2% at the end of the 2014 Quarter. Interest expense in the 2014 Quarter includes \$1,198,000 of non-cash amortization of a present value adjustment of debt compared to \$1,358,000 in the 2013 Quarter.

Absent a significant increase in LIBOR, we expect interest expense to continue to decline due to lower debt balances, which decreased \$14,500,000 in the 2014 Quarter and \$83,900,000 in the last twelve months, and the lower interest rate on the New Pulitzer Notes.

In December 2012, we recognized a gain of \$7,093,000 from a distribution related to the partial sale of assets in a private equity investment. This gain is classified as other, net in the Consolidated Statements of Operations and Comprehensive Income.

### Overall Results

We recognized income tax expense of 37.9% of income from continuing operations before income taxes in the 2014 Quarter and 40.9% in the 2013 Quarter. See Note 7 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated (which includes discontinued operations) totaled \$11,892,000 in the 2014 Quarter compared to \$14,580,000 in the 2013 Quarter. We recorded earnings per diluted common share of \$0.22 in the 2014 Quarter and \$0.28 in the 2013 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.24 in the 2014 Quarter, compared to \$0.20 in the 2013 Quarter. Per share amounts may not add due to rounding.

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended			
	December 29 2013		December 30 2012	
	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	11,892	0.22	14,580	0.28
Adjustments:				
Gain on sale of investment, net	—		(6,909	)
Debt financing and reorganization costs	104		47	
Amortization of debt present value adjustment	1,198		1,358	
Other, net	163		1,066	
	1,465		(4,438	)
Income tax effect of adjustments, net	(512	)	1,553	
	953	0.02	(2,885	) (0.06
Unusual matters related to discontinued operations	—	—	(1,167	) (0.02
Income attributable to Lee Enterprises, Incorporated, as adjusted	12,845	0.24	10,528	0.20

## DISCONTINUED OPERATIONS

In March 2013, we sold The Garden Island newspaper and digital operations in Lihue, HI for \$2,000,000 in cash, plus an adjustment for working capital. The transaction resulted in a loss of \$2,170,000, after income taxes, and was recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the 13 weeks ended March 31, 2013. Operating results of The Garden Island have been classified as discontinued operations for all periods presented.

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

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Cash provided by operating activities of continuing operations was \$11,993,000 in the 2014 Quarter and \$18,581,000 in the 2013 Quarter. We recorded net income of \$12,102,000 in the 2014 Quarter and \$14,698,000 in the 2013 Quarter. Changes in depreciation and amortization, deferred income taxes, and operating assets and liabilities accounted for the bulk of the change in cash provided by operating activities of continuing operations in the 2014 Quarter.

### Investing Activities

Cash required for investing activities of continuing operations totaled \$2,637,000 in the 2014 Quarter compared to cash provided by investing activities of \$4,079,000 in the 2013 Quarter. Capital spending totaled \$2,295,000 in the 2014 Quarter and \$2,068,000 in the 2013 Quarter. We received \$132,000 from sales of assets in the 2014 Quarter compared to \$7,215,000 in the 2013 Quarter.

We anticipate that funds necessary for capital expenditures, which are expected to total up to \$12,000,000 in 2014, and other requirements, will be available from internally generated funds or availability under our revolving credit facility.

#### Financing Activities

Cash required for financing activities of continuing operations totaled \$14,263,000 in the 2014 Quarter and \$28,994,000 in the 2013 Quarter. Debt reduction accounted for the majority of the usage of funds in both the 2014 Quarter and 2013 Quarter.

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

As discussed more fully in Note 1 and Note 5 of the Notes to Consolidated Financial Statements, included herein, in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders. In May 2013, we again refinanced the remaining balance of the Pulitzer Notes.

Debt is summarized as follows:

(Thousands of Dollars)	Interest Rates (%)		
	December 29 2013	September 29 2013	December 29 2013
Revolving credit facility	—	—	6.75
1 <sup>st</sup> Lien Agreement	603,000	609,500	7.50
2 <sup>nd</sup> Lien Agreement	175,000	175,000	15.00
New Pulitzer Notes	55,000	63,000	9.00
Unamortized present value adjustment	(11,745	)(12,942	)
	821,255	834,558	
Less current maturities of debt	13,925	19,150	
Current amount of present value adjustment	(4,779	)(4,779	)
Total long-term debt	812,109	820,187	

At December 29, 2013, our weighted average cost of debt was 9.2%.

Aggregate maturities of debt total \$9,750,000 for the remainder of 2014 and are estimated to total \$19,900,000 in 2015, \$586,150,000 in 2016 and \$217,200,000 in 2017.

#### Liquidity

At December 29, 2013, after consideration of letters of credit, we have approximately \$29,942,000 available for future use under our revolving credit facility. Including cash, our liquidity at December 29, 2013 totals \$42,598,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity.

At December 29, 2013, the principal amount of our outstanding debt totals \$833,000,000. For the last twelve months ending December 29, 2013, the principal amount of our debt, net of cash, is 4.8 times our Adjusted EBITDA, compared to a ratio of 5.5 at December 30, 2012.

We expect to refinance amounts outstanding under our debt agreements on or before their respective maturity dates with other loans, debt securities or equity securities, in privately negotiated transactions (including exchanges), or public offerings. The timing of such refinancing will depend on many factors, including market conditions, our liquidity requirements, our debt maturity profile, and contractual restrictions. We continuously monitor the credit and equity markets for refinancing opportunities, and have ongoing relationships with experts in debt and equity financing to assist us. As discussed more fully in Note 5 to the Consolidated Financial Statements, included herein, we recently reached an agreement to refinance the 2<sup>nd</sup> Lien Agreement with new \$200,000,000 facility maturing in December 2022.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. We are in compliance with our debt covenants at December 29, 2013.

In 2014, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has not been declared effective. The Shelf will give us the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of \$750,000,000. In July 2011, the SEC announced changes to the issuer eligibility rules which will require us to have a public float of at least \$75,000,000 in order to use the Shelf. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Under our existing debt agreements, net proceeds from the sale of any securities must be used generally to reduce debt.

## CHANGES IN LAWS AND REGULATIONS

### Energy Costs

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

### Health Care

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

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

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

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

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

#### Pension Plans

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

30

---



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

Pension liabilities, net of plan assets, totaled \$30.6 million as of September 29, 2013, a \$38.1 million improvement from September 30, 2012, due to strong asset returns and an increase in discount rates used to measure the liabilities. Contributions to pension plans are expected to total \$1.4 million in 2014, a 77% reduction from 2013.

#### Income Taxes

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

#### INFLATION

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

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

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

#### INTEREST RATES ON DEBT

Our debt structure and interest rate risk are managed through the use of fixed and floating rate debt. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately \$6,030,000, based on \$603,000,000 of floating rate debt outstanding at December 29, 2013.

Our debt under the 1<sup>st</sup> Lien Agreement is subject to minimum interest rate levels of 1.25%. Based on the difference between interest rates in December 2013 and our 1.25% minimum rate, LIBOR would need to increase approximately 90 basis points for six month borrowing up to approximately 109 basis points for one month borrowing before our borrowing cost would begin to be impacted by an increase in interest rates.

At December 29, 2013, approximately 72.4% of the principal amount of our debt is subject to floating interest rates. We regularly evaluate alternatives to hedge the related interest rate risk.

#### COMMODITIES

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

Production capacity reductions by North American newsprint producers have not kept pace with declines in demand from domestic publishing and commercial print consumers. Export markets have partially offset this demand reduction but have not been able to totally replace the North American decline.

Eastern U.S. newsprint prices declined in 2013 while Western U.S. pricing first declined and then recovered to Eastern U.S. prices. A slightly weakened Canadian dollar, as compared to the U.S. dollar, has helped mitigate cost increase pressures on Canadian producers.

Future price changes, if any, will be influenced primarily by the balance between supply capacity and demand, domestic and export, in addition to the producers' ability to mitigate input cost pressures and the U.S. to Canadian exchange rate. The final extent of future price change announcements, if any, is subject to negotiations with each newsprint producer.

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$667,000 based on anticipated consumption in 2014, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which may help to mitigate the impact of future price increases.

#### SENSITIVITY TO CHANGES IN VALUE

Our fixed rate debt consists of the 2<sup>nd</sup> Lien Agreement and the New Pulitzer Notes, neither of which are traded on an active market and are held by a small group of investors and Berkshire. We are unable, as of December 29, 2013, to measure the maximum potential impact on fair value of fixed rate debt from adverse changes in market interest rates under normal market conditions. The change in value, if determined, could be significant.

#### Item 4. Controls and Procedures

##### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

##### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended December 29, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II OTHER INFORMATION

#### Item 1. Legal Proceedings

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

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

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

Item 6. Exhibits Number	Description
31.1	Rule 13a-14(a)/15d-14(a) certification
31.2	Rule 13a-14(a)/15d-14(a) certification
32	Section 1350 certification

32

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEE ENTERPRISES, INCORPORATED

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

February 7, 2014