

LEE ENTERPRISES, INC  
Form 10-Q  
August 05, 2016

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

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

For The Quarterly Period Ended June 26, 2016

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

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

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

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

Yes  No

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

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

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

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

Yes  No

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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  No

As of July 31, 2016, 55,771,489 shares of Common Stock of the Registrant were outstanding.

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Table Of Contents	PAGE
FORWARD LOOKING STATEMENTS	<u>1</u>
PART I FINANCIAL INFORMATION	<u>2</u>
Item 1. Financial Statements (Unaudited)	<u>2</u>
Consolidated Balance Sheets - June 26, 2016 and September 27, 2015	<u>2</u>
Consolidated Statements of Operations and Comprehensive Operations - 13 weeks and 39 weeks ended June 26, 2016 and June 28, 2015	<u>4</u>
Consolidated Statements of Cash Flows - 39 weeks ended June 26, 2016 and June 28, 2015	<u>5</u>
Notes to Consolidated Financial Statements	<u>6</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>18</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>31</u>
Item 4. Controls and Procedures	<u>32</u>
PART II OTHER INFORMATION	<u>32</u>
Item 1. Legal Proceedings	<u>32</u>
Item 6. Exhibits	<u>32</u>
SIGNATURES	<u>32</u>

Table of Contents

References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the “Company”). References to “2016”, “2015” and the like refer to the fiscal years ended the last Sunday in September.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This report contains information that may be deemed forward-looking that is based largely on our current expectations, and is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those anticipated. Among such risks, trends and other uncertainties, which in some instances are beyond our control, are:

- Our ability to generate cash flows and maintain liquidity sufficient to service our debt;
- Our ability to comply with the financial covenants in our credit facilities;
- Our ability to refinance our debt as it comes due;
- That the warrants issued in our refinancing will not be exercised;
- The impact and duration of adverse conditions in certain aspects of the economy affecting our business;
- Changes in advertising and subscription demand;
- Potential changes in newsprint, other commodities and energy costs;
- Interest rates;
- Labor costs;
- Legislative and regulatory rulings;
- Our ability to achieve planned expense reductions;
- Our ability to maintain employee and customer relationships;
- Our ability to manage increased capital costs;
- Our ability to maintain 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”, “believes”, “expects”, “anticipates”, “intends”, “plans”, “projects”, “considers” and similar expressions) generally should be considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. We do not undertake to publicly update or revise our forward-looking statements, except as required by law.

Table of ContentsPART I  
FINANCIAL INFORMATION

## Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Thousands of Dollars)	June 26 2016	September 27 2015
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## ASSETS

## Current assets:

Cash and cash equivalents	21,872	11,134
Accounts receivable, net	53,476	58,899
Income taxes receivable	—	413
Inventories	4,038	3,914
Other	6,947	8,304
Total current assets	86,333	82,664

## Investments:

Associated companies	30,722	35,069
Other	9,932	9,083
Total investments	40,654	44,152

## Property and equipment:

Land and improvements	22,024	22,257
Buildings and improvements	177,603	179,731
Equipment	282,363	290,127
Construction in process	1,589	997
	483,579	493,112

Less accumulated depreciation	349,201	349,343
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Property and equipment, net	134,378	143,769
Goodwill	243,729	243,729
Other intangible assets, net	166,185	185,962
Postretirement assets, net	14,456	13,421
Other	29,487	34,128

Total assets	715,222	747,825
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The accompanying Notes are an integral part of the Consolidated Financial Statements.



Table of Contents

(Thousands of Dollars and Shares, Except Per Share Data)	June 26 2016	September 27 2015
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	30,992	25,000
Accounts payable	15,449	20,113
Compensation and other accrued liabilities	22,596	27,055
Accrued interest	12,636	4,184
Income taxes payable	324	—
Unearned revenue	29,176	28,929
Total current liabilities	111,173	105,281
Long-term debt, net of current maturities	609,290	700,872
Pension obligations	48,316	52,522
Postretirement and postemployment benefit obligations	10,766	11,060
Deferred income taxes	42,740	22,137
Income taxes payable	5,723	4,856
Other	9,357	9,680
Total liabilities	837,365	906,408
Equity (deficit):		
Stockholders' equity (deficit):		
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: June 26, 2016: 55,778 shares; September 27, 2015: 54,679 shares	558	547
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	249,181	247,302
Accumulated deficit	(356,409)	(390,966)
Accumulated other comprehensive loss	(16,405)	(16,276)
Total stockholders' deficit	(123,075)	(159,393)
Non-controlling interests	932	810
Total deficit	(122,143)	(158,583)
Total liabilities and deficit	715,222	747,825

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

Table of Contents

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		39 Weeks Ended	
	June 26 2016	June 28 2015	June 26 2016	June 28 2015
Operating revenue:				
Advertising and marketing services	92,294	100,934	286,662	314,780
Subscription	47,160	47,394	144,249	145,904
Other	11,492	10,350	35,275	31,760
Total operating revenue	150,946	158,678	466,186	492,444
Operating expenses:				
Compensation	57,218	58,442	174,733	181,615
Newsprint and ink	6,604	7,421	19,343	23,928
Other operating expenses	53,356	56,538	166,332	173,641
Depreciation	4,323	4,559	12,975	13,860
Amortization of intangible assets	6,545	6,836	19,777	20,597
Loss (gain) on sales of assets, net	(354)	)686	(1,763)	)434
Workforce adjustments	424	1,056	1,616	1,908
Total operating expenses	128,116	135,538	393,013	415,983
Equity in earnings of associated companies	1,825	1,705	6,633	6,114
Operating income	24,655	24,845	79,806	82,575
Non-operating income (expense):				
Financial income	141	79	326	258
Interest expense	(15,783)	(18,121)	(49,206)	(55,314)
Debt financing and administrative costs	(1,196)	(1,445)	(4,563)	(4,040)
Gain on insurance settlement	—	—	30,646	—
Other, net	(413)	(1,082)	)920	58
Total non-operating expense, net	(17,251)	(20,569)	(21,877)	(59,038)
Income before income taxes	7,404	4,276	57,929	23,537
Income tax expense	3,037	2,141	22,571	9,353
Net income	4,367	2,135	35,358	14,184
Net income attributable to non-controlling interests	(275)	(253)	(801)	(749)
Income attributable to Lee Enterprises, Incorporated	4,092	1,882	34,557	13,435
Other comprehensive loss, net of income taxes	(43)	(192)	(129)	(576)
Comprehensive income attributable to Lee Enterprises, Incorporated	4,049	1,690	34,428	12,859
Earnings per common share:				
Basic:	0.08	0.04	0.65	0.26
Diluted:	0.08	0.03	0.64	0.25

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



Table of Contents

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

	39 Weeks Ended	
(Thousands of Dollars)	June 26 2016	June 28 2015
Cash provided by operating activities:		
Net income	35,358	14,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,752	34,457
Net (gain) loss on sales of assets and insurance settlement	(32,409)	434
Stock compensation expense	1,714	1,645
Distributions greater than earnings of MNI	3,072	1,699
Deferred income tax expense	20,693	8,251
Debt financing and administrative costs	4,563	4,040
Gain on extinguishment of debt	(1,250)	—
Pension contributions	(2,314)	(1,565)
Changes in operating assets and liabilities:		
Decrease in receivables	5,614	4,631
Decrease (increase) in inventories and other	(440)	)596
Decrease in accounts payable, compensation and other accrued liabilities and unearned revenue	(1,592)	)(163)
Decrease in pension, postretirement and postemployment benefit obligations	(3,440)	)(2,893)
Change in income taxes receivable or payable	1,604	1,164
Other, net	1,902	(331)
Net cash provided by operating activities	65,827	66,149
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(5,793)	)(7,686)
Decrease in restricted cash	—	441
Insurance settlement	30,646	—
Proceeds from sales of assets	3,983	3,341
Distributions greater than earnings of TNI	1,275	300
Other, net	(500)	)(323)
Net cash provided by (required for) investing activities	29,611	(3,927)
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	5,000	5,000
Payments on long-term debt	(89,340)	)(64,750)
Debt financing costs paid	(420)	)(477)
Common stock transactions, net	60	205
Net cash required for financing activities	(84,700)	)(60,022)
Net increase in cash and cash equivalents	10,738	2,200
Cash and cash equivalents:		
Beginning of period	11,134	16,704
End of period	21,872	18,904

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



Table of Contents

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

1 BASIS OF PRESENTATION

The accompanying unaudited, interim, Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the “Company”) as of June 26, 2016 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 2015 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 26, 2016 are not necessarily indicative of the results to be expected for the full year.

References to “we”, “our”, “us” and the like throughout the Consolidated Financial Statements refer to the Company. References to “2016”, “2015” 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. (“TownNews”).

Investments in TNI and MNI are accounted for using the equity method and are reported at cost, plus our share of undistributed earnings since acquisition less, for TNI, amortization of intangible assets.

In the 39 weeks ended June 26, 2016, we recognized a \$30,646,000 gain on an insurance settlement. The settlement represents our share of a subrogation recovery arising from the settlement of claims for damages suffered as a result of a 2009 loss at one of the Lee Legacy production facilities. The proceeds of the settlement were used to repay debt. See Note 4.

2 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

In Tucson, Arizona, TNI, acting as agent for our subsidiary, Star Publishing Company (“Star Publishing”), and Citizen Publishing Company (“Citizen”), a subsidiary of Gannett Co. Inc., is responsible for printing, delivery, advertising, and 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.

Summarized results of TNI are as follows:

	13 Weeks		39 Weeks	
	Ended		Ended	
	June 26	June 28	June 26	June 28
(Thousands of Dollars)	2016	2015	2016	2015

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Operating revenue	12,231	13,063	41,053	43,035
Operating expenses	10,073	10,936	32,515	34,783
Operating income	2,158	2,127	8,538	8,252
Company's 50% share of operating income	1,080	1,064	4,269	4,127
Less amortization of intangible assets	105	105	314	314
Equity in earnings of TNI	975	959	3,955	3,813

6

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Table of Contents

TNI makes weekly distributions of its earnings and for the 13 weeks ended June 26, 2016 and June 28, 2015 we received \$1,501,000 and \$1,041,000 in distributions, respectively. In the 39 weeks ended June 26, 2016 and June 28, 2015 we received \$5,230,000 and \$4,113,000 in distributions, respectively.

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 Income and Comprehensive Income. These amounts totaled \$162,000 and \$45,000 in the 13 weeks ended June 26, 2016 and June 28, 2015, respectively and \$(1,000) and \$(153,000) in the 39 weeks ended June 26, 2016 and June 28, 2015, respectively.

Annual amortization of intangible assets is estimated to be \$418,000 for the periods ending June 2017, 2018, and 2019. Annual amortization of intangible assets is estimated to be \$314,000 for June 2020.

#### Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 26 2016	June 28 2015	June 26 2016	June 28 2015
Operating revenue	16,263	16,685	49,602	51,580
Operating expenses, excluding workforce adjustments, depreciation and amortization	13,160	13,623	39,819	42,650
Workforce adjustments	13	261	32	318
Depreciation and amortization	410	463	1,303	1,390
Operating income	2,680	2,338	8,448	7,222
Net income	1,699	1,491	5,347	4,603
Equity in earnings of MNI	850	746	2,678	2,301

MNI makes quarterly distributions of its earnings and in the 13 weeks ended June 26, 2016 and June 28, 2015 we received dividends of \$1,750,000 and \$1,000,000, respectively. In the 39 weeks ended June 26, 2016 and June 28, 2015 we received dividends of \$5,750,000 and \$4,000,000, respectively.

Table of Contents

## 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

	39 Weeks Ended	
(Thousands of Dollars)	June 26	2016
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)	June 26	September 27
	2016	2015
Nonamortized intangible assets:		
Mastheads	25,102	25,102
Amortizable intangible assets:		
Customer and newspaper subscriber lists	687,182	687,182
Less accumulated amortization	546,099	526,322
	141,083	160,860
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,524	28,524
	—	—
Other intangible assets, net	166,185	185,962

Annual amortization of intangible assets for the years ending June 2017 to June 2021 is estimated to be \$25,166,000, \$18,685,000, \$16,321,000, \$15,249,000 and \$14,824,000, respectively.

## 4 DEBT

On March 31, 2014, we completed a comprehensive refinancing of our debt (the "2014 Refinancing"), which included the following:

\$400,000,000 aggregate principal amount of 9.5% Senior Secured Notes (the "Notes"), pursuant to an Indenture dated as of March 31, 2014 (the "Indenture").

\$250,000,000 first lien term loan (the "1<sup>st</sup> Lien Term Loan") and \$40,000,000 revolving facility (the "Revolving Facility") under a First Lien Credit Agreement dated as of March 31, 2014 (together the "1<sup>st</sup> Lien Credit Facility").

\$150,000,000 second lien term loan under a Second Lien Loan Agreement dated as of March 31, 2014 (the "2<sup>nd</sup> Lien Term Loan").

## Notes

The Notes are senior secured obligations of the Company and mature on March 15, 2022. At June 26, 2016, the principal balance of the Notes totaled \$385,000,000.

Interest

The Notes require payment of interest semiannually on March 15 and September 15 of each year, at a fixed annual rate of 9.5%.

8

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## Table of Contents

### Redemption

We may redeem some, or all, of the principal amount of the Notes at any time on or after March 15, 2018, as follows:

Period Beginning	Percentage of Principal Amount
------------------	--------------------------------

March 15, 2018	104.75
March 15, 2019	102.38
March 15, 2020	100.00

We may redeem up to 35% of the Notes prior to March 15, 2017 at 109.5% of the principal amount using the proceeds of certain future equity offerings.

If we sell certain of our assets or experience specific kinds of changes of control, we must, subject to certain exceptions, offer to purchase the Notes at 101% of the principal amount. Any redemption of the Notes must also satisfy any accrued and unpaid interest thereon.

We may repurchase Notes in the open market at any time. In the 39 weeks ended June 26, 2016, we purchased \$15,000,000 principal amount of Notes in privately negotiated transactions. The transactions resulted in a gain on extinguishment of debt totaling \$1,250,000, which is recorded in Other, net non-operating income (expense) in our Consolidated Statements of Income and Comprehensive Income.

### Covenants and Other Matters

The Indenture and the 1<sup>st</sup> Lien Credit Facility contains restrictive covenants as discussed more fully below. However, certain of these covenants will cease to apply if the Notes are rated investment grade by either Moody's Investors Service, Inc. or Standard & Poor's Ratings Group and there is no default or event of default under the Indenture.

#### 1<sup>st</sup> Lien Credit Facility

The 1<sup>st</sup> Lien Credit Facility consists of the \$250,000,000 1<sup>st</sup> Lien Term Loan that matures in March 2019 and the \$40,000,000 Revolving Facility that matures in December 2018. The 1<sup>st</sup> Lien Credit Facility documents the primary terms of the 1<sup>st</sup> Lien Term Loan and the Revolving Facility. The Revolving Facility may be used for working capital and general corporate purposes (including letters of credit). At June 26, 2016, after consideration of letters of credit, we have approximately \$33,068,000 available for future use under the Revolving Facility.

#### Interest

Interest on the 1<sup>st</sup> Lien Term Loan, which has a principal balance of \$119,546,000 at June 26, 2016, accrues, at our option, at either (A) LIBOR plus 6.25% (with a LIBOR floor of 1.0%) or (B) 5.25% plus the higher of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0% (with a floor of 2.0%). Interest is payable quarterly.

The 1<sup>st</sup> Lien Term Loan was funded with an original issue discount of 2.0%, or \$5,000,000, which is being amortized as debt financing and administration costs over the life of the 1<sup>st</sup> Lien Term Loan.

Interest on the Revolving Facility, which has a principal balance of zero at June 26, 2016, accrues, at our option, at either (A) LIBOR plus 5.5%, or (B) 4.5% plus the higher of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0%.



Principal Payments

Quarterly principal payments of \$6,250,000 are required under the 1<sup>st</sup> Lien Term Loan, with additional payments required to be made based on 90% of excess cash flow of Lee Legacy ("Lee Legacy Excess Cash Flow"), as defined, or from proceeds of asset sales, which are not reinvested, as defined, from our subsidiaries other

9

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Table of Contents

than Pulitzer Inc. ("Pulitzer") and its subsidiaries (collectively, the "Pulitzer Subsidiaries"). For excess cash flow calculation purposes Lee Legacy constitutes the business of the Company, including MNI, but excluding Pulitzer and TNI. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1<sup>st</sup> Lien Credit Facility at any time without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

Quarterly, the Company is required to prepare a Lee Legacy Excess Cash Flow calculation, which is generally determined as the cash earnings of our subsidiaries other than the Pulitzer Subsidiaries and is adjusted for changes in working capital, capital spending, pension contributions, debt principal payments and income tax payments or refunds. Any excess cash flow as calculated is required to be paid to the 1<sup>st</sup> Lien lenders 45 days after the end of the quarter. Lee Legacy excess cash flow for the 13 weeks ended June 26, 2016 totaled \$5,992,000 and will be paid in the 13 weeks ending September 25, 2016.

2016 payments made, or required to be made for the remainder of the year, under the 1<sup>st</sup> Lien Term Loan are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		13 Weeks Ending	
	December 27 2015	March 27 2016	June 26 2016	September 25 2016
Mandatory	6,250	6,250	6,250	6,250
Voluntary	5,000	27,000	3,000	—
Excess cash flow payment	—	1,135	6,441	5,992
	11,250	34,385	15,691	12,242

In January 2016, we used \$20,000,000 of the proceeds received from an insurance settlement to reduce outstanding debt under our 1<sup>st</sup> Lien Term Loan. The majority of the remaining proceeds was used to repurchase Notes at a substantial discount.

#### Covenants and Other Matters

The 1<sup>st</sup> Lien Credit Facility requires that we comply with certain affirmative and negative covenants customary for financing of this nature, including a maximum total leverage ratio, which is only applicable to the Revolving Facility.

The 1<sup>st</sup> Lien Credit Facility restricts us from paying dividends on our Common Stock. This restriction no longer applies if Lee Legacy leverage is below 3.25x before and after such payments. Further, the 1<sup>st</sup> Lien Credit Facility restricts or limits, among other things, subject to certain exceptions, the ability of the Company and its subsidiaries to: (i) incur indebtedness, (ii) enter into mergers, acquisitions and asset sales, (iii) incur or create liens and (iv) enter into transactions with certain affiliates. The 1<sup>st</sup> Lien Credit Facility contains various representations and warranties and may be terminated upon occurrence of certain events of default. The 1<sup>st</sup> Lien Credit Facility also contains cross-default provisions tied to the terms of each of the Indenture and 2<sup>nd</sup> Lien Term Loan.

#### 2<sup>nd</sup> Lien Term Loan

The 2<sup>nd</sup> Lien Term Loan, which has a balance of \$135,736,000 at June 26, 2016, bears interest at a fixed annual rate of 12.0%, payable quarterly, and matures in December 2022.

#### Principal Payments

There are no scheduled mandatory amortization payments required under the 2<sup>nd</sup> Lien Term Loan.

Quarterly, we are required to prepare a calculation of excess cash flow of the Pulitzer Subsidiaries ("Pulitzer Excess Cash Flow"). Pulitzer Excess Cash Flow is generally determined as the cash earnings of the Pulitzer Subsidiaries adjusted for changes in working capital, capital spending, pension contributions, debt principal payments and income tax payments. Pulitzer Excess Cash Flow also includes a deduction for interest costs incurred under the 2<sup>nd</sup> Lien Term Loan. Changes to settlement of certain intercompany costs between the

Table of Contents

Company and Pulitzer have been affected, with the net result being a reduction in the excess cash flows of Pulitzer from historically reported levels.

Under the 2<sup>nd</sup> Lien Term Loan, subject to certain other conditions, Pulitzer Excess Cash Flow must be used, (a) prior to March 31, 2017, to make an offer to the 2<sup>nd</sup> Lien Lenders to prepay amounts under the 2<sup>nd</sup> Lien Term Loan at par (which offer the 2<sup>nd</sup> Lien Lenders may accept or reject; if rejected we may use the Pulitzer Excess Cash Flow to prepay amounts under the 1<sup>st</sup> Lien Credit Facility or repurchase Notes in the open market), and (b) after March 31, 2017, to pay such amounts under the 2<sup>nd</sup> Lien Term Loan at par. Pulitzer Excess Cash Flow payments are required to be paid 45 days after the end of the quarter.

For the last four quarters, Pulitzer Excess Cash Flow and the related payments on the 2<sup>nd</sup> Lien Term Loan are as follows:

For the Period Ending (Thousands of Dollars)	Pulitzer Excess Cash Flow	Payment Amount (not rejected)
September 27, 2015	5,143	3,326
December 27, 2015	2,864	1,867
March 27, 2016	2,730	525
June 26, 2016	1,583	*

\* The June 26, 2016 Pulitzer Excess Cash Flow payment amount will be determined and made in the 13 weeks ending September 25, 2016.

Subject to certain other conditions in the 2<sup>nd</sup> Lien Term Loan, the balance of the 2<sup>nd</sup> Lien Term Loan will be repaid at par from proceeds from asset sales by the Pulitzer Subsidiaries that are not reinvested. For the 39 weeks ended June 26, 2016, we repaid \$3,545,952 on the 2<sup>nd</sup> Lien Term loan, at par, with net proceeds from the sale of Pulitzer assets. In 2015, we repaid \$5,000,000 of the 2<sup>nd</sup> Lien Term Loan, at par, due to the sale of real estate at one of our Pulitzer properties.

Voluntary payments under the 2<sup>nd</sup> Lien Term Loan are subject to call premiums as follows:

Period Beginning	Percentage of Principal Amount
March 31, 2014	112
March 31, 2017	106
March 31, 2018	103
March 31, 2019	100

## Covenants and Other Matters

The 2<sup>nd</sup> Lien Term Loan requires that we comply with certain affirmative and negative covenants customary for financing of this nature, including the negative covenants under the 1<sup>st</sup> Lien Credit Facility discussed above. The 2<sup>nd</sup> Lien Term Loan contains various representations and warranties and may be terminated upon occurrence of certain events of default. The 2<sup>nd</sup> Lien Term Loan also contains cross-default provisions tied to the terms of the Indenture and 1<sup>st</sup> Lien Credit Facility.

In connection with the 2<sup>nd</sup> Lien Term Loan, we entered into a Warrant Agreement dated as of March 31, 2014 (the "Warrant Agreement"). Under the Warrant Agreement, certain affiliates or designees of the 2<sup>nd</sup> Lien Lenders received on March 31, 2014 their pro rata share of warrants to purchase, in cash, an initial aggregate of 6,000,000 shares of Common Stock, subject to adjustment pursuant to anti-dilution provisions (the "Warrants"). The Warrants represent,

when fully exercised, approximately 10.1% of shares of Common Stock outstanding at March 30, 2014 on a fully diluted basis. The exercise price of the Warrants is \$4.19 per share.

The Warrant Agreement contains a cash settlement provision in the event of a change of control prior to March 31, 2018 as well as other provisions requiring the Warrants to be measured at fair value and included in other liabilities in our Consolidated Balance Sheets. We remeasure the fair value of the liability each reporting period,

Table of Contents

with changes reported in other, net non-operating income (expense). The initial fair value of the Warrants was \$16,930,000. See Note 9.

In connection with the issuance of the Warrants, we entered into a Registration Rights Agreement dated as of March 31, 2014 (the "Registration Rights Agreement"). The Registration Rights Agreement requires, among other matters, that we use our commercially reasonable efforts to maintain the effectiveness for certain specified periods of a shelf registration statement related to the shares of Common Stock to be issued upon exercise of the Warrants.

Security

The Notes and the 1<sup>st</sup> Lien Credit Facility are fully and unconditionally guaranteed on a joint and several first-priority basis by each of the Company's material domestic subsidiaries, excluding MNI, the Pulitzer Subsidiaries and TNI (the "Lee Legacy Assignors"), pursuant to a first lien guarantee and collateral agreement dated as of March 31, 2014 (the "1<sup>st</sup> Lien Guarantee and Collateral Agreement").

The Notes, the 1<sup>st</sup> Lien Credit Facility and the subsidiary guarantees are secured, subject to certain exceptions, priorities and limitations, by perfected security interests in all property and assets, including certain real estate, of the Lee Legacy Assignors, other than the capital stock of MNI and any property and assets of MNI (the "Lee Legacy Collateral"), on a first-priority basis, equally and ratably with all of the Lee Legacy Assignors' existing and future obligations. The Lee Legacy Collateral includes, among other things, equipment, inventory, accounts receivables, depository accounts, intellectual property and certain of their other tangible and intangible assets.

Also, the Notes and the 1<sup>st</sup> Lien Credit Facility are secured, subject to certain exceptions, priorities and limitations in the various agreements, by first-priority security interests in the capital stock of, and other equity interests owned by, the Lee Legacy Assignors (excluding the capital stock of MNI). The Notes and 1<sup>st</sup> Lien Credit Facility are subject to a Pari Passu Intercreditor Agreement dated March 31, 2014.

The Notes, the 1<sup>st</sup> Lien Credit Facility and the subsidiary guarantees are also secured, subject to permitted liens, by a second-priority security interest in the property and assets of the Pulitzer Subsidiaries that become subsidiary guarantors (the "Pulitzer Assignors") other than assets of or used in the operations or business of TNI (collectively, the "Pulitzer Collateral"). In June 2015 the Pulitzer Assignors became a party to the 1<sup>st</sup> Lien Guarantee and Collateral Agreement on a second lien basis.

Also, the Notes and the 1<sup>st</sup> Lien Credit Facility are secured, subject to certain exceptions, priorities, and limitations in the various agreements, by second-priority security interests in the capital stock of, and other equity interests in, the Pulitzer Assignors and Star Publishing's interest in TNI.

The 2<sup>nd</sup> Lien Term Loan is fully and unconditionally guaranteed on a joint and several first-priority basis by the Pulitzer Assignors, pursuant to a Second Lien Guarantee and Collateral Agreement dated as of March 31, 2014 (the "2<sup>nd</sup> Lien Guarantee and Collateral Agreement") among the Pulitzer Assignors and the 2<sup>nd</sup> Lien collateral agent.

Under the 2<sup>nd</sup> Lien Guarantee and Collateral Agreement, the Pulitzer Assignors have granted (i) first-priority security interests, subject to certain priorities and limitations in the various agreements, in the Pulitzer Collateral and (ii) have granted first-priority 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 Term Loan.

Also, under the 2<sup>nd</sup> Lien Guarantee and Collateral Agreement, the Lee Legacy Assignors have granted (i) second-priority security interests, subject to certain priorities and limitations in the various agreements, in the Lee Legacy Collateral, and (ii) have granted second-priority 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 Term Loan. Assets of, or used in the operations or business of, MNI are excluded.

The rights of each of the collateral agents with respect to the Lee Legacy Collateral and the Pulitzer Collateral are subject to customary intercreditor and intercompany agreements.

Table of Contents

## Other

In connection with the 2014 Refinancing, we capitalized \$37,819,000 of debt financing costs. Amortization of debt financing costs totaled \$1,132,000 and \$4,211,000 in the 13 weeks and 39 weeks ended June 26, 2016. Amortization of such costs is estimated to total \$4,888,000 in 2016, \$4,217,000 in 2017, \$4,299,000 in 2018, \$4,090,000 in 2019 and \$4,072,000 in 2020. At June 26, 2016 we have \$27,598,000 of unamortized debt financing costs recorded in other long term assets in our Consolidated Balance Sheets.

Debt is summarized as follows:

(Thousands of Dollars)	Interest Rates (%)		
	June 26 2016	September 27 2015	June 26 2016
Revolving Facility	—	—	5.65
1 <sup>st</sup> Lien Term Loan	119,546	180,872	7.25
Notes	385,000	400,000	9.50
2 <sup>nd</sup> Lien Term Loan	135,736	145,000	12.00
	640,282	725,872	
Less current maturities of long-term debt	30,992	25,000	
Total long-term debt	609,290	700,872	

At June 26, 2016, our weighted average cost of debt, excluding amortization of debt financing costs, is 9.6%.

Aggregate minimum required maturities of debt excluding amounts required to be paid from excess cash flow requirements at June 26, 2016 total \$12,242,000 for the remainder of 2016, \$25,000,000 in 2017, \$25,000,000 in 2018, \$57,304,000 in 2019, \$0 in 2020 and \$520,736,000 thereafter.

## Liquidity

At June 26, 2016, after consideration of letters of credit, we have approximately \$33,068,000 available for future use under our Revolving Facility. Including cash, our liquidity at June 26, 2016 totals \$54,940,000. 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 existing cash and our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000 subject to a reduction for any amounts the Company may elect to use to repay our 1<sup>st</sup> Lien Term Loan and/or the Notes.

The 2014 Refinancing significantly improved our debt maturity profile. Final maturities of our debt have been extended to dates from December 2018 through December 2022. As a result, we believe refinancing risk has been substantially reduced for the next several years.

There are numerous potential consequences under the Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan, 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 applicable lender(s) to exercise their remedies under the Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan, 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 repay, refinance or amend our debt agreements as they become due. The Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien



Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at June 26, 2016.

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

We have several noncontributory defined benefit pension plans that together cover selected employees. Benefits under the plans were generally based on salary and years of service. Effective in 2012, substantially

13

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Table of Contents

all benefits are frozen and only a small amount of additional benefits are being accrued. Our liability and related expense for benefits under the plans are recorded over the service period of employees based upon annual actuarial calculations. Plan funding strategies are influenced by government regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, 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, one of our Pulitzer Subsidiaries, St. Louis Post-Dispatch 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. Postretirement medical plan assets may also be used to fund current 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 postretirement cost (benefit) components for our postretirement plans are as follows:

PENSION PLANS	13 Weeks		39 Weeks	
	Ended		Ended	
(Thousands of Dollars)	June 26	June 28	June 26	June 28
	2016	2015	2016	2015
Service cost for benefits earned during the period	49	226	147	678
Interest cost on projected benefit obligation	1,515	1,859	4,545	5,577
Expected return on plan assets	(2,174 )	(2,466 )	(6,522 )	(7,398 )
Amortization of net loss	599	420	1,797	1,260
Amortization of prior service benefit	(34 )	(34 )	(102 )	(102 )
Pension expense (benefit)	(45 )	5	(135 )	15
POSTRETIREMENT MEDICAL PLANS	13 Weeks		39 Weeks	
(Thousands of Dollars)	Ended		Ended	
	June 26	June 28	June 26	June 28
	2016	2015	2016	2015
Service cost for benefits earned during the period	16	39	48	117
Interest cost on projected benefit obligation	156	211	468	633
Expected return on plan assets	(331 )	(361 )	(993 )	(1,083 )
Amortization of net gain	(273 )	(347 )	(819 )	(1,041 )
Amortization of prior service benefit	(365 )	(365 )	(1,095 )	(1,095 )
Postretirement medical benefit	(797 )	(823 )	(2,391 )	(2,469 )

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

In the 13 weeks and 39 weeks ended June 26, 2016 we contributed \$826,000 and \$2,314,000, respectively to our pension plans. Based on our forecast at June 26, 2016, we expect to contribute \$2,280,000 to our pension plans for the remainder of 2016. Based on our forecast at June 26, 2016, we do not expect to contribute to our postretirement medical plans for the remainder of 2016.

## 6INCOME TAXES

We recorded income tax expense of \$3,037,000 related to income before taxes of \$7,404,000 for the 13 weeks ended June 26, 2016. For the 13 weeks ended June 28, 2015, we recorded \$2,141,000 in income tax expense related to income taxes before taxes of \$4,276,000. The effective income tax rates for the 13 weeks ended June 26, 2016 and June 28, 2015 were 41.0% and 50.1%, respectively. We recorded income tax expense of \$22,571,000 related to income before taxes of \$57,929,000 for the 39 weeks ended June 26, 2016. For the 39

Table of Contents

weeks ended June 28, 2015, we recorded \$9,353,000 in income tax expense related to income before taxes of \$23,537,000. The effective income tax rates for the 39 weeks ended June 26, 2016 and June 28, 2015 were 39.0% and 39.7%, respectively. The primary differences between these rates and the U.S. federal statutory rate of 35% are due to the effect of state income taxes, non-deductible expenses, adjustments to reserves for uncertain tax positions, including any related interest, and mark-to-market adjustments to value the Warrants.

We file a consolidated federal tax return, as well as combined and separate tax returns in approximately 27 state and local jurisdictions. 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. See Note 10 for a discussion of our tax audits.

Due to our federal and state net operating loss carryforwards and based on historical levels of performance, we do not expect to make any additional significant income tax payments in the current fiscal year.

**7 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		39 Weeks	
	Ended		Ended	
	June 26 2016	June 28 2015	June 26 2016	June 28 2015
Income attributable to Lee Enterprises, Incorporated:	4,092	1,882	34,557	13,435
Weighted average common shares	55,735	54,642	55,398	54,352
Less weighted average restricted Common Stock	(2,524 )	(2,045 )	(2,222 )	(1,831 )
Basic average common shares	53,211	52,597	53,176	52,521
Dilutive stock options and restricted Common Stock	1,114	1,459	783	1,436
Diluted average common shares	54,325	54,056	53,959	53,957
Earnings per common share:				
Basic	0.08	0.04	0.65	0.26
Diluted	0.08	0.03	0.64	0.25

For the 13 and 39 weeks ended June 26, 2016, 6,919,000 and 7,643,000 weighted average shares, respectively, were not considered in the computation of diluted earnings per common share because the exercise prices of the related stock options and Warrants were in excess of the fair market value of our Common Stock. For the 13 and 39 weeks ended June 28, 2015, 6,116,000 and 6,814,000 weighted average shares, respectively, were not considered in the computation of diluted earnings per common share because the exercise prices of the related stock options and Warrants were in excess of the fair market value of our Common Stock

Table of Contents

## 8 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 39 weeks ended June 26, 2016 follows:

(Thousands of Dollars and Shares, Except Per Share Data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 27, 2015	1,871	2.71		
Exercised	(57)	1.13		
Cancelled	(99)	8.78		
Outstanding, June 26, 2016	1,715	2.41	4.8	609
Exercisable, June 26, 2016	1,709	2.41	4.8	609

Total unrecognized compensation expense for unvested stock options as of June 26, 2016 is \$4,000, which will be recognized over a weighted average period of 0.3 years.

## Restricted Common Stock

The table below summarizes restricted Common Stock activity during the 39 weeks ended June 26, 2016.

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 27, 2015	1,546	3.62
Vested	(8)	3.62
Granted	1,018	1.49
Cancelled	(32)	3.44
Outstanding, June 26, 2016	2,524	2.76

Total unrecognized compensation expense for unvested restricted Common Stock at June 26, 2016 is \$2,867,000, which will be recognized over a weighted average period of 1.7 years.

## 9 FAIR VALUE MEASUREMENTS

We utilize FASB ASC Topic 820, Fair Value Measurements and Disclosures, to measure and report fair value. FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC Topic 820 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable, 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.

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 \$6,859,000, including our 17%

## Table of Contents

ownership of the nonvoting common stock of TCT and a private equity investment, are carried at cost. As of June 30, 2016, based on the most recent data available, the approximate fair value of the private equity investment is \$7,500,000, which is a level 3 fair value measurement.

The fair value of floating rate debt, which consists of our 1<sup>st</sup> Lien Term Loan, is \$118,575,000, based on an average of private market price quotations. Our fixed rate debt consists of \$385,000,000 principal amount of the Notes and \$135,736,000 principal amount under the 2<sup>nd</sup> Lien Term Loan. At June 26, 2016, based on private market price quotations the fair values were \$380,187,000 and \$138,111,000 for the Notes and 2<sup>nd</sup> Lien Term Loan, respectively. These represent level 2 fair value measurements.

As discussed more fully in Note 4, we recorded a liability for the Warrants issued in connection with the Warrant Agreement. The liability was initially measured at its fair value. We remeasure the liability to fair value each reporting period, with changes reported in other non-operating income (expense). The initial fair value of the Warrants was \$16,930,000. The fair value of Warrants at September 27, 2015, March 27, 2016 and June 26, 2016 is \$4,240,000, \$4,230,000 and \$4,645,000, respectively. Fair value is determined using the Black-Scholes option pricing model. These represent level 2 fair value measurements.

## 10 COMMITMENTS AND CONTINGENT LIABILITIES

### Income Taxes

Commitments exclude unrecognized tax benefits to be recorded in accordance with FASB ASC Topic 740, Income Taxes. We are unable to reasonably estimate the ultimate amount or timing of cash settlements with the respective taxing authorities for such matters. See Note 6.

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

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

### Legal Proceedings

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

### Multiemployer Pension Plans

One of our enterprise's bargaining units withdrew from representation, and as a result we are subject to a future claim from the multiemployer pension plan for a withdrawal liability. The amount and timing of such liability will be dependent on actions taken, or not taken, by the Company and the pension plan, as well as the future investment

performance and funding status of the pension plan. Any withdrawal liability determined to be due under this plan will be funded over a period of 20 years.

#### 11 RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In November 2015, the Financial Accounting Standards Board issued an amendment to Accounting Standards Codification Standard 740: Income Taxes related to the classification of net deferred tax assets and liabilities. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. To simplify the presentation of deferred income taxes, the amendment requires that deferred income tax liabilities and assets be classified as noncurrent in our



## Table of Contents

Consolidated Balance Sheets. We elected to early adopt this standard in the 13 weeks ended December 27, 2015 and have applied this standard retrospectively. As a result, we have reclassified \$15,659,000 of current assets to a reduction of the long-term deferred tax liability in the September 27, 2015 Consolidated Balance Sheet.

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks and 39 weeks ended June 26, 2016. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2015 Annual Report on Form 10-K.

#### NON-GAAP FINANCIAL MEASURES

We use non-GAAP financial performance measures for purposes of evaluating our performance and liquidity. Therefore, we believe that each of the non-GAAP measures presented provides useful information to investors by allowing them to view our businesses through the eyes of our management and Board of Directors, facilitating comparison of results across historical periods, and providing a focus on the underlying ongoing operating performance and liquidity of our businesses. The non-GAAP financial measures we use are as follows:

Adjusted EBITDA is a non-GAAP financial performance measure that enhances financial statement users overall understanding of the operating performance of the Company. The measure isolates unusual, infrequent or non-cash transactions from the operating performance of the business. This allows users to easily compare operating performance among various fiscal periods and understand how management measures the performance of the business. This measure also provides users with a benchmark that can be used when forecasting future operating performance of the Company that excludes unusual, nonrecurring or one time transactions. Adjusted EBITDA is also a component of the calculation used by stockholders and analysts to determine the value of our business when using the market approach, which applies a market multiple to financial metrics. It is also a measure used to calculate the leverage ratio of the Company, which is a key financial ratio monitored and used by the Company and its investors. Adjusted EBITDA is defined as net income (loss), plus nonoperating expenses, net, income tax expense (benefit), depreciation, amortization, loss (gain) on sale of assets, impairment charges, workforce adjustment costs, stock compensation and our 50% share of EBITDA from TNI and MNI, minus equity in earnings of TNI and MNI and curtailment gains.

Adjusted Income (Loss) and Adjusted Earnings (Loss) Per Common Share are non-GAAP financial performance measures that we believe offer a useful metric to evaluate overall performance of the Company by providing financial statement users the operating performance of the Company on a per share basis excluding unusual and infrequent transactions. It is 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.

Cash Costs is a non-GAAP financial performance measure of operating expenses that are settled in cash and is useful to investors in understanding the components of the Company's cash operating costs. Generally, the Company provides forward-looking guidance of Cash Costs, which can be used by financial statement users to assess the Company's ability to manage and control its operating cost structure. Cash Costs is defined as compensation, newsprint and ink, other operating expenses and certain unusual matters, such as workforce adjustment costs. Depreciation, amortization, impairment charges, other non-cash operating expenses and other unusual matters are excluded. Cash Costs are also presented excluding workforce adjustments, which are paid in cash.

A table reconciling Adjusted EBITDA to net income (loss), the most directly comparable measure under GAAP, is set forth in Item 2, included herein, under the caption "Reconciliation of Non-GAAP Financial Measures".

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

The subtotals of operating expenses representing cash costs can be found in tables in Item 2, included herein, under the captions "13 Weeks Ended June 26, 2016" and "39 Weeks Ended June 26, 2016".

Table of Contents

These non-GAAP financial measures should not be considered in isolation from or as a substitute for the related consolidated GAAP measures, and should be read together with financial information presented on a GAAP basis.

#### RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (UNAUDITED)

The table below reconciles the non-GAAP financial performance measure of adjusted EBITDA to net income, the most directly comparable GAAP measure:

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 26	June 28	June 26	June 28
	2016	2015	2016	2015
Net Income	4,367	2,135	35,358	14,184
Adjusted to exclude				
Income tax expense	3,037	2,141	22,571	9,353
Non-operating expenses, net	17,251	20,569	21,877	59,038
Equity in earnings of TNI and MNI	(1,825 )	(1,705 )	(6,633 )	(6,114 )
Loss (gain) on sale of assets, net	(354 )	686	(1,763 )	434
Depreciation and amortization	10,868	11,395	32,752	34,457
Workforce adjustments	424	1,056	1,616	1,908
Stock compensation	550	562	1,714	1,645
Add:				
Ownership share of TNI and MNI EBITDA (50%)	2,625	2,464	9,145	8,432
Adjusted EBITDA	36,943	39,303	116,637	123,337

#### 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 Generally Accepted Accounting Principles ("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 2015 Annual Report on Form 10-K.



## Table of Contents

### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2016, the Financial Accounting Standards Board ("FASB") issued a new standard with improvements to the accounting for employee share-based payments. The new standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes and statutory tax withholding requirements, as well as classification in the statement of cash flows. The adoption of the new standard is required in 2018. We have not determined the potential effects on the Consolidated Financial Statements.

In February 2016, the FASB issued a new standard for the accounting treatment of leases. The new standard is based on the principle that entities should recognize assets and liabilities arising from leases. The new standard does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Leases are classified as finance or operating. The new standards primary change is the requirement for entities to recognize a lease liability for payments and a right of use asset representing the right to use the leased asset during the term on operating lease arrangements. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. Lessors' accounting under the new standard is largely unchanged from the previous accounting standard. In addition, the new standard expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The adoption of this new standard is required in the first quarter of fiscal year 2020 with early adoption permitted. We have not determined the potential effects on the Consolidated Financial Statements.

In April 2015, the FASB issued a new standard for the presentation of debt issuance costs. The new standard will streamline the balance sheet presentation of debt related valuations. Debt issuance costs are currently recognized as deferred charges and presented as an asset while debt discounts and premiums are treated as adjustments to the related debt. Under the new standard, debt issuance costs will be recognized as reductions to the related debt. The adoption of the new standard is required in 2017. The adoption of this standard will serve to reclassify certain amounts within our Consolidated Balance Sheets.

In August 2014, the FASB issued a new going concern standard. The new standard changes the period that companies use to evaluate their ability to meet obligations to a look-forward period of one year from the financial statement issuance date, from one year from the balance sheet date. The new standard also changes disclosure requirements. The adoption of the new standard is required in 2017. We do not expect the adoption of this standard to have a material impact on our Consolidated Financial Statements, taken as a whole.

In May 2014, the FASB issued new accounting requirements for the recognition of revenue from contracts with customers. The new requirements also include additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The adoption of these requirements is required in 2019. We have not yet determined the potential impact on our Consolidated Financial Statements.

### EXECUTIVE OVERVIEW

Lee Enterprises, Incorporated is 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 49 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 products include:

49 daily and 37 Sunday newspapers with subscribers totaling 0.9 million and 1.3 million, respectively, which we believe are read by over three million people in print; 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. We believe that all of these factors have had a positive impact on advertising revenue. Community newspapers and their associated digital media remain a valuable source of local news and information attracting large local audiences

## Table of Contents

and is an effective means for local advertisers to reach their customers. We believe our audiences across these communities tend to be loyal readers who actively seek our content and serve as an attractive target for our advertisers.

We do not face significant competition from other local daily newspapers in most of our markets, although there is competition for audience in those markets from other media. In our top ten markets by revenue, only two have significant local daily print competition.

Our primary source of revenue is advertising and marketing services, followed by subscription revenue. Over the last several years, the advertising industry has experienced a shift from print and other traditional media towards digital advertising as readership has also shifted from print to digital. This trend in traditional print advertising and readership was compounded by the effects of the last recession, and such trend continues to impact our print advertising and marketing services revenue. In addition, our printed newspaper paid subscription and single copy unit sales have declined. We have offset some of our declines in print advertising and marketing services revenue by growing our digital advertising revenue. Subscription revenue has been maintained by increasing subscription rates which includes full access, selling premium day sections and increasing the number of paid digital subscribers.

In April 2014, we began to implement a full access subscription model, which provides subscribers with complete digital access, including desktop, mobile, tablet and replica editions. These are offered as packages with print home delivery or as digital-only subscriptions, with subscription rates reflective of the expanded access. Due to the timing of the rollout and staggered subscriber renewal dates, the bulk of the year-over-year revenue increase from this initiative was realized in 2015.

We continue to transform our business model and carefully manage our costs to maintain high cash flows and margins.

## IMPAIRMENT OF GOODWILL AND OTHER ASSETS

We have significant amounts of goodwill and identified intangible assets. Since 2007 we have recorded impairment charges totaling almost \$1.3 billion to reduce the value of certain of these assets. Should general economic, market or business conditions decline, and have a negative impact on our stock price or projected future cash flows, we may be required to record additional impairment charges in the future. Such impairment charges would not impact our reported cash flows or debt covenant compliance.

## DEBT AND LIQUIDITY

We have a substantial amount of debt, as discussed more fully (and certain capitalized terms used below defined) in Note 4 of the Notes to Consolidated Financial Statements, included herein. Since February 2009, we have satisfied all interest payments and substantially all principal payments due under our debt facilities with our cash flows and asset sales.

As of June 26, 2016, our debt consists of the following:

\$400,000,000 aggregate principal amount of 9.5% Senior Secured Notes (the "Notes"), pursuant to an Indenture dated as of March 31, 2014 (the "Indenture"), of which \$385,000,000 is outstanding at June 26, 2016 ;

\$250,000,000 first lien term loan (the "1st Lien Term Loan") and \$40,000,000 revolving facility (the "Revolving Facility") under a First Lien Credit Agreement dated as of March 31, 2014 (together, the "1st Lien Credit Facility"), of which \$119,546,000 is outstanding at June 26, 2016; and

\$150,000,000 second lien term loan under a Second Lien Loan Agreement dated as of March 31, 2014 (the “2<sup>d</sup> Lien Term Loan”), of which \$135,736,000 is outstanding at June 26, 2016.

Our ability to make payments on our indebtedness will depend on our ability to generate future cash flows from operations. Cash generated from future asset sales could serve as an additional source of repayment. 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 June 26, 2016, after consideration of letters of credit, we have approximately \$33,068,000 available for future use under our Revolving Facility. Including cash, our liquidity at June 26, 2016 totals \$54,940,000. This liquidity amount



Table of Contents

excludes any future cash flows. Our adjusted EBITDA has been strong for the last seven years and has exceeded \$155,000,000 in each year from 2011 through the last twelve months ended June 26, 2016, but there can be no assurance that such performance will continue. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows from operations and certain asset sales, which will allow us to maintain an adequate level of liquidity.

At June 26, 2016, the principal amount of our outstanding debt totaled \$640,282,000. For the last twelve months ended June 26, 2016, the principal amount of our debt, net of cash, is 3.95 times our adjusted EBITDA, compared to a ratio of 4.6 at June 28, 2015.

The 2014 Refinancing significantly improved our debt maturity profile. Final maturities of our debt are March 2019 through December 2022. As a result, we believe refinancing risk has been substantially reduced for the next several years.

There are numerous potential consequences under the Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan, 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 applicable lender(s) to exercise their remedies under the Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan, 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 repay, refinance or amend our debt agreements as they become due, if necessary. The Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at June 26, 2016.

Due to our federal and state net operating loss carryforwards and based on historical levels of performance, we do not expect any significant income tax payments in the current year.

Table of Contents

13 WEEKS ENDED JUNE 26, 2016

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

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended		
	June 26 2016	June 28 2015	Percent Change
Advertising and marketing services revenue:			
Retail	59,181	63,601	(6.9 )
Classified	25,562	29,719	(14.0 )
National	4,527	4,608	(1.8 )
Niche publications and other	3,024	3,006	0.6
Total advertising and marketing services revenue	92,294	100,934	(8.6 )
Subscription	47,160	47,394	(0.5 )
Digital services	3,541	3,070	15.3
Commercial printing	3,116	3,239	(3.8 )
Other	4,835	4,041	19.6
Total operating revenue	150,946	158,678	(4.9 )
Operating expenses:			
Compensation	57,218	58,442	(2.1 )
Newsprint and ink	6,604	7,421	(11.0 )
Other operating expenses	53,356	56,538	(5.6 )
Workforce adjustments	424	1,056	(59.8 )
Cash costs	117,602	123,457	(4.7 )
Depreciation and amortization	33,344	35,221	(5.3 )
Loss (gain) on sales of assets, net	10,868	11,395	(4.6 )
Equity in earnings of associated companies	(354)	686	NM
Operating income	1,825	1,705	7.0
Non-operating income (expense), net	24,655	24,845	(0.8 )
Income before income taxes	(17,251)	(20,569)	NM
Income tax expense	7,404	4,276	73.2
Net income	3,037	2,141	41.8
Net income attributable to non-controlling interests	4,367	2,135	NM
Income attributable to Lee Enterprises, Incorporated	(275)	(253)	8.7
Other comprehensive loss, net of income taxes	4,092	1,882	NM
Comprehensive income attributable to Lee Enterprises, Incorporated	(43)	(192)	(77.6 )
Earnings per common share:			
Basic	4,049	1,690	NM
Diluted	0.08	0.04	NM
	0.08	0.03	NM

References to the "2016 Quarter" refer to the 13 weeks ended June 26, 2016. Similarly, references to the "2015 Quarter" refer to the 13 weeks ended June 28, 2015.

## Advertising and Marketing Services Revenue

In the 2016 Quarter, advertising and marketing services revenue decreased \$8,640,000, or 8.6%, compared to the 2015 Quarter. Retail advertising decreased 6.9%. The decrease in retail advertising revenue is due to reduced print advertising volume primarily from large retail and big box stores. Digital retail advertising on a stand-alone basis,

which is the largest digital advertising category, increased 8.3%, partially offsetting print declines.

Classified revenue decreased 14.0% in the 2016 Quarter as we continue to experience a reduction in print advertising in automotive, employment and real estate in most of our markets. Digital classified revenue on a stand-alone basis decreased 4.1%.

## Table of Contents

National advertising decreased \$81,000, or 1.8%. Digital national advertising on a stand-alone basis increased 15.8% as a result of improved inventory management of available ad positions offered on the national advertising exchanges and improved pricing and volume.

Digital advertising and marketing services revenue increased 4.9% to \$22,238,000 in the 2016 Quarter, representing 24.1% of total advertising and marketing services revenue. Mobile advertising revenue, which is included in digital advertising, increased 22.2% in the 2016 Quarter. Total digital revenue, including advertising and marketing services and all other digital business, totaled \$25,780,000 in the 2016 Quarter, a 6.2% increase over the 2015 Quarter. Print advertising, including preprints and print marketing services revenue, decreased 12.1%.

### Subscription and Other Revenue

Subscription revenue decreased \$234,000, or 0.5%, in the 2016 Quarter. Revenue declines were due to lower volumes which were not offset by higher subscription rates.

Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 0.9 million in the 2016 Quarter. Sunday circulation totaled 1.3 million.

Digital services revenue increased \$471,000, or 15.3%, due in part to TownNews.com, which generates the majority of its revenue from content management services but is expanding into digital ad agency services for web, mobile and social products at our properties as well as 1,600 other newspapers, and media operations. Commercial printing revenue decreased \$123,000, or 3.8%, in the 2016 Quarter due to decreased volume for existing customers at several of our largest markets. Other revenue increased \$794,000, or 19.6%, in the 2016 Quarter due to an increase in revenue for delivery of third party newspapers.

Our mobile, tablet, desktop and app sites, including TNI and MNI, attracted 24.5 million unique visitors in the month of June 2016, with 211.6 million million page views. Research in our larger markets indicates we continue to reach over 76% of all adults in the market through the combination of digital audience growth and strong print newspaper readership.

### Operating Expenses

Operating expenses for the 2016 Quarter decreased 5.5%. Cash costs decreased \$5,855,000, or 4.7%, in the 2016 Quarter.

Compensation expense decreased \$1,224,000, or 2.1%, in the 2016 Quarter, driven by a decline of 8.7% in average full-time equivalent employees. Significantly higher costs associated with our self-insured medical plan offset some of the reduction in wages.

Newsprint and ink costs decreased \$817,000, or 11.0%, in the 2016 Quarter, primarily as a result of a reduction in newsprint volume of 8.7%. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint prices on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters including delivery, postage, outsourced printing, digital cost of goods sold, facility expenses among others, decreased \$3,182,000, or 5.6%, in the 2016 Quarter. Cost reductions were primarily related to the impact of both subscriber delivery cost and a decrease in postage costs primarily related to a reduction in direct mail advertising volumes.

Excluding workforce adjustments, cash costs decreased 4.3% in the 2016 Quarter.

Reductions in staffing resulted in workforce adjustment costs totaling \$424,000 and \$1,056,000 in the 2016 Quarter and 2015 Quarter, respectively.

For fiscal year 2016, we expect cash costs excluding workforce adjustments, to decrease between 3.75% to 4.00%.

Table of Contents

## Results of Operations

Depreciation expense decreased \$236,000, or 5.2%, and amortization expense decreased \$291,000, or 4.3%, in the 2016 Quarter. Sales of operating assets resulted in a net gain of \$354,000 in the 2016 Quarter compared to a loss of \$686,000 in the 2015 Quarter.

Equity in earnings of TNI and MNI increased \$120,000 in the 2016 Quarter.

The factors noted above resulted in operating income of \$24,655,000 in the 2016 Quarter compared to \$24,845,000 in the 2015 Quarter.

## Nonoperating Income and Expense

Interest expense decreased \$2,338,000, or 12.9%, to \$15,783,000 in the 2016 Quarter due to lower debt balances. Our weighted average cost of debt, excluding amortization of debt financing costs, increased to 9.6% at the end of the 2016 Quarter compared to 9.4% at the end of the 2015 Quarter, as our Notes and 2<sup>nd</sup> Lien Term Loan balances are now a greater percentage of our outstanding debt due to the reduction of the 1<sup>st</sup> Lien Term Loan, our lowest cost of debt.

We recognized \$1,196,000 of debt financing and administrative costs in the 2016 Quarter compared to \$1,445,000 in the 2015 Quarter.

## Overall Results

We recognized income tax expense of 41.0% of income before income taxes in the 2016 Quarter and 50.1% in the 2015 Quarter. See Note 6 of the Notes to the Consolidated Financial Statements, included herein, for a discussion of the difference between the expected federal income tax rate and the actual tax rates.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated totaled \$4,092,000 in the 2016 Quarter compared to \$1,882,000 in the 2015 Quarter. We recorded earnings per diluted common share of \$0.08 in the 2016 Quarter and \$0.03 in the 2015 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.08 in the 2016 Quarter, compared to \$0.05 in the 2015 Quarter. Per share amounts may not add due to rounding.

	13 Weeks Ended			
	June 26 2016		June 28 2015	
(Thousands of Dollars, Except Per Share Data)	Amount Per Share		Amount Per Share	
Income attributable to Lee Enterprises, Incorporated, as reported	4,092	0.08	1,882	0.03
Adjustments:				
Warrants fair value adjustment	415		1,091	
	415	0.01	1,091	0.02
Income attributable to Lee Enterprises, Incorporated, as adjusted	4,507	0.08	2,973	0.05

Table of Contents

39 WEEKS ENDED JUNE 26, 2016

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)	39 Weeks Ended		Percent Change
	June 26 2016	June 28 2015	
Operating revenue:			
Retail	185,184	201,678	(8.2 )
Classified	75,998	87,849	(13.5 )
National	16,675	17,134	(2.7 )
Niche publications and other	8,805	8,119	8.4
Total advertising and marketing services revenue	286,662	314,780	(8.9 )
Subscription	144,249	145,904	(1.1 )
Digital services	10,271	9,267	10.8
Commercial printing	9,385	8,830	6.3
Other	15,619	13,663	14.3
Total operating revenue	466,186	492,444	(5.3 )
Operating expenses:			
Compensation	174,733	181,615	(3.8 )
Newsprint and ink	19,343	23,928	(19.2 )
Other operating expenses	166,332	173,641	(4.2 )
Workforce adjustments	1,616	1,908	(15.3 )
Cash costs	362,024	381,092	(5.0 )
	104,162	111,352	(6.5 )
Depreciation and amortization	32,752	34,457	(4.9 )
Loss (gain) on sales of assets, net	(1,763)	434	NM
Equity in earnings of associated companies	6,633	6,114	8.5
Operating income	79,806	82,575	(3.4 )
Non-operating expense, net	(21,877)	(59,038)	(62.9 )
Income before income taxes	57,929	23,537	NM
Income tax expense	22,571	9,353	NM
Net income	35,358	14,184	NM
Net income attributable to non-controlling interests	(801)	(749)	6.9
Income attributable to Lee Enterprises, Incorporated	34,557	13,435	NM
Other comprehensive loss, net of income taxes	(129)	(576)	(77.6 )
Comprehensive income attributable to Lee Enterprises, Incorporated	34,428	12,859	NM
Earnings per common share:			
Basic	0.65	0.26	NM
Diluted	0.64	0.25	NM

References to the "2016 Period" refer to the 39 weeks ended June 26, 2016. Similarly, references to the "2015 Period" refer to the 39 weeks ended June 28, 2015.

## Advertising and Marketing Services Revenue

In the 2016 Period, advertising and marketing services revenue decreased \$28,118,000, or 8.9%, compared to the 2015 Period. Retail advertising decreased 8.2%. The decrease in retail advertising revenue is due to reduced

advertising volume primarily from large retail and big box stores. Digital retail advertising on a stand-alone basis increased 9.7%, partially offsetting print declines.

Classified revenue decreased 13.5% in the 2016 Period as we continue to experience a reduction in advertising from automotive, employment and real estate in most of our markets. Digital classified revenue on a stand-alone basis decreased 5.0%.



## Table of Contents

National advertising decreased \$459,000, or 2.7%. Digital national advertising on a stand-alone basis increased 22.5% due to improved inventory management of available ad positions offered on the national advertising exchanges and improved pricing. Revenue in niche publications and other increased \$686,000 or 8.4% mainly attributed to increases in creative service charges.

On a stand-alone basis, digital advertising and marketing services revenue increased 6.0%, to \$64,308,000, in the 2016 Period, representing 22.4% of total advertising and marketing services revenue. Mobile advertising revenue, which is included in digital advertising, increased 17.6% in the 2016 Period. Total digital revenue for the 2016 Period, including advertising and marketing services and all other digital business, totaled \$74.6 million, an increase of 6.6% from a year ago, representing 16.0% of total operating revenue. Print advertising, including preprints and print marketing services revenue, decreased 12.5%.

### Subscription and Other Revenue

Subscription revenue decreased \$1,655,000, or 1.1%, in the 2016 Period, as subscription price increases did not offset paid subscriber losses.

Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 1.0 million in the 2016 Period. Sunday circulation totaled 1.3 million.

Digital services revenue increased \$1,004,000, or 10.8%, largely due to TownNews.com, which generates the majority of its revenue from content management services but is expanding into digital and agency services for web, mobile and social products at our properties as well as 1,600 other newspapers, and media operations. Commercial printing revenue increased \$555,000, or 6.3%, in the 2016 Period due to new customers at several of our largest markets. Other revenue increased \$1,956,000, or 14.3%, in the 2016 Period, due to an increase in revenue for delivery of third party newspapers.

### Operating Expenses

Operating expenses for the 2016 Period decreased 5.5%. Cash costs decreased \$19,068,000, or 5.0%, in the 2016 Period.

Compensation expense decreased \$6,882,000, or 3.8%, in the 2016 Period, driven by a decline in average full time equivalent employees of 8.2%, offset by significantly higher costs associated with our self-insured medical plan.

Newsprint and ink costs decreased \$4,585,000, or 19.2%, in the 2016 Period, primarily as a result of a reduction in newsprint volume of 10.6%. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters including delivery, postage, outsourced printing, digital cost of goods sold, facility expenses among others, decreased \$7,309,000, or 4.2%, in the 2016 Period. Cost reductions were primarily related to the impact of both subscriber delivery cost and a decrease in postage costs primarily related to a reduction in direct mail advertising volumes.

Excluding workforce adjustments, cash costs decreased 5.0% in the 2016 Period.

Reduction in staffing resulted in workforce adjustment costs totaling \$1,616,000 and \$1,908,000 in the 2016 Period and 2015 Period, respectively.

Results of Operations

Depreciation expense decreased \$885,000, or 6.4%, and amortization expense decreased \$820,000, or 4.0%, in the 2016 Period. Sales of operating assets, which totaled \$3,983,000 in the 2016 Period, resulted in a net gain of \$1,763,000 in the 2016 Period compared to a net loss of \$434,000 in the 2015 Period.

Equity in earnings in associated companies increased \$519,000 in the 2016 Period.

Table of Contents

The factors noted above resulted in operating income of \$79,806,000 in the 2016 Period compared to \$82,575,000 in the 2015 Period.

## Nonoperating Income and Expense

Interest expense decreased \$6,108,000, or 11.0%, to \$49,206,000 in the 2016 Period due to lower debt balances.

In the 2016 Period, we recognized a \$30,646,000 gain on an insurance settlement. The settlement represents our share of a subrogation recovery arising from the settlement of claims for damages suffered as a result of a 2009 loss at one of the Lee Legacy production facilities.

We recognized \$4,563,000 of debt financing costs in the 2016 Period compared to \$4,040,000 in the 2015 Period related to our 2014 refinancing. We also recognized \$1,250,000 gain on extinguishment of debt.

## Overall Results

We recognized income tax expense of 39.0% of income before income taxes in the 2016 Period and 39.7% in the 2015 Period. See Note 6 of the Notes to the Consolidated Financial Statements, included herein, for a discussion of the difference between the expected federal income tax rate and the actual tax rates.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated totaled \$34,557,000 in the 2016 Period compared to \$13,435,000 in the 2015 Period. We recorded earnings per diluted common share of \$0.64 in the 2016 Period and \$0.25 in the 2015 Period. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.28 in the 2016 Period and \$0.25 in the 2015 Period. Per share amounts may not add due to rounding.

	June 26		39 Weeks Ended	
	2016	2015	June 28	2015
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	34,557	0.64	13,435	0.25
Adjustments:				
Warrants fair value adjustment	404		312	
Gain on insurance settlement	(30,646)		—	
	(30,242)		312	
Income tax effect of adjustments, net	10,726		—	
	(19,516)	(0.36)	312	0.01
Income attributable to Lee Enterprises, Incorporated, as adjusted	15,041	0.28	13,747	0.25

## LIQUIDITY AND CAPITAL RESOURCES

## Operating Activities

Cash provided by operating activities was \$65,827,000 in the 2016 Period and \$66,149,000 in the 2015 Period. We recorded net income of \$35,358,000 in the 2016 Period and \$14,184,000 in the 2015 Period. Non-cash debt financing costs charged to expense totaled \$4,563,000 in the 2016 Period compared to \$4,040,000 in the 2015 Period. 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 in the 2016 Quarter.

Investing Activities

Cash provided by investing activities totaled \$29,611,000 in the 2016 Period compared to cash required for investing activities of \$3,927,000 in the 2015 Period. In the 2016 Period, we received \$30,646,000 related to an insurance settlement. Capital spending totaled \$5,793,000 in the 2016 Period compared to \$7,686,000 in the 2015 Period. We

28

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## Table of Contents

received \$3,983,000 and \$3,341,000 of proceeds from sales of assets in the 2016 Period and the 2015 Period, respectively.

We anticipate that funds necessary for capital expenditures, which are expected to total up to \$10,000,000 in 2016, and other requirements, will be available from internally generated funds or availability under our Revolving Facility.

### Financing Activities

Cash required for financing activities totaled \$84,700,000 in the 2016 Period and \$60,022,000 in the 2015 Period. Debt reduction accounted for the majority of the usage of funds in both the 2016 Period and the 2015 Period.

### Liquidity

At June 26, 2016, after consideration of letters of credit, we have approximately \$33,068,000 available for future use under our Revolving Facility. Including cash, our liquidity at June 26, 2016 totals \$54,940,000. 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 and certain asset sales, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000.

At June 26, 2016, the principal amount of our outstanding debt totals \$640,282,000. For the last twelve months ending June 26, 2016, the principal amount of our debt, net of cash, is 3.95 times our adjusted EBITDA, compared to a ratio of 4.6 at June 28, 2015.

On January 15, 2016, we received payment of \$30,646,000 from our insurer for our share of a subrogation recovery arising from the settlement of claims for damages suffered as a result of a 2009 loss at one of our Lee Legacy production facilities. Of the total proceeds received by the Company, in January 2016, \$20,000,000 was used to reduce outstanding debt under our 1<sup>st</sup> Lien Term Loan and the majority of the remaining proceeds were used to buy back Notes with a face value of \$10,000,000, at a substantial discount.

The 2014 Refinancing significantly improved our debt maturity profile. Final maturities of our debt have been extended to dates from December 2018 through December 2022. As a result, we believe refinancing risk has been substantially reduced for the next several years.

There are numerous potential consequences under the Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan, 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 applicable lender(s) to exercise their remedies under the Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan, 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. The Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at June 26, 2016.

In 2014, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has been declared effective. The Shelf gives us the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, warrants, 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. SEC issuer eligibility rules 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 may be used generally to reduce debt.

## Table of Contents

### CHANGES IN LAWS AND REGULATIONS

#### Energy Costs

Energy costs can be 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.

We expect the Affordable Care Act will continue to evolve. More recently, certain provisions applicable to employers were delayed. We expect our future health care costs to increase 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 additional 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 2012, the Surface Transportation Extension Act of 2012 ("STEPA") was signed into law. STEPA provides for changes in the determination of discount rates that result in a near-term reduction in minimum funding requirements for our defined benefit pension plans. STEPA will also result in an increase in future premiums to be paid to the Pension Benefit Guarantee Corporation ("PBGC").

In 2014, the Highway and Transportation Funding Act ("HATFA") was signed into law. HATFA generally extends the relief offered under STEPA and further increases premiums to be paid to the PBGC.

#### Income Taxes

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

#### Wage Laws

In 2016, the Department of Labor ("DOL") published its final rule updating overtime regulations and minimum pay regulations for exempt employees. Among other things, the final rule sets a minimum weekly rate for all exempt

employees at \$913 per week, more than double the previous limit. The final rule is effective beginning December 1, 2016. The Company is still evaluating the impact of this change and as a result has not determined what, if any, impact it will have on the Company at this time.

The United States and various state and local governments are considering increasing their respective minimum wage rates. Most of our employees earn an amount in excess of the current United States or state minimum wage rates. However, until changes to such rates are enacted, the impact of the changes cannot be determined.



## Table of Contents

### INFLATION

General inflation in the United States economy has not been significant for the last several years. 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, which is predominantly fixed rate, significantly reduces the potential impact of an increase in interest rates. At June 26, 2016, 18.7% of the principal amount of our debt is subject to floating interest rates. Our primary exposure is to LIBOR. A 100 basis point increase to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease income before income taxes on an annualized basis by approximately \$1,195,000 based on \$119,546,000 of floating rate debt outstanding at June 26, 2016.

Our debt under the 1<sup>st</sup> Lien Term Loan is subject to minimum interest rate levels of 1.0%. Based on the difference between interest rates in December 2015 and our 1.0% minimum rate, LIBOR would need to increase approximately 1 basis point for six month borrowing and up to approximately 53 basis points for one month borrowing before our borrowing cost would begin to be impacted by an increase in interest rates.

We regularly evaluate alternatives to hedge our interest rate risk, but have no hedging instruments in place.

### COMMODITIES

Several price increases have been implemented from all North American newsprint producers. The current tight balance between supply and demand experienced by U.S. and Canada producers has led to additional price increases by certain of our suppliers.

Price change announcements are influenced primarily by the balance between supply capacity and demand, domestic and export, and the producer's ability to mitigate input cost pressures taking the U. S. dollar to Canadian dollar exchange rate into consideration. The extent to which the currently announced price increases are successful or future price changes occur is subject to negotiations with each newsprint producer at the time newsprint is ordered. Average cost per metric ton was approximately 7.2% lower in the 13 weeks ended June 26, 2016 compared to the same quarter a year ago.

Long term supply strategy takes potential capacity closures into consideration and aligns the Company with suppliers most likely to continue to supply the North American newsprint market and our print locations.

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$532,000, based on anticipated consumption in 2016, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which will temporarily mitigate the impact of future price changes.

SENSITIVITY TO CHANGES IN VALUE

At June 26, 2016, the fair value of floating rate debt, which consists primarily of our 1<sup>st</sup> Lien Term Loan, is \$118,575,000, based on an average of private market price quotations. Our fixed rate debt consists of \$385,000,000 principal amount of the Notes and \$135,736,000 principal amount under the 2<sup>nd</sup> Lien Term Loan. At June 26, 2016, based on an average of private market price quotations, the fair values were \$380,187,000 and \$138,111,000 for the Notes and 2<sup>nd</sup> Lien Term Loan, respectively.

Table of Contents

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 June 26, 2016 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

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

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

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/ Ronald A. Mayo  
Ronald A. Mayo  
Vice President, Chief Financial Officer and Treasurer

August 5, 2016

(Principal Financial and Accounting Officer)

32