

LEE ENTERPRISES, INC
Form 10-Q
May 08, 2015

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 March 29, 2015

OR

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

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Yes No

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

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

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

(Do not check if a smaller reporting company)

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

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

As of April 30, 2015, 54,535,122 shares of Common Stock of the Registrant were outstanding.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the “Company”). References to “2015”, “2014” 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 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 shall 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.

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FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	March 29 2015	September 28 2014
ASSETS		
Current assets:		
Cash and cash equivalents	11,350	16,704
Accounts receivable, net	59,551	62,343
Income taxes receivable	146	620
Inventories	5,438	6,655
Deferred income taxes	1,228	1,228
Other	8,064	8,585
Total current assets	85,777	96,135
Investments:		
Associated companies	36,128	37,790
Other	10,174	10,661
Total investments	46,302	48,451
Property and equipment:		
Land and improvements	23,551	23,645
Buildings and improvements	183,128	180,570
Equipment	289,436	292,209
Construction in process	3,326	4,548
	499,441	500,972
Less accumulated depreciation	346,016	343,601
Property and equipment, net	153,425	157,371
Goodwill	243,729	243,729
Other intangible assets, net	199,077	212,657
Postretirement assets, net	14,860	14,136
Other	36,467	38,796
Total assets	779,637	811,275

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

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(Thousands of Dollars and Shares, Except Per Share Data)	March 29 2015	September 28 2014	
LIABILITIES AND EQUITY			
Current liabilities:			
Current maturities of long-term debt	27,400	31,400	
Accounts payable	18,787	27,245	
Compensation and other accrued liabilities	24,397	24,348	
Accrued interest	4,677	4,812	
Unearned revenue	30,699	30,903	
Total current liabilities	105,960	118,708	
Long-term debt, net of current maturities	736,850	773,350	
Pension obligations	49,021	50,170	
Postretirement and postemployment benefit obligations	10,519	10,359	
Deferred income taxes	20,909	14,766	
Income taxes payable	5,492	5,097	
Other	16,031	16,369	
Total liabilities	944,782	988,819	
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:	545	537	
March 29, 2015; 54,528 shares;			
September 28, 2014; 53,747 shares			
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—	
Additional paid-in capital	246,488	245,323	
Accumulated deficit	(402,729)	(414,282))
Accumulated other comprehensive loss	(10,215)	(9,831))
Total stockholders' deficit	(165,911)	(178,253))
Non-controlling interests	766	709	
Total deficit	(165,145)	(177,544))
Total liabilities and deficit	779,637	811,275	

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

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		26 Weeks Ended	
	March 29 2015	March 30 2014	March 29 2015	March 30 2014
Operating revenue:				
Advertising and marketing services	97,665	102,720	213,142	225,110
Subscription	48,111	41,952	98,509	87,405
Other	9,753	9,421	20,032	18,963
Total operating revenue	155,529	154,093	331,683	331,478
Operating expenses:				
Compensation	61,236	59,071	123,173	121,212
Newsprint and ink	7,661	9,334	16,507	19,895
Other operating expenses	55,839	52,712	115,021	107,870
Depreciation	4,686	5,275	9,301	10,407
Amortization of intangible assets	6,880	6,916	13,760	13,809
Loss (gain) on sales of assets, net	5	(1,641)	(252)	(1,631)
Workforce adjustments	640	299	851	506
Total operating expenses	136,947	131,966	278,361	272,068
Equity in earnings of associated companies	1,653	1,593	4,410	4,512
Operating income	20,235	23,720	57,732	63,922
Non-operating income (expense):				
Financial income	102	101	180	221
Interest expense	(18,403)	(20,552)	(37,193)	(41,379)
Debt financing costs	(1,493)	(99)	(2,595)	(203)
Other, net	2,318	27	1,140	121
Total non-operating expense, net	(17,476)	(20,523)	(38,468)	(41,240)
Income before income taxes	2,759	3,197	19,264	22,682
Income tax expense	717	1,492	7,215	8,875
Net income	2,042	1,705	12,049	13,807
Net income attributable to non-controlling interests	(242)	(219)	(496)	(429)
Income attributable to Lee Enterprises, Incorporated	1,800	1,486	11,553	13,378
Other comprehensive loss, net of income taxes	(192)	(442)	(384)	(883)
Comprehensive income attributable to Lee Enterprises, Incorporated	1,608	1,044	11,169	12,495
Earnings per common share:				
Basic:	0.03	0.03	0.22	0.26
Diluted:	0.03	0.03	0.21	0.25

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

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

(Thousands of Dollars)	26 Weeks Ended	
	March 29 2015	March 30 2014
Cash provided by operating activities:		
Net income	12,049	13,807
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,061	24,216
Gain on sales of assets, net	(252)	(1,631)
Amortization of debt present value adjustment	—	2,394
Stock compensation expense	1,083	684
Distributions greater than earnings of MNI	1,444	1,309
Deferred income tax expense	6,411	62
Debt financing costs	2,595	175
Changes in operating assets and liabilities:		
Decrease in receivables	2,792	1,896
Decrease (increase) in inventories and other	1,716	(559)
Decrease in accounts payable, compensation and other accrued liabilities and unearned revenue	(8,748)	(12,607)
Decrease in pension, postretirement and postemployment benefit obligations	(2,365)	(3,205)
Change in income taxes receivable or payable	869	8,711
Other, net	(1,190)	(507)
Net cash provided by operating activities	39,465	34,745
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(5,675)	(4,895)
Decrease in restricted cash	441	—
Proceeds from sales of assets	868	2,170
Distributions greater (less) than earnings of TNI	218	(511)
Other, net	(180)	—
Net cash required for investing activities	(4,328)	(3,236)
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	5,000	—
Payments on long-term debt	(45,500)	(34,500)
Debt financing costs paid	(82)	(268)
Common stock transactions, net	91	575
Net cash required for financing activities	(40,491)	(34,193)
Net decrease in cash and cash equivalents	(5,354)	(2,684)
Cash and cash equivalents:		
Beginning of period	16,704	17,562
End of period	11,350	14,878

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

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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 March 29, 2015 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 2014 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks and 26 weeks ended March 29, 2015 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 “2015”, “2014” and the like refer to the fiscal years ended the last Sunday in September.

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

2 INVESTMENTS IN ASSOCIATED COMPANIES

TNI Partners

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

(Thousands of Dollars)	13 Weeks Ended		26 Weeks Ended	
	March 29 2015	March 30 2014	March 29 2015	March 30 2014
Operating revenue	14,373	15,065	29,973	31,137
Operating expenses, excluding workforce adjustments, depreciation and amortization	11,745	12,297	23,847	24,667
Workforce adjustments	—	—	—	(87)
Operating income	2,628	2,768	6,126	6,557
Company's 50% share of operating income	1,314	1,384	3,063	3,279
Less amortization of intangible assets	105	104	209	209
Equity in earnings of TNI	1,209	1,280	2,854	3,070

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses (income) associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Operations and Comprehensive Income. These amounts totaled \$(130,000) and \$(41,000) in the 13 weeks ended March 29, 2015 and March 30, 2014, respectively, and totaled \$(198,000) and \$(34,000) in the 26 weeks ended March 29, 2015 and March 30, 2014, respectively.

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Annual amortization of intangible assets is estimated to be \$418,000 in each of the 52 week periods ending March 2016, March 2017, March 2018, the 53 week period ending March 2019 and in the 52 week period ending March 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		26 Weeks Ended	
	March 29 2015	March 30 2014	March 29 2015	March 30 2014
Operating revenue	16,022	16,119	34,678	33,432
Operating expenses, excluding workforce adjustments, depreciation and amortization	14,178	14,597	28,810	27,856
Workforce adjustments	47	229	57	229
Depreciation and amortization	463	398	927	794
Operating income	1,334	895	4,884	4,553
Net income	888	625	3,112	2,885
Equity in earnings of MNI	444	313	1,556	1,442

3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	26 Weeks Ended March 29 2015
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)	March 29 2015	September 28 2014
Nonamortized intangible assets:		
Mastheads	25,102	25,102
Amortizable intangible assets:		
Customer and newspaper subscriber lists	686,912	686,732
Less accumulated amortization	512,937	499,178
	173,975	187,554
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,524	28,523

—	1
199,077	212,657

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Annual amortization of intangible assets for the 52 week periods ending March 2016, March 2017, March 2018, the 53 week period ending March 2019 and the 52 week period ending March 2020, is estimated to be \$26,625,000, \$25,428,000, \$20,788,000, \$16,546,000 and \$15,382,000, respectively.

4 DEBT

In January 2012, in conjunction with the effectiveness of our plan of reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, as discussed more fully below (and certain capitalized terms used below defined), and extended the April 2012 maturity with the existing Noteholders.

In May 2013, we again refinanced the \$94,000,000 remaining balance of the Pulitzer Notes (the "New Pulitzer Notes").

On March 31, 2014, we completed a comprehensive refinancing of our remaining debt, exclusive of the New Pulitzer Notes (the "2014 Refinancing"), which includes 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") among the Company, certain subsidiaries party thereto from time to time (the "Subsidiary Guarantors"), U.S. Bank National Association, as Trustee (the "Notes Trustee"), and Deutsche Bank Trust Company Americas, as Collateral Agent;

- \$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") among the Company, the lenders party thereto from time to time (the "1st Lien Lenders"), and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent; and

\$150,000,000 second lien term loan under a Second Lien Loan Agreement dated as of March 31, 2014 (the "2nd Lien Term Loan") among the Company, the lenders party thereto from time to time (the "2nd Lien Lenders"), and Wilmington Trust, National Association, as Administrative Agent and Collateral Agent.

The Notes, 1st Lien Credit Facility and 2nd Lien Term Loan enabled us to repay in full, including accrued interest, and terminate, on March 31, 2014: (i) the remaining principal balance of \$593,000,000 under our previous 1st lien agreement, and related subsidiary guaranty, security and pledge agreements, intercompany subordination and intercreditor agreements; and (ii) the remaining principal balance of \$175,000,000 under our previous 2nd lien agreement, and related subsidiary guaranty, security and pledge agreements, intercompany subordination and intercreditor agreements. We also used the proceeds of the refinancing to pay fees and expenses totaling \$30,931,000 related to the 2014 Refinancing.

Notes

The Notes are senior secured obligations of the Company and mature on March 15, 2022. The Notes were sold pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended.

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%. Interest on the Notes accrues from March 31, 2014.

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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	102.375
March 15, 2020	100

We may also 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. Any redemption of the Notes must also satisfy any accrued and unpaid interest thereon.

Security

The Notes are unconditionally guaranteed on a senior secured basis by each of our material domestic subsidiaries in which the Company holds a direct or indirect interest of more than 50% and which guaranty indebtedness for borrowed money, including the 1st Lien Credit Facility. Material domestic subsidiaries of the Company that are currently excluded from such subsidiary guarantee obligations under the Notes are MNI, except as noted below, our wholly-owned subsidiary, Pulitzer Inc. ("Pulitzer"), and its subsidiaries (collectively, the "Pulitzer Subsidiaries") and TNI.

At such time as the New Pulitzer Notes, as discussed more fully below, are satisfied, including any successor debt (the "Pulitzer Debt Satisfaction Date"), the Notes will also be guaranteed, on a second-priority basis, by Pulitzer and each Pulitzer Subsidiary that guarantees the indebtedness under the 2nd Lien Term Loan or other borrowings incurred by the Company or any subsidiary guarantor.

The Notes and the subsidiary guarantees are secured, subject to certain exceptions, priorities and limitations in the various agreements, by a lien on all property and assets of the Company and each subsidiary guarantor, other than the capital stock of MNI and any property and assets of MNI, Pulitzer, each Pulitzer Subsidiary and TNI (the "Lee Legacy Collateral"), on a first-priority basis, equally and ratably with all of the Company's and the subsidiary guarantors' existing and future obligations under the 1st Lien Credit Facility, pursuant to a Security Agreement dated as of March 31, 2014 (the "Notes Security Agreement") among the Company and the subsidiary guarantors (collectively, the "Notes Assignors") and Deutsche Bank Trust Company Americas.

Certain of the Notes Assignors, separately, have granted first lien mortgages or deeds of trust, covering their material real estate and improvements for the benefit of the holders of the Notes.

Also, the Notes 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 Notes Assignors pursuant to the Notes Security Agreement.

Prior to the Pulitzer Debt Satisfaction Date, none of the property and assets of Pulitzer and the Pulitzer Subsidiaries (collectively, the "Pulitzer Collateral") will be pledged to secure the Notes or the subsidiary guarantees. The Pulitzer Collateral includes the 50% interest in TNI owned by Star Publishing, but excludes any tangible and intangible assets owned by Star Publishing that are used by TNI in the conduct of its business. After the Pulitzer Debt Satisfaction

Date, the Notes and the subsidiary guarantees will be secured, subject to permitted liens, by a lien on the Pulitzer Collateral owned by each of the Pulitzer Subsidiaries that become subsidiary guarantors on a second-priority basis, equally and ratably with all of the Company's and the subsidiary guarantors' existing and future obligations under the 1st Lien Credit Facility and certain other indebtedness for borrowed money incurred by the Company or any subsidiary guarantor.

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The rights of the Notes Trustee and the 1st Lien Lenders with respect to the Lee Legacy Collateral are subject to:

A Pari Passu Intercreditor Agreement dated as of March 31, 2014 (the “Pari Passu Intercreditor Agreement”) among the Company, the other Grantors party thereto, JPMorgan Chase Bank, N.A., U.S. Bank National Association and Deutsche Bank Trust Company Americas; and

A Junior Intercreditor Agreement dated as of March 31, 2014 (the “Junior Intercreditor Agreement”) among the Company, the other Grantors party hereto, JPMorgan Chase Bank, N.A., U.S. Bank National Association, Deutsche Bank Trust Company Americas and Wilmington Trust, National Association.

Covenants and Other Matters

The Indenture contains certain of the restrictive covenants in the 1st Lien Credit Facility, as discussed more fully below, and limitations on our use of the Pulitzer Subsidiaries’ cash flows. However, many 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.

1st Lien Credit Facility

The 1st Lien Credit Facility consists of the \$250,000,000 1st Lien Term Loan that matures in March 2019 and the \$40,000,000 Revolving Facility that matures in December 2018. The 1st Lien Credit Facility documents the primary terms of the 1st 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 March 29, 2015, after consideration of letters of credit, we have approximately \$32,605,000 available for future use under the Revolving Facility.

Interest

Interest on the 1st Lien Term Loan, which has a principal balance of \$205,250,000 at March 29, 2015, accrues at either (at our option) LIBOR plus 6.25% (with a LIBOR floor of 1.0%) or at a base rate equal to highest of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0%, plus 5.25% (with a base rate floor of 2.0%), and is payable quarterly.

The 1st Lien Term Loan was funded with original issue discount of 2.0%, or \$5,000,000, which will be amortized as interest expense over the life of the 1st Lien Term Loan.

Interest on the Revolving Facility, which has a principal balance of zero at March 29, 2015, accrues at either (at our option) LIBOR plus 5.5%, or at a base rate equal to highest of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0%, plus 4.5%.

Principal Payments

Quarterly principal payments of \$6,250,000 are required under the 1st Lien Term Loan, with other payments made either voluntarily, based on 90% of excess cash flow, as defined, or from proceeds of asset sales, as defined. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1st Lien Credit Facility at any time without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

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2015 payments made, or required to be made for the remainder of the year, under the 1st Lien Term Loan are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended		13 Weeks Ending	
	December 28 2014	March 29 2015	June 28 2015	September 27 2015
Mandatory	6,250	6,250	6,250	6,250
Voluntary	5,000	4,000	—	—
Asset sales	—	—	—	—
Excess cash flow	—	—	—	—
	11,250	10,250	6,250	6,250

2014 payments made under the 1st Lien Term Loan or previous 1st lien agreement are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended			
	December 29 2013	March 30 2014	June 29 2014	September 28 2014
Mandatory	3,000	3,000	6,250	6,250
Voluntary	3,350	5,500	10,750	—
Asset sales	150	1,500	—	—
Excess cash flow	—	—	—	—
	6,500	10,000	17,000	6,250

Security

The 1st Lien Credit Facility is secured, subject to certain priorities and limitations in the various agreements, by perfected security interests in substantially all the assets of the Company and guaranteed by the Subsidiary Guarantors (together with the Company, the "1st Lien Assignors"), pursuant to a First Lien Guarantee and Collateral Agreement dated as of March 31, 2014 (the "1st Lien Guarantee and Collateral Agreement") among the Company, the Subsidiary Guarantors and JPMorgan Chase Bank, N.A. (the "1st Lien Collateral Agent"), on a first-priority basis, equally and ratably with all of the Company's and the Subsidiary Guarantors' existing and future obligations under the Notes. The 1st Lien Assignors' pledged assets include, among other things, equipment, inventory, accounts receivables, depository accounts, intellectual property and certain of their other tangible and intangible assets (excluding the assets of Pulitzer, the Pulitzer Subsidiaries, and TNI and the capital stock or assets of MNI).

Under the 1st Lien Credit Facility, certain of the 1st Lien Assignors, separately, have granted first lien mortgages or deeds of trust, subject to all relevant terms and conditions of the applicable intercreditor agreements, covering certain real estate and improvements, to the 1st Lien Lenders (excluding the real estate of Pulitzer, the Pulitzer Subsidiaries, TNI and MNI).

The 1st Lien Credit Facility is also secured by a pledge of interests in all of the capital stock of and other equity interests owned by the 1st Lien Assignors (excluding the capital stock and equity interests held by Pulitzer and the Pulitzer Subsidiaries, as well as the capital stock and equity interest of MNI and TNI, respectively).

The rights of the 1st Lien Collateral Agent with respect to the Lee Legacy Collateral are subject to:

• The Pari Passu Intercreditor Agreement;

• The Junior Intercreditor Agreement; and

An Intercompany Subordination Agreement dated as of March 31, 2014 (the “~~F~~ Lien Intercompany Subordination Agreement”) among the Company, Subsidiary Guarantors, Pulitzer, Pulitzer Subsidiaries and JPMorgan Chase Bank, N.A.

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Covenants and Other Matters

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

The 1st Lien Credit Facility restricts us from paying dividends on our Common Stock and generally restricts us from repurchasing Common Stock, unless in each case no default shall have occurred and we have satisfied certain financial measurements. Further, the 1st 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 1st Lien Credit Facility contains various representations and warranties and may be terminated upon occurrence of certain events of default. The 1st Lien Credit Facility also contains cross-default provisions tied to the terms of each of the Indenture, 2nd Lien Term Loan and New Pulitzer Notes.

2nd Lien Term Loan

The 2nd Lien Term Loan, which has a balance of \$150,000,000 at March 29, 2015, bears interest at a fixed annual rate of 12.0%, payable quarterly, and matures in December 2022.

Principal Payments

There are no scheduled mandatory payments required under the 2nd Lien Term Loan.

Under the 2nd Lien Term Loan, excess cash flows of Pulitzer and the Pulitzer Subsidiaries, as defined and subject to certain other conditions, must be used, (i) first, to repay the outstanding amount of the New Pulitzer Notes and (ii) second, (a) at any time after the Pulitzer Debt Satisfaction Date but prior to March 31, 2017, to make an offer to the 2nd Lien Lenders (which offer the 2nd Lien Lenders may accept or reject), to pay amounts under the 2nd Lien Term Loan at par and (b) at any time after the Pulitzer Debt Satisfaction Date and on or after March 31, 2017, to pay such amounts under the 2nd Lien Term Loan at par.

The definition of excess cash flows of Pulitzer includes a deduction for interest costs incurred under the 2nd Lien Term Loan after the Pulitzer Debt Satisfaction Date. In addition, other changes to settlement of certain intercompany costs between the Company and Pulitzer will also be effected after the Pulitzer Debt Satisfaction Date, with the net result being a reduction in the excess cash flows of Pulitzer from historical levels.

After the Pulitzer Debt Satisfaction Date, subject to certain other conditions in the 2nd Lien Term Loan the balance of the 2nd Lien Term Loan can, or will be, reduced at par from proceeds from asset sales by Pulitzer or the Pulitzer Subsidiaries.

Voluntary payments under the 2nd Lien Term Loan are otherwise 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

Security

The 2nd Lien Term Loan is fully and unconditionally guaranteed on a joint and several basis by the Company, Subsidiary Guarantors, Pulitzer and the Pulitzer Subsidiaries (collectively, the “2nd Lien Assignors”), other than MNI and TNI, pursuant to a Second Lien Guarantee and Collateral Agreement dated as of March 31, 2014 (the “2nd Lien Guarantee and Collateral Agreement”) among the 2nd Lien Assignors and Wilmington Trust, National Association.

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Under the 2nd Lien Guarantee and Collateral Agreement, the 2nd Lien Assignors have granted (i) second priority security interests, subject to certain priorities and limitations in the various agreements, on substantially all of their tangible and intangible assets, including the stock and other equity interests owned by the 2nd Lien Assignors, and (ii) have granted second lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and performance of their obligations under the 2nd Lien Term Loan. Assets of, or used in the operations or business of, TNI and our ownership interest in, and assets of, MNI are excluded.

Assets of Pulitzer and the Pulitzer Subsidiaries, excluding assets of or assets used in the operations or business of, TNI, will become subject to (i) a first priority security interest in favor of the 2nd Lien Lenders; and (ii) a second priority security interest in favor of the secured parties under the 1st Lien Credit Facility, as applicable, upon the Pulitzer Debt Satisfaction Date.

The 2nd Lien Guarantee and Collateral Agreement is subject to:

• The Junior Intercreditor Agreement;

An Intercreditor Agreement dated as of January 30, 2012 among The Bank of New York Mellon Trust Company, N.A., Wilmington Trust, National Association, Pulitzer and the Pulitzer Subsidiaries, as amended by the First Amendment to Intercreditor Agreement dated May 1, 2013, and as further amended by the Second Amendment to Intercreditor Agreement dated as of March 31, 2014 (the “Second Amendment to Pulitzer Intercreditor Agreement”); and

An Intercompany Subordination Agreement dated as of March 31, 2014 (the “Pulitzer Intercompany Subordination Agreement”) among the Company, the Subsidiary Guarantors, Pulitzer, Pulitzer Subsidiaries and Wilmington Trust, National Association.

Covenants and Other Matters

The 2nd 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 1st Lien Credit Facility discussed above. The 2nd Lien Term Loan contains various representations and warranties and may be terminated upon occurrence of certain events of default. The 2nd Lien Term Loan also contains cross-default provisions tied to the terms of the Indenture, 1st Lien Credit Facility and the New Pulitzer Notes.

In connection with the 2nd Lien Term Loan, we entered into a Warrant Agreement dated as of March 31, 2014 (the “Warrant Agreement”) between the Company and Wells Fargo Bank, National Association. Under the Warrant Agreement, certain affiliates or designees of the 2nd 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 be measured at fair value and included in other liabilities in our Consolidated Balance Sheets. 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. At September 28, 2014, the fair value of the Warrants was \$10,808,000. At March 29, 2015, the fair value of the Warrants is \$10,029,000.

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.

New Pulitzer Notes

In conjunction with its formation in 2000, St. Louis Post-Dispatch LLC ("PD LLC") borrowed \$306,000,000 (the "Pulitzer Notes") from a group of institutional lenders (the "Noteholders"). The Pulitzer Notes were guaranteed

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by Pulitzer pursuant to a Guaranty Agreement with the Noteholders. The aggregate principal amount of the Pulitzer Notes was payable in April 2009.

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

In January 2012, in connection with the Plan, we entered into an amended Note Agreement and Guaranty Agreement, which amended the Pulitzer Notes and extended the maturity with the Noteholders. After consideration of unscheduled principal payments totaling \$15,145,000 (\$10,145,000 in December 2011 and \$5,000,000 in January 2012), offset by \$3,500,000 of non-cash fees paid to the Noteholders in the form of additional Pulitzer Notes debt, the amended Pulitzer Notes had a balance of \$126,355,000 in January 2012.

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

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

Principal Payments

At March 29, 2015, the balance of the New Pulitzer Notes is \$9,000,000. We may voluntarily prepay principal amounts outstanding under the New Pulitzer Notes at any time, in whole or in part, without premium or penalty (except as noted below), upon proper notice, and subject to certain limitations as to minimum amounts of prepayments. The New Pulitzer Notes provide for mandatory scheduled prepayments totaling \$6,400,000 annually.

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

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

2015 payments made, or required to be made for the remainder of the year, under the New Pulitzer Notes are summarized below.

(Thousands of Dollars)	13 Weeks Ended		13 Weeks Ending	
	December 28 2014	March 29 2015	June 28 2015	September 27 2015
Mandatory	4,000	2,400	—	—
Voluntary	—	7,520	—	—
Asset sales	—	80	—	—
Excess cash flow	—	—	—	—
	4,000	10,000	—	—

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2014 payments made under the New Pulitzer Notes are summarized as follows:

(Thousands of Dollars)	December 29 2013	March 30 2014	June 29 2014	13 Weeks Ended September 28 2014
Mandatory	6,400	—	—	—
Voluntary	1,600	10,000	13,000	9,000
Asset sales	—	—	—	—
Excess cash flow	—	—	—	—
	8,000	10,000	13,000	9,000

Security

Obligations under the New Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries other than PD LLC and TNI. The New Pulitzer Notes are also secured by first priority security interests in the stock and other equity interests owned by Pulitzer's subsidiaries including the 50% ownership interest in TNI. Also, Pulitzer, certain of its subsidiaries and PD LLC granted a first priority security interest on substantially all of its tangible and intangible assets, excluding the assets of Star Publishing leased to, or used in the operations or business of, TNI and granted deeds of trust covering certain real estate in the St. Louis area, as collateral for the payment and performance of their obligations under the New Pulitzer Notes.

Covenants and Other Matters

The New Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of minimum trailing 12 month EBITDA (minimum of \$24,200,000 beginning March 29, 2015), as defined in the New Pulitzer Notes agreement, and limitations on capital expenditures and the incurrence of other debt. Our actual trailing 12 month EBITDA at March 29, 2015 is \$41,505,000.

Further, the New Pulitzer Notes have limitations or restrictions on distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants require that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the New Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Company, exclusive of Pulitzer.

Other

The refinancing of the Pulitzer Notes with the New Pulitzer Notes resulted in the acceleration of \$1,565,000 of a present value adjustment, which was partially offset by eliminating deferred interest expense of \$1,189,000, and the net amount of which was recognized in 2013. Expenses related to the issuance of the New Pulitzer Notes are capitalized as debt issuance costs and will be amortized until the Pulitzer Debt Satisfaction Date.

We incurred \$30,931,000 of fees and expenses related to the 2014 Refinancing, including a \$1,750,000 premium (1% of the principal amount) related to the redemption of the previous 2nd lien agreement and \$5,000,000 original issue discount on the 1st Lien Term Loan. In addition, at the date of the 2014 Refinancing we had \$10,549,000 of unamortized present value adjustments related to the previous 1st lien agreement and previous 2nd lien agreement. We also recognized original issue discount of \$16,930,000 on the 2nd Lien Term Loan related to the Warrants. Certain of the unamortized present value adjustments, the new fees and expenses and a portion of the value of the Warrants were charged to expense upon completion of the 2014 Refinancing while the remainder of such costs have been capitalized and are being amortized over the lives of the respective debt agreements.

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Debt financing costs are summarized as follows:

(Thousands of Dollars)

Prepayment premium - previous 2 nd lien agreement	1,750
Unamortized loan fees from previous credit agreements	10,549
Fees paid in cash to arrangers, lenders, attorneys and others	24,181
Original issue discount - 1 st Lien Term Loan	5,000
Fair value of Warrants granted to 2nd Lien Lenders	16,930
	58,410
Charged to expense as a result of debt extinguishment	20,591
Capitalized debt financing costs	37,819

Amortization of debt financing costs totaled \$1,307,000 and \$2,336,000 in the 13 weeks and 26 weeks ended March 29, 2015, respectively. Amortization of such costs is estimated to total \$3,999,000 in 2015, \$4,208,000 in 2016, \$4,397,000 in 2017, \$4,525,000 in 2018 and \$4,281,000 in 2019. At March 29, 2015 we have \$34,147,000 of unamortized debt financing costs included in other assets in our Consolidated Balance Sheets.

Debt is summarized as follows:

(Thousands of Dollars)	March 29 2015	September 28 2014	Interest Rates (%)
			March 29 2015
Revolving Facility	—	5,000	5.65
1st Lien Term Loan	205,250	226,750	7.25
Notes	400,000	400,000	9.50
2 nd Lien Term Loan	150,000	150,000	12.00
New Pulitzer Notes	9,000	23,000	9.00
	764,250	804,750	
Less current maturities of long-term debt	27,400	31,400	
Total long-term debt	736,850	773,350	

At March 29, 2015, our weighted average cost of debt, excluding amortization of debt financing costs, is 9.4%.

Aggregate maturities of debt total \$12,500,000 for the remainder of 2015, \$31,400,000 in 2016, \$27,600,000 in 2017, \$25,000,000 in 2018, \$117,750,000 in 2019 and \$550,000,000 thereafter.

Liquidity

At March 29, 2015, after consideration of letters of credit, we have approximately \$32,605,000 available for future use under our Revolving Facility. Including cash, our liquidity at March 29, 2015 totals \$43,955,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000.

The 2014 Refinancing significantly enhances our debt maturity profile. Final maturities of our debt have been extended to dates from April 2017 through December 2022. As a result, refinancing risk has been substantially reduced for the next several years.

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

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

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Based on our forecast at March 29, 2015, we expect to contribute \$3,365,000 to our pension plans for the remainder of 2015. Based on our forecast at March 29, 2015, we do not expect to contribute to our postretirement plans for the remainder of 2015.

6 INCOME TAXES

The effective income tax rates for the 13 weeks ended March 29, 2015 and March 30, 2014 were 26.0% and 46.7%, respectively. The effective income tax rates for the 26 weeks ended March 29, 2015 and March 30, 2014 were 37.5% and 39.1%, respectively. The primary differences between these rates and the U.S. federal statutory rate of 35% are due to the effect of state taxes, non-deductible expenses, adjustments to reserves for uncertain tax positions, including any related interest, and mark-to-market adjustments to value the Warrants issued in connection with our 2014 Refinancing. The decrease in the effective income tax rate for the 13 weeks ended March 29, 2015 is primarily due to a mark-to-market adjustment 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.

State cash tax payments of \$168,000 were made during the 26 weeks ended March 29, 2015, of which \$164,000 were made during the 13 weeks ended March 29, 2015. State cash tax refunds of \$236,000 relating to carrybacks of prior year losses were received during the 26 weeks ended March 29, 2015, all of which were received during the 13 weeks ended March 29, 2015. 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 2015, 2016 or 2017.

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 Ended		26 Weeks Ended	
	March 29 2015	March 30 2014	March 29 2015	March 30 2014
Income attributable to Lee Enterprises, Incorporated:	1,800	1,486	11,553	13,378
Weighted average common shares	54,506	53,519	54,206	53,199
Less weighted average restricted Common Stock	(2,012)	)(1,296)	)(1,724)	)(1,048)
Basic average common shares	52,494	52,223	52,482	52,151
Dilutive stock options and restricted Common Stock	1,381	1,575	1,434	1,390
Diluted average common shares	53,875	53,798	53,916	53,541
Earnings per common share:				
Basic	0.03	0.03	0.22	0.26
Diluted	0.03	0.03	0.21	0.25

For the 13 weeks and 26 weeks ended March 29, 2015, 6,816,000 and 6,533,000 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 weeks and 26 weeks ended March 30, 2014, we had 98,000 and 100,000 weighted average shares, respectively,

were not considered in the computation of diluted earnings per common share because the related stock option exercise prices were in excess of the fair market value of our Common Stock.

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8 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 26 weeks ended March 29, 2015 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 28, 2014	2,333	2.70		
Exercised	(60)	1.53		
Cancelled	(79)	8.18		
Outstanding, March 29, 2015	2,194	2.54	6.1	3,033
Exercisable, March 29, 2015	1,700	2.92	5.8	2,065

Total unrecognized compensation expense for unvested stock options as of March 29, 2015 is \$71,000, which will be recognized over a weighted average period of 0.2 years.

Restricted Common Stock

The table below summarizes restricted Common Stock activity during the 26 weeks ended March 29, 2015.

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 28, 2014	1,291	2.72
Granted	735	3.64
Cancelled	(13)	3.61
Outstanding, March 29, 2015	2,013	3.05

Total unrecognized compensation expense for unvested restricted Common Stock at March 29, 2015 is \$4,048,000, which will be recognized over a weighted average period of 1.8 years.

9 FAIR VALUE MEASUREMENTS

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

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

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

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value.

The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling \$7,359,000, including our 17% ownership of the nonvoting common stock of TCT, are carried at cost.

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The fair value of floating rate debt, which consists of our 1st Lien Term Loan, is \$206,661,000, based on an average of private market price quotations. Our fixed rate debt consists of \$400,000,000 principal amount of the Notes, \$150,000,000 principal amount under the 2nd Lien Term Loan and \$9,000,000 principal amount of New Pulitzer Notes. At March 29, 2015, based on private market price quotations the fair values were \$412,250,000 and \$160,500,000 for the Notes and 2nd Lien Term Loan, respectively. These represent level 2 fair value measurements. The New Pulitzer Notes are held by a single investor, Berkshire. We are unable, as of March 29, 2015, to determine the fair value of the New Pulitzer Notes. The value, if determined, may be more or less than the carrying amount.

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. At September 28, 2014, the fair value of the Warrants was \$10,808,000. At December 28, 2014, the fair value of the Warrants was \$12,110,000. At March 29, 2015, the fair value of the Warrants is \$10,029,000. Fair value is determined using the Black-Scholes option pricing model. These represent level 2 fair value measurements.

10 COMMITMENTS AND CONTINGENT LIABILITIES

Redemption of PD LLC Minority Interest

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

In 2014, we issued 100,000 shares of Common Stock in full satisfaction of the Herald Value. Such shares had a fair value of \$298,000 on the date of issuance.

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

Income Taxes

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

financial position or cash flows.

Legal Proceedings

In 2008, a group of newspaper carriers filed suit against us in the United States District Court for the Southern District of California, claiming to be our employees and not independent contractors. The plaintiffs sought relief related to alleged violations of various employment-based statutes, and requested punitive damages and

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attorneys' fees. In 2014 we reached a settlement with the plaintiffs and recorded a liability of \$2,300,000. The court approved the settlement and we paid \$2,176,000 in full satisfaction of the claim in April 2015.

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

Multiemployer Pension Plans

In 2015, we were notified that a bargaining unit at one of our enterprises was no longer being represented. As a result, we may be subject to a future claim for withdrawal liability. The amount of such liability, if any, will be dependent on actions taken, or not taken, by the Company and the pension fund, as well as the future performance of the pension fund.

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 26 weeks ended March 29, 2015. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2014 Annual Report on Form 10-K.

NON-GAAP FINANCIAL MEASURES

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

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

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

Adjusted Income (Loss) and Adjusted Earnings (Loss) Per Common Share are defined as income (loss) attributable to Lee Enterprises, Incorporated and earnings (loss) per common share adjusted to exclude both unusual matters and those of a substantially non-recurring nature.

Cash Costs are 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.

Operating Cash Flow is defined as operating income (loss) plus depreciation, amortization and impairment charges, minus equity in earnings of TNI and MNI and curtailment gains. Operating Cash Flow Margin is defined as operating cash flow divided by operating revenue. The terms operating cash flow and EBITDA are used interchangeably.

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

Tables reconciling operating cash flow, adjusted EBITDA, unlevered free cash flow and free cash flow to operating income (loss), the most directly comparable measure under GAAP, are set forth in Item 2, included herein, under the caption "Selected Consolidated Financial Information".

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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 March 29, 2015" and "26 Weeks Ended March 29, 2015".

We also present selected information for Lee Legacy and Pulitzer. Lee Legacy constitutes the business of the Company, including MNI, but excluding Pulitzer, the Pulitzer Subsidiaries and TNI. See "Selected Lee Legacy Financial Information" and "Selected Pulitzer Financial Information" in Item 2, included herein.

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 2014 Annual Report on Form 10-K.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("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 2018, but may be deferred one year. We have not yet determined the potential impact on our Consolidated Financial Statements.

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 April 2015, the FASB issued a new standard for the presentation 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.

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EXECUTIVE OVERVIEW

We are a leading provider of local news and information, and a major platform for advertising, in the markets we serve, which are located primarily in the Midwest, Mountain West and West regions of the United States. With the exception of St. Louis, Missouri, our 50 daily newspaper markets, across 22 states, are principally midsize or small. Through our print and digital platforms, we reach an overwhelming majority of adults in our markets.

Our products include:

• 50 daily and 38 Sunday newspapers with subscribers totaling 1.0 million and 1.5 million, respectively, 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. Based on data from the Bureau of Labor of Statistics as of February 2015, the unemployment rate in six of our top ten markets by revenue was lower than the national average. We believe that all of these factors have had a positive impact on advertising revenue. Community newspapers remain a valuable source of local news and information to readers and an effective means for local advertisers to reach their customers. We believe our audiences across these communities tend to be loyal readers that 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 significant competition for audience in those markets from other media. In our top ten markets by revenue, only two have significant local daily print competition.

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 toward digital advertising and away from print and other traditional media. This trend away from traditional advertising was compounded by the effects of the last recession, which had a significant impact on our advertising and marketing services revenue. In addition, our daily newspaper paid subscription and single copy unit sales have declined. We have attempted to offset our declines in advertising and marketing services revenue and print subscription revenue with our efforts to expand our digital advertising revenue and increase the numbers of our 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 positive revenue from this initiative should be realized in 2015.

During, and since, the last economic downturn, we have also transformed our business model and carefully managed our costs to maintain high margins and cash flows. Since 2007 and through 2014, we reduced annual cash costs of our continuing operations by \$297 million, or 37%, net of costs incurred to achieve these savings and also net of cost increases that primarily support our revenue and content initiatives. We are continuing to pursue operating efficiencies in 2015.

ECONOMIC CONDITIONS

According to the National Bureau of Economic Research, the United States economy was in a recession from December 2007 until June 2009. It is widely believed that certain elements of the economy, such as housing, auto sales and employment, were in decline before December 2007, and some elements have recovered slowly in either nominal or real (inflation-adjusted) terms. Our revenue, operating results and cash flows were significantly impacted by the recession and its aftermath. The duration and depth of an economic recession, and pace of economic recovery, in markets in which we operate may influence our future results.

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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 charges would not impact our 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.

Substantially all of our debt was scheduled to mature in April 2012. We used a voluntary, prepackaged petition under the U. S. Bankruptcy Code to accomplish a refinancing that extended the maturity to December 2015 for most of our debt, with the remainder maturing in April 2017. In May 2013, we again refinanced the remaining balance of the Pulitzer Notes. On March 31, 2014, we refinanced all of our other debt in the 2014 Refinancing. Our ability to make payments on our indebtedness will depend on our ability to generate future cash flows. This ability, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

At March 29, 2015, after consideration of letters of credit, we have approximately \$32,605,000 available for future use under our Revolving Facility. Including cash, our liquidity at March 29, 2015 totals \$43,955,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000.

At March 29, 2015, the principal amount of our outstanding debt totaled \$764,250,000. For the last twelve months ended March 29, 2015, the principal amount of our debt, net of cash, is 4.6 times our adjusted EBITDA, compared to a ratio of 4.8 on a pro forma basis for the 2014 Refinancing at March 30, 2014.

The 2014 Refinancing significantly enhances our debt maturity profile. Final maturities of our debt have been extended to dates from April 2017 through December 2022. As a result, refinancing risk has been substantially reduced for the next several years.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. The Notes, 1st Lien Credit Facility and 2nd 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 March 29, 2015.

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13 WEEKS ENDED MARCH 29, 2015

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

(Thousands of Dollars, Except Per Share Data)	13 Weeks Ended		Percent Change
	March 29 2015	March 30 2014	
Advertising and marketing services revenue:			
Retail	61,520	64,806	(5.1)
Classified:			
Employment	7,646	8,060	(5.1)
Automotive	6,242	6,904	(9.6)
Real estate	3,708	4,125	(10.1)
All other	10,377	10,304	0.7
Total classified	27,973	29,393	(4.8)
National	5,375	6,094	(11.8)
Niche publications and other	2,797	2,427	15.2
Total advertising and marketing services revenue	97,665	102,720	(4.9)
Subscription	48,111	41,952	14.7
Commercial printing	2,774	2,992	(7.3)
Digital services and other	6,979	6,429	8.6
Total operating revenue	155,529	154,093	0.9
Operating expenses:			
Compensation	61,236	59,071	3.7
Newsprint and ink	7,661	9,334	(17.9)
Other operating expenses	55,839	52,712	5.9
Workforce adjustments	640	299	NM
Cash costs	125,376	121,416	3.3
Operating cash flow	30,153	32,677	(7.7)
Depreciation and amortization	11,566	12,191	(5.1)
Loss (gain) on sales of assets, net	5	(1,641)	)NM
Equity in earnings of associated companies	1,653	1,593	3.8
Operating income	20,235	23,720	(14.7)
Non-operating expense, net	(17,476)	)(20,523)	)(14.8)
Income before income taxes	2,759	3,197	(13.7)
Income tax expense	717	1,492	(51.9)
Net income	2,042	1,705	19.8
Net income attributable to non-controlling interests	(242)	)(219)	)10.5
Income attributable to Lee Enterprises, Incorporated	1,800	1,486	21.1
Other comprehensive loss, net of income taxes	(192)	)(442)	)(56.6)
Comprehensive income attributable to Lee Enterprises, Incorporated	1,608	1,044	54.0
Earnings per common share:			
Basic	0.03	0.03	—
Diluted	0.03	0.03	—

References to the "2015 Quarter" refer to the 13 weeks ended March 29, 2015. Similarly, references to the "2014 Quarter" refer to the 13 weeks ended March 30, 2014.

Total operating revenue increased \$1,436,000, or 0.9%, in the 2015 Quarter, compared to the 2014 Quarter. Excluding the impact of a subscription-related expense reclassification as a result of moving to fee-for-service delivery contracts at several of our newspapers, operating revenue decreased 1.8%. This reclassification increases both print subscription revenue and operating expenses, with no impact on operating cash flow or operating income. Certain delivery expenses were previously reported as a reduction of revenue. A table below details the impact of the reclassification on revenue and cash costs. Unless otherwise noted, the comparisons below are presented on a reported basis.

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Advertising and Marketing Services Revenue

In the 2015 Quarter, advertising and marketing services revenue decreased \$5,055,000, or 4.9%, compared to the 2014 Quarter. Retail advertising decreased 5.1%. Retail preprint insertion revenue decreased 5.6%. Digital retail advertising on a stand-alone basis increased 6.1%, partially offsetting print declines.

Classified revenue decreased 4.8% in the 2015 Quarter. Employment revenue decreased 5.1% while automotive advertising decreased 9.6%, real estate decreased 10.1% and other classified increased 0.7%. Digital classified revenue on a stand-alone basis increased 8.7%, partially offsetting print declines.

National advertising decreased \$719,000, or 11.8%. Digital national advertising on a stand-alone basis increased 26.0% due to improved management of national advertising exchanges. Advertising in niche publications and other increased 15.2%.

On a stand-alone basis, digital advertising and marketing services revenue increased 8.3% to \$18,827,000 in the 2015 Quarter, representing 19.3% of total advertising and marketing services revenue. Total digital revenue for the 2015 Quarter, including advertising and marketing services, subscriptions and all other digital business, totaled \$27,413,000, an increase of 33.9% from a year ago, representing 17.6% of total operating revenue. Print advertising and marketing services revenue on a stand-alone basis decreased 7.6%.

Subscription and Other Revenue

Subscription revenue increased \$6,159,000, or 14.7%, in the 2015 Quarter. Excluding the impact of the subscription-related expense reclassification, subscription revenue increased 4.7%. The increase in subscription revenue in the current year quarter is due to the effect of our full access subscription model, partially offset by a decline in print units. We expect 2015 subscription revenue, excluding the impact of subscription-related expense reclassification, to increase 2.5%-3.0%.

Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 1.0 million in the 2015 Quarter. Sunday circulation totaled 1.4 million. Amounts are not comparable to the 2014 Quarter due to changes in measurements by the Alliance for Audited Media ("AAM"). Research in our larger markets indicates we are maintaining our share of audience through the combination of digital audience growth and strong newspaper readership.

Commercial printing revenue decreased \$218,000, or 7.3%, in the 2015 Quarter. Digital services and other revenue increased \$550,000, or 8.6%, in the 2015 Quarter.

Operating Expenses

Cash costs increased \$3,960,000, or 3.3%, in the 2015 Quarter. Excluding the impact of the subscription-related expense reclassification, cash costs decreased 0.2%.

Compensation expense increased \$2,165,000, or 3.7%, in the 2015 Quarter, driven by increases in employee medical and pension costs, as well as compensation increases, which were partially offset by a decline in average full-time equivalent employees of 3.9%.

Newsprint and ink costs decreased \$1,673,000, or 17.9%, in the 2015 Quarter, primarily as a result of lower newsprint prices and a reduction in newsprint volume of 10.9%. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, increased \$3,127,000, or 5.9%, in the 2015 Quarter, due primarily to the subscription-related expense reclassification.

For the full year, 2015 cash costs, excluding the impact of the subscription-related expense reclassification, are expected to decrease 2.25%-2.75%. To achieve this cost reduction, cash costs for the remainder of the fiscal year will need to decrease by 3.3%-4.3%, which significantly exceeds the decrease of 1.2% for the 26 weeks ended March 29, 2015. This acceleration of cost reduction in the latter half of 2015 may also have a favorable impact on 2016 cash costs.

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Certain results, excluding the impact of the subscription-related expense reclassification, are as follows:

(Thousands of Dollars)	13 Weeks Ended		Percent Change
	March 29 2015	March 30 2014	
Subscription revenue, as reported	48,111	41,952	14.7
Adjustment for subscription-related expense reclassification	(4,605)	)(400)	)NM
Subscription revenue, as adjusted	43,506	41,552	4.7
Total operating revenue, as reported	155,529	154,093	0.9
Adjustment for subscription-related expense reclassification	(4,605)	)(400)	)NM
Total operating revenue, as adjusted	150,924	153,693	(1.8)
Other cash costs, as reported	55,839	52,712	5.9
Adjustment for subscription-related expense reclassification	(4,605)	)(400)	)NM
Other cash costs, as adjusted	51,234	52,312	(2.1)
Total cash costs, as reported	125,376	121,416	3.3
Adjustment for subscription-related expense reclassification	(4,605)	)(400)	)NM
Total cash costs, as adjusted	120,771	121,016	(0.2)

Approximately \$4,272,000, or 92.8%, of the reclassification impacts revenue and cash costs of our Lee Legacy operations, and approximately \$333,000, or 7.2%, impacts Pulitzer. The subscription-related expense reclassification described above also increased revenue and cash costs of MNI by \$1,457,000 in the 2015 Quarter. Such amounts for MNI are not included in the table above.

Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 7.7%, to \$30,153,000, in the 2015 Quarter compared to \$32,677,000 in the 2014 Quarter. Operating cash flow margin decreased to 19.4% from 21.2% a year ago, reflecting a smaller percentage increase in operating revenue than the increase in operating expenses and the subscription-related expense reclassification. The reduction of operating cash flow margin related to the subscription-related expense reclassification was 0.6% in the 2015 Quarter.

Depreciation expense decreased \$589,000, or 11.2%, in the 2015 Quarter. Amortization expense decreased \$36,000, or 0.5%, in the 2015 Quarter. Sales of operating assets resulted in a net loss of \$5,000 in the 2015 Quarter compared to a net gain of \$1,641,000 in the 2014 Quarter.

Equity in earnings of TNI and MNI increased \$60,000 in the 2015 Quarter.

The factors noted above resulted in operating income of \$20,235,000 in the 2015 Quarter compared to \$23,720,000 in the 2014 Quarter. Operating income margin decreased to 13.0% from 15.4% a year ago. The reduction of operating income margin related to the subscription-related expense reclassification was 0.4% in the 2015 Quarter.

Nonoperating Income and Expense

Interest expense decreased \$2,149,000, or 10.5%, to \$18,403,000 in the 2015 Quarter due to lower debt balances and \$1,196,000 of non-cash interest expense in the 2014 Quarter. As a result of the 2014 Refinancing, our weighted average cost of debt, excluding amortization of debt financing costs, increased to 9.4% at the end of the 2015 Quarter

compared to 9.2% at the end of the 2014 Quarter.

Amortization of debt financing costs was \$1,493,000 in the 2015 Quarter compared to \$99,000 in the 2014 Quarter. We also recognized \$2,081,000 of non-operating income in the 2015 Quarter due to the change in fair value of Warrants issued in connection with our 2014 Refinancing.

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Overall Results

We recognized income tax expense of 26.0% of income before income taxes in the 2015 Quarter and 46.7% in the 2014 Quarter. See Note 6 of the Notes to the Consolidated Financial Statements 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 \$1,800,000 in the 2015 Quarter compared to income of \$1,486,000 in the 2014 Quarter. We recorded earnings per diluted common share of \$0.03 in the 2015 Quarter and \$0.03 in the 2014 Quarter. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.02 in the 2015 Quarter, compared to \$0.05 in the 2014 Quarter. Per share amounts may not add due to rounding.

	13 Weeks Ended			
	March 29 2015		March 30 2014	
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	1,800	0.03	1,486	0.03
Adjustments:				
Debt financing costs	1,493		99	
Amortization of debt present value adjustment	—		1,196	
Warrants fair value adjustment	(2,081)	—	
Other, net	436		414	
	(152	)	1,709	
Income tax effect of adjustments, net	(666	)	(567)
	(818	)(0.02	)1,142	0.02
Income attributable to Lee Enterprises, Incorporated, as adjusted	982	0.02	2,628	0.05

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26 WEEKS ENDED MARCH 29, 2015

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)	26 Weeks Ended		Percent Change
	March 29 2015	March 30 2014	
Operating revenue:			
Retail	138,332	147,084	(6.0)
Classified:			
Employment	15,070	15,269	(1.3)
Automotive	13,580	15,043	(9.7)
Real estate	7,782	8,544	(8.9)
All other	20,739	20,757	(0.1)
Total classified	57,171	59,613	(4.1)
National	12,526	13,611	(8.0)
Niche publications and other	5,113	4,802	6.5)
Total advertising and marketing services revenue	213,142	225,110	(5.3)
Subscription	98,509	87,405	12.7)
Commercial printing	5,591	6,023	(7.2)
Digital services and other	14,441	12,940	11.6)
Total operating revenue	331,683	331,478	0.1)
Operating expenses:			
Compensation	123,173	121,212	1.6)
Newsprint and ink	16,507	19,895	(17.0)
Other operating expenses	115,021	107,870	6.6)
Workforce adjustments	851	506	68.2)
Cash costs	255,552	249,483	2.4)
Operating cash flow	76,131	81,995	(7.2)
Depreciation and amortization	23,061	24,216	(4.8)
Loss (gain) on sales of assets, net	(252)	(1,631)	(84.5)
Equity in earnings of associated companies	4,410	4,512	(2.3)
Operating income	57,732	63,922	(9.7)
Non-operating expense, net	(38,468)	(41,240)	(6.7)
Income before income taxes	19,264	22,682	(15.1)
Income tax expense	7,215	8,875	(18.7)
Net income	12,049	13,807	(12.7)
Net income attributable to non-controlling interests	(496)	(429)	15.6)
Income attributable to Lee Enterprises, Incorporated	11,553	13,378	(13.6)
Other comprehensive loss, net of income taxes	(384)	(883)	NM)
Comprehensive income attributable to Lee Enterprises, Incorporated	11,169	12,495	(10.6)
Earnings per common share:			
Basic	0.22	0.26	(15.4)
Diluted	0.21	0.25	(16.0)

References to the "2015 Period" refer to the 26 weeks ended March 29, 2015. Similarly, references to the "2014 Period" refer to the 26 weeks ended March 30, 2014.

Total operating revenue increased \$205,000, or 0.1%, in the 2015 Period, compared to the 2014 Period. Excluding the impact of the subscription-related expense reclassification, operating revenue for the 2015 Period decreased 2.7%. A table below details the impact of the reclassification on revenue and cash costs. Unless otherwise noted, the comparisons below are presented on a reported basis.

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Advertising and Marketing Services Revenue

In the 2015 Period, advertising and marketing services revenue decreased \$11,968,000, or 5.3%, compared to the 2014 Period. Retail advertising decreased 6.0%. Retail preprint insertion revenue decreased 7.1%. Digital retail advertising on a stand-alone basis increased 4.3%, partially offsetting print declines.

Classified revenue decreased 4.1% in the 2015 Period. Employment revenue decreased 1.3% while automotive advertising decreased 9.7%, real estate decreased 8.9% and other classified decreased 0.1%. Digital classified revenue on a stand-alone basis increased 11.3%, partially offsetting print declines.

National advertising decreased \$1,085,000, or 8.0%. Digital national advertising on a stand-alone basis increased 20% due to improved management of national advertising exchanges. Advertising in niche publications and other increased 6.5%.

On a stand-alone basis, digital advertising and marketing services revenue increased 7.7%, to \$38,776,000, in the 2015 Period, representing 18.2% of total advertising and marketing services revenue. Total digital revenue for the 2015 Period, including advertising and marketing services, subscriptions and all other digital business, totaled \$54,568,000, an increase of 29.7% from a year ago, representing 16.5% of total operating revenue. Print advertising and marketing services revenue on a stand-alone basis decreased 7.8%.

Subscription and Other Revenue

Subscription revenue increased \$11,104,000, or 12.7%, in the 2015 Period. Excluding the impact of the subscription-related expense reclassification, subscription revenue increased 2.4%. The increase in subscription revenue in the current year period is due to the effect of our full access subscription model, partially offset by a decline in print units.

Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 1.0 million in the 2015 Period. Sunday circulation totaled 1.5 million. Amounts are not comparable to the 2014 Period due to changes in measurements by the AAM.

Commercial printing revenue decreased \$432,000, or 7.2%, in the 2015 Period. Digital services and other revenue increased \$1,501,000, or 11.6%, in the 2015 Period.

Operating Expenses

Cash costs increased \$6,069,000, or 2.4%, in the 2015 Period. Excluding the impact of the subscription-related expense reclassification, cash costs decreased 1.2%.

Compensation expense increased \$1,961,000, or 1.6%, in the 2015 Period, driven by increases in employee medical and pension costs, as well as compensation increases, which were partially offset by a decline in average full time equivalent employees of 3.7%.

Newsprint and ink costs decreased \$3,388,000, or 17.0%, in the 2015 Period, primarily as a result of lower newsprint prices and a reduction in newsprint volume of 12.1%. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, increased \$7,151,000, or 6.6%, in the 2015 Period due to the

subscription-related expense reclassification.

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Certain results, excluding the impact of the subscription-related expense reclassification, are as follows:

(Thousands of Dollars)	26 Weeks Ended		Percent Change
	March 29 2015	March 30 2014	
Subscription revenue, as reported	98,509	87,405	12.7
Adjustment for subscription-related expense reclassification	(9,412	)(400	)NM
Subscription revenue, as adjusted	89,097	87,005	2.4
Total operating revenue, as reported	331,683	331,478	0.1
Adjustment for subscription-related expense reclassification	(9,412	)(400	)NM
Total operating revenue, as adjusted	322,271	331,078	(2.7)
Other cash costs, as reported	115,021	107,870	6.6
Adjustment for subscription-related expense reclassification	(9,412	)(400	)NM
Other cash costs, as adjusted	105,609	107,470	(1.7)
Total cash costs, as reported	255,552	249,483	2.4
Adjustment for subscription-related expense reclassification	(9,412	)(400	)NM
Total cash costs, as adjusted	246,140	249,083	(1.2)

Approximately \$8,716,000, or 92.6%, of the reclassification impacts revenue and cash costs of our Lee Legacy operations, and approximately \$696,000, or 7.4%, impacts Pulitzer. The subscription-related expense reclassification described above also increased revenue and cash costs of MNI by \$2,933,000 in the 2015 Period. Such amounts for MNI are not included in the table above.

Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 7.2%, to \$76,131,000, in the 2015 Period compared to \$81,995,000 in the 2014 Period. Operating cash flow margin decreased to 23.0% from 24.7% a year ago reflecting a larger percentage increase in operating expenses than the increase in operating revenue and the subscription-related expense reclassification. The reduction of operating cash flow margin related to the subscription-related expense reclassification was 0.7% in the 2015 Period.

Depreciation expense decreased \$1,106,000, or 10.6%, in the 2015 Period, due primarily to lower levels of capital spending over the last several years. Amortization expense decreased \$49,000, or 0.4%, in the 2015 Period due to impairment charges recorded in 2014. Sales of operating assets resulted in a net gain of \$252,000 in the 2015 Period compared to a net gain of \$1,631,000 in the 2014 Period.

Equity in earnings in associated companies decreased \$102,000 in the 2015 Period.

The factors noted above resulted in operating income of \$57,732,000 in the 2015 Period compared to \$63,922,000 in the 2014 Period. Operating income margin decreased to 17.4% from 19.3% a year ago. The reduction of operating income margin related to the subscription-related expense reclassification was 0.5% in the 2015 Period.

Nonoperating Income and Expense

Interest expense decreased \$4,186,000, or 10.1%, to \$37,193,000 in the 2015 Period due to lower debt balances and \$2,394,000 of non-cash interest expense in the 2014 Period.

Amortization of debt financing costs was \$2,595,000 in the 2015 Period compared to \$203,000 in the 2014 Period. We also recognized \$779,000 of non-operating income in the 2015 Period from the change in fair market value of Warrants issued in connection with our 2014 Refinancing.

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Overall Results

We recognized income tax expense of 37.5% of income before income taxes in the 2015 Period and 39.1% in the 2014 Period.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated totaled \$11,553,000 in the 2015 Period compared to \$13,378,000 in the 2014 Period. We recorded earnings per diluted common share of \$0.21 in the 2015 Period and \$0.25 in the 2014 Period. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.24 in the 2015 Period, compared to \$0.29 in the 2014 Period. Per share amounts may not add due to rounding.

(Thousands of Dollars, Except Per Share Data)	March 29 2015		26 Weeks Ended March 30 2014	
	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	11,553	0.21	13,378	0.25
Adjustments:				
Debt financing costs	2,595		203	
Amortization of debt present value adjustment	—		2,394	
Warrants fair value adjustment	(779)	—	
Other, net	382		577	
	2,198		3,174	
Income tax effect of adjustments, net	(1,031	)	(1,079)
	1,167	0.02	2,095	0.04
Income attributable to Lee Enterprises, Incorporated, as adjusted	12,720	0.24	15,473	0.29

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities was \$39,465,000 in the 2015 Period and \$34,745,000 in the 2014 Period. We recorded net income of \$12,049,000 in the 2015 Period and \$13,807,000 in the 2014 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 2015 Period.

Investing Activities

Cash required for investing activities totaled \$4,328,000 in the 2015 Period compared to \$3,236,000 in the 2014 Period. Capital spending totaled \$5,675,000 in the 2015 Period and \$4,895,000 in the 2014 Period. We received \$868,000 and \$2,170,000 of proceeds from sales of assets in the 2015 Period and the 2014 Period, respectively.

We anticipate that funds necessary for capital expenditures, which are expected to total up to \$12,000,000 in 2015, and other requirements, will be available from internally generated funds or availability under our Revolving Facility.

Financing Activities

Cash required for financing activities totaled \$40,491,000 in the 2015 Period and \$34,193,000 in the 2014 Period. Debt reduction accounted for the majority of the usage of funds in both the 2015 Period and the 2014 Period.

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As discussed more fully in Note 4 of the Notes to Consolidated Financial Statements, included herein, in May 2013, we refinanced the remaining balance of the Pulitzer Notes and on March 31, 2014 we refinanced all of our other debt.

Liquidity

At March 29, 2015, after consideration of letters of credit, we have approximately \$32,605,000 available for future use under our Revolving Facility. Including cash, our liquidity at March 29, 2015 totals \$43,955,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000.

At March 29, 2015, the principal amount of our outstanding debt totals \$764,250,000. For the last twelve months ending March 29, 2015, the principal amount of our debt, net of cash, is 4.6 times our adjusted EBITDA, compared to a ratio of 4.8 at March 30, 2014.

The 2014 Refinancing significantly enhances our debt maturity profile. Final maturities of our debt have been extended to dates from April 2017 through December 2022. As a result, refinancing risk has been substantially reduced for the next several years.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. The Notes, 1st Lien Credit Facility and 2nd 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 March 29, 2015.

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.

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.

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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 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 ("STEA") was signed into law. STEA 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. STEA 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 STEA and further increases premiums to be paid to the PBGC.

In October 2014, the Society of Actuaries released new mortality tables. The new tables generally result in increases in life expectancy. We used the new mortality tables to value our pension and postretirement liabilities at September 28, 2014, which increased such liabilities, in total, by approximately \$18,515,000, with a corresponding decrease in accumulated other comprehensive income in our Consolidated Balance Sheet as of that date.

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.

Minimum Wage Laws

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.

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.

Table of ContentsSELECTED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)

(Thousands of Dollars)	13 Weeks Ended		26 Weeks Ended		52 Weeks Ended
	March 29 2015	March 30 2014	March 29 2015	March 30 2014	March 29 2015
Advertising and marketing services	97,665	102,720	213,142	225,110	430,034
Subscription	48,111	41,952	98,509	87,405	187,931
Other	9,753	9,421	20,032	18,963	38,937
Total operating revenue	155,529	154,093	331,683	331,478	656,902
Compensation	61,236	59,071	123,173	121,212	245,015
Newsprint and ink	7,661	9,334	16,507	19,895	34,606
Other operating expenses	55,839	52,712	115,021	107,870	226,480
Depreciation and amortization	11,566	12,191	23,061	24,216	49,293
Loss (gain) on sales of assets, net	5	(1,641)	(252)	(1,631)	217
Impairment of intangible and other assets	—	—	—	—	868
Workforce adjustments	640	299	851	506	1,610
Total operating expenses	136,947	131,966	278,361	272,068	558,089
Equity in earnings of TNI and MNI	1,653	1,593	4,410	4,512	8,195
Operating income	20,235	23,720	57,732	63,922	107,008
Adjusted to exclude:					
Depreciation and amortization	11,566	12,191	23,061	24,216	49,293
Loss (gain) on sale of assets, net	5	(1,641)	(252)	(1,631)	217
Impairment of intangible and other assets	—	—	—	—	868
Equity in earnings of TNI and MNI	(1,653)	(1,593)	(4,410)	(4,512)	(8,195)
Operating cash flow	30,153	32,677	76,131	81,995	149,191
Add:					
Ownership share of TNI and MNI EBITDA (50%)	2,212	2,031	5,969	5,952	11,252
Adjusted to exclude:					
Stock compensation	640	420	1,083	684	1,880
Adjusted EBITDA	33,005	35,128	83,183	88,631	162,323
Adjusted to exclude:					
Ownership share of TNI and MNI EBITDA (50%)	(2,212)	(2,031)	(5,969)	(5,952)	(11,252)
Add (deduct):					
Distributions from TNI and MNI	3,128	2,494	6,072	5,309	10,760
Capital expenditures, net of insurance proceeds	(2,128)	(2,600)	(5,675)	(4,895)	(12,604)
Pension contributions	(435)	(705)	(435)	(705)	(1,252)
Cash income tax refunds (payments)	68	(103)	64	(117)	6,203
Unlevered free cash flow	31,426	32,183	77,240	82,271	154,178
Add (deduct):					
Financial income	102	101	180	221	344
Interest expense to be settled in cash	(18,404)	(19,356)	(37,193)	(38,984)	(75,539)
Debt financing costs paid	(65)	(266)	(82)	(268)	(31,401)
Free cash flow	13,059	12,662	40,145	43,240	47,582

Table of ContentsSELECTED LEE LEGACY ONLY FINANCIAL INFORMATION
(UNAUDITED)

(Thousands of Dollars)	13 Weeks Ended		26 Weeks Ended		52 Weeks Ended
	March 29 2015	March 30 2014	March 29 2015	March 30 2014	March 29 2015
Advertising and marketing services	69,018	72,055	149,073	155,263	300,629
Subscription	32,513	26,727	66,058	55,477	124,574
Other	8,593	8,412	17,374	16,629	33,952
Total operating revenue	110,124	107,194	232,505	227,369	459,155
Compensation	46,273	44,123	92,519	89,948	183,212
Newsprint and ink	5,727	6,733	12,250	14,070	25,263
Other operating expenses	31,919	28,633	65,497	57,754	126,716
Depreciation and amortization	7,884	8,226	15,834	16,309	32,198
Loss (gain) on sale of assets, net	4	(1,635)	(75)	(1,650)	213
Impairment of intangible and other assets	—	—	—	—	868
Workforce adjustments	241	122	313	171	693
Total operating expenses	92,048	86,202	186,338	176,602	369,163
Equity in earnings of MNI	444	313	1,556	1,443	3,498
Operating income	18,520	21,305	47,723	52,210	93,490
Adjusted to exclude:					
Depreciation and amortization	7,884	8,226	15,834	16,309	32,198
Loss (gain) on sales of assets, net	4	(1,635)	(75)	(1,650)	213
Impairment of intangible and other assets	—	—	—	—	868
Equity in earnings of MNI	(444)	(313)	(1,556)	(1,443)	(3,498)
Operating cash flow	25,964	27,583	61,926	65,426	123,271
Add:					
Ownership share of MNI EBITDA (50%)	898	646	2,906	2,673	6,137
Adjusted to exclude:					
Stock compensation	640	420	1,083	684	1,880
Adjusted EBITDA	27,502	28,649	65,915	68,783	131,288
Adjusted to exclude:					
Ownership share of MNI EBITDA (50%)	(898)	(646)	(2,906)	(2,673)	(6,137)
Add (deduct):					
Distributions from MNI	1,250	1,250	3,000	2,750	5,000
Capital expenditures, net of insurance proceeds	(1,438)	(2,082)	(3,518)	(4,245)	(8,961)
Pension contributions	—	—	—	—	(87)
Cash income tax refunds (payments)	157	(103)	153	(117)	4
Intercompany charges not settled in cash	(2,318)	(2,099)	(4,636)	(4,198)	(10,116)
Other	—	—	—	—	(2,000)
Unlevered free cash flow	24,255	24,969	58,008	60,300	108,991
Add (deduct):					
Financial income	102	101	180	221	344
Interest expense to be settled in cash	(18,086)	(18,206)	(36,415)	(36,561)	(73,345)
Debt financing costs paid	(65)	(266)	(82)	(268)	(31,393)
Free cash flow	6,206	6,598	21,691	23,692	4,597

Table of ContentsSELECTED PULITZER ONLY FINANCIAL INFORMATION
(UNAUDITED)

(Thousands of Dollars)	13 Weeks Ended		26 Weeks Ended		52 Weeks Ended
	March 29 2015	March 30 2014	March 29 2015	March 30 2014	March 29 2015
Advertising and marketing services	28,647	30,665	64,069	69,847	129,405
Subscription	15,598	15,225	32,451	31,928	63,357
Other	1,160	1,009	2,658	2,334	4,985
Total operating revenue	45,405	46,899	99,178	104,109	197,747
Compensation	14,963	14,948	30,654	31,264	61,803
Newsprint and ink	1,934	2,601	4,257	5,825	9,343
Other operating expenses	23,920	24,079	49,524	50,116	99,764
Depreciation and amortization	3,682	3,965	7,227	7,907	17,095
Loss (gain) on sale of assets, net	1	(6	) (177	) 19	4
Workforce adjustments	399	177	538	335	917
Total operating expenses	44,899	45,764	92,023	95,466	188,926
Equity in earnings of TNI	1,209	1,280	2,854	3,069	4,697
Operating income	1,715	2,415	10,009	11,712	13,518
Adjusted to exclude:					
Depreciation and amortization	3,682	3,965	7,227	7,907	17,095
Loss (gain) on sales of assets, net	1	(6	) (177	) 19	4
Equity in earnings of TNI	(1,209	) (1,280	) (2,854	) (3,069	) (4,697
Operating cash flow	4,189	5,094	14,205	16,569	25,920
Add:					
Ownership share of TNI EBITDA (50%)	1,314	1,385	3,063	3,279	5,115
Adjusted EBITDA	5,503	6,479	17,268	19,848	31,035
Adjusted to exclude:					
Ownership share of TNI EBITDA (50%)	(1,314	) (1,385	) (3,063	) (3,279	) (5,115
Add (deduct):					
Distributions from TNI	1,878	1,244	3,072	2,559	5,760
Capital expenditures, net of insurance proceeds	(690	) (518	) (2,157	) (650	) (3,643
Pension contributions	(435	) (705	) (435	) (705	) (1,165
Cash income tax refunds (payments)	(89	) —	(89	) —	6,199
Intercompany charges not settled in cash	2,318	2,099	4,636	4,198	10,116
Other	—	—	—	—	2,000
Unlevered free cash flow	7,171	7,214	19,232	21,971	45,187
Deduct:					
Interest expense to be settled in cash	(318) (1,150) (778) (2,423) (2,194
Debt financing costs paid	—	—	—	—	(8
Free cash flow	6,853	6,064	18,454	19,548	42,985

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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 March 29, 2015, 26.9% of the principal amount of our debt is subject to floating interest rates. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately \$2,053,000 based on \$205,250,000 of floating rate debt outstanding at March 29, 2015.

Our debt under the 1st Lien Term Loan is subject to minimum interest rate levels of 1.0%. Based on the difference between interest rates in March 2015 and our 1.0% minimum rate, LIBOR would need to increase approximately 60 basis points for six month borrowing up to approximately 82 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

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

Newsprint purchase prices have declined throughout 2015 due to continual deterioration of North American domestic newsprint demand and weak export shipment opportunities. Canadian producers continue to benefit from US sales based on the strength of the US dollar while unfavorable exchange rates and poor world demand have driven significant declines in offshore exports for all North American producers. Producers may consider future production capacity reductions to bring the market into balance as selling prices approach cost of goods sold. Long-term supply strategy has been considered in our supply selection, while taking advantage of any current pricing opportunities.

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

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$594,000 based on anticipated consumption in 2015, excluding consumption of TNI and MNI and the impact of LIFO accounting. Such prices may also decrease. We manage significant newsprint inventories, which may help to mitigate the impact of future price increases

SENSITIVITY TO CHANGES IN VALUE

At March 29, 2015, the fair value of floating rate debt, which consists primarily of our 1st Lien Term Loan, is \$206,661,000, based on an average of private market price quotations. Our fixed rate debt consists of \$400,000,000 principal amount of the Notes, \$150,000,000 principal amount under the 2nd Lien Term Loan and \$9,000,000 principal amount of New Pulitzer Notes. At March 29, 2015, based on an average of private market price quotations, the fair values were \$412,250,000 and \$160,500,000 for the Notes and 2nd Lien Term Loan, respectively. The New Pulitzer Notes are held by a single investor. We are unable, as of March 29, 2015, to determine the fair value of the New Pulitzer Notes. The value, if determined, may be more or less than the carrying amount.

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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 March 29, 2015 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 other legal actions that arise in the normal course of business. Insurance coverage mitigates potential loss for certain of these other matters. While we are unable to predict the ultimate outcome of these other legal actions, it is our opinion that the disposition of these matters will not have a material adverse effect on our Consolidated Financial Statements, taken as a whole.

Item 6. Exhibits

Number	Description
10.1*	Amended and Restated Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (Effective October 1, 1999, as amended effective December 4, 2014)
31.1	Rule 13a-14(a)/15d-14(a) certification
31.2	Rule 13a-14(a)/15d-14(a) certification
32	Section 1350 certification

* Management contracts or compensation plans or arrangements in which executive officers are eligible to participate.

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SIGNATURES

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

LEE ENTERPRISES, INCORPORATED

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

May 8, 2015

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