

LEE ENTERPRISES, INC  
Form 10-Q  
February 08, 2019

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

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

For The Quarterly Period Ended December 30, 2018

OR

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

Commission File Number 1-6227  
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

Delaware 42-0823980  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)  
201 N. Harrison Street, Suite 600, Davenport, Iowa 52801  
(Address of principal executive offices)

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted 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, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "small reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

As of January 31, 2019 57,690,431 shares of Common Stock of the registrant were outstanding.

---

	PAGE
Table Of Contents	
FORWARD LOOKING STATEMENTS	<u>1</u>
PART I FINANCIAL INFORMATION	<u>2</u>
Item 1. Financial Statements (Unaudited)	<u>2</u>
Consolidated Balance Sheets - December 30, 2018 and September 30, 2018	<u>2</u>
Consolidated Statements of Income and Comprehensive Income - 13 weeks ended December 30, 2018 and December 24, 2017	<u>4</u>
Consolidated Statement of Stockholders' Equity - 13 weeks ended December 30, 2018 and December 24, 2017	<u>5</u>
Consolidated Statements of Cash Flows - 13 weeks ended December 30, 2018 and December 24, 2017	<u>6</u>
Notes to Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>20</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>29</u>
Item 4. Controls and Procedures	<u>30</u>
PART II OTHER INFORMATION	<u>31</u>
Item 1. Legal Proceedings	<u>31</u>
Item 6. Exhibits	<u>31</u>
SIGNATURES	<u>31</u>

Table of Contents

References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the “Company”). References to “2019”, “2018” and the like refer to the fiscal years ended the last Sunday in September.

FORWARD-LOOKING STATEMENTS

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

- Our ability to generate cash flows and maintain liquidity sufficient to service our debt;
- Our ability to comply with the financial covenants in our credit facilities;
- Our ability to refinance our debt as it comes due;
- That the warrants issued in our refinancing will not be exercised;
- The impact and duration of adverse conditions in certain aspects of the economy affecting our business;
- Changes in advertising and subscription demand;
- Changes in technology that impact our ability to deliver digital advertising;
- Potential changes in newsprint, other commodities and energy costs;
- Interest rates;
- Labor costs;
- Legislative and regulatory rulings, including the 2017 Tax Act;
- Our ability to achieve planned expense reductions;
- Our ability to maintain employee and customer relationships;
- Our ability to manage increased capital costs;
- Our ability to maintain our listing status on the NYSE;
- Competition; and
- Other risks detailed from time to time in our publicly filed documents.

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

Table of ContentsPART I  
FINANCIAL INFORMATION

## Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Thousands of Dollars)	December 30 2018	September 30 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	15,909	5,380
Accounts receivable and contract assets, net	51,037	43,711
Inventories	5,385	5,684
Other	4,233	4,567
Total current assets	76,564	59,342
Investments:		
Associated companies	30,046	29,216
Other	11,034	10,958
Total investments	41,080	40,174
Property and equipment:		
Land and improvements	17,250	17,432
Buildings and improvements	149,869	150,376
Equipment	273,284	276,332
Construction in process	2,079	1,710
	442,482	445,850
Less accumulated depreciation	352,839	353,522
Property and equipment, net	89,643	92,328
Goodwill	246,176	246,176
Other intangible assets, net	115,582	119,819
Medical plan assets, net	16,357	16,157
Other	1,457	1,415
Total assets	586,859	575,411

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



Table of Contents

(Thousands of Dollars and Shares, Except Per Share Data)	December 30 2018	September 30 2018
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	1,377	7,027
Accounts payable	12,087	12,747
Compensation and other accrued liabilities	15,550	19,641
Accrued interest	11,264	2,031
Income taxes payable	3,690	—
Unearned revenue	23,430	23,895
Total current liabilities	67,398	65,341
Long-term debt, net of current maturities	460,124	460,777
Pension obligations	25,713	26,745
Postretirement and postemployment benefit obligations	2,570	2,580
Deferred income taxes	39,271	39,108
Income taxes payable	6,964	6,559
Warrants and other	10,912	10,561
Total liabilities	612,952	611,671
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: December 30, 2018: 57,691 shares; September 30, 2018: 57,141 shares	577	572
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	253,443	253,511
Accumulated deficit	(269,330)	(279,691)
Accumulated other comprehensive loss	(11,868)	(11,746)
Total stockholders' deficit	(27,178)	(37,354)
Non-controlling interests	1,085	1,094
Total deficit	(26,093)	(36,260)
Total liabilities and deficit	586,859	575,411

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





Table of Contents

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended	
	December 30 2018	December 24 2017
Operating revenue:		
Advertising and marketing services	75,962	84,661
Subscription	46,268	48,269
Other	13,971	10,856
Total operating revenue	136,201	143,786
Operating expenses:		
Compensation	47,038	51,619
Newsprint and ink	6,339	5,838
Other operating expenses	49,743	50,357
Depreciation and amortization	7,529	8,053
Assets loss (gain) on sales, impairments and other, net	(100)	)2
Restructuring costs and other	62	468
Total operating expenses	110,611	116,337
Equity in earnings of associated companies	2,129	2,383
Operating income	27,719	29,832
Non-operating income (expense):		
Interest expense	(12,256)	)(13,650 )
Debt financing and administrative costs	(896)	)(1,096 )
Other, net	665	551
Total non-operating expense, net	(12,487)	)(14,195 )
Income before income taxes	15,232	15,637
Income tax expense (benefit)	4,513	(19,690 )
Net income	10,719	35,327
Net income attributable to non-controlling interests	(358)	)(324 )
Income attributable to Lee Enterprises, Incorporated	10,361	35,003
Other comprehensive income, net of income taxes	(122)	)27
Comprehensive income attributable to Lee Enterprises, Incorporated	10,239	35,030
Earnings per common share:		
Basic:	0.19	0.64
Diluted:	0.18	0.63

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

Table of Contents

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Unaudited)

(Thousands of Dollars and Shares)	Amount		13 Weeks Ended	
	December 30 2018	December 24 2017	December 30 2018	December 24 2017
Common Stock:				
Balance, beginning of quarter	572	567	57,141	56,712
Shares issued	5	4	550	357
Balance, end of quarter	577	571	57,691	57,069
Additional paid-in capital:				
Balance, beginning of quarter	253,511	251,790		
Stock compensation	385	519		
Shares issued (redeemed)	(453	) (465	)	
Balance, end of quarter	253,443	251,844		
Accumulated deficit:				
Balance, beginning of quarter	(279,691	) (328,524	)	
Net income	10,719	35,327		
Net income attributable to non-controlling interests	(358	) (324	)	
Balance, end of quarter	(269,330	) (293,521	)	
Accumulated other comprehensive income (loss):				
Balance, beginning of quarter	(11,746	) (16,068	)	
Change in pension and postretirement benefits	(163	) 36		
Deferred income taxes, net	41	(9	)	
Balance, end of quarter	(11,868	) (16,041	)	
Total stockholders' deficit	(27,178	) (57,147	) 57,691	57,069

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

Table of Contents

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

(Thousands of Dollars)	13 Weeks Ended	
	December 30 2018	December 24 2017
Cash provided by (required for) operating activities:		
Net income	10,719	35,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,529	8,053
Stock compensation expense	464	519
Distributions greater (less) than earnings of MNI	51	(114)
Deferred income taxes	204	(20,345)
Debt financing and administrative costs	896	1,043
Pension contributions	(650)	)—
Other, net	(468)	)(281)
Changes in operating assets and liabilities:		
Decrease in receivables	(7,479)	)(7,189)
Decrease (increase) in inventories and other	318	(344)
Increase in accounts payable and other accrued liabilities	4,088	4,138
Decrease in pension and other postretirement and postemployment benefit obligations	(741)	)(606)
Change in income taxes payable	4,287	546
Other, including warrants	189	431
Net cash provided by operating activities	19,407	21,178
Cash required for investing activities:		
Purchases of property and equipment	(1,002)	)(1,103)
Proceeds from sales of assets	585	13
Distributions greater (less) than earnings of TNI	(881)	)48
Other, net	(97)	)(14)
Net cash required for investing activities	(1,395)	)(1,056)
Cash required for financing activities:		
Payments on long-term debt	(7,027)	)(16,432)
Debt financing costs paid	(8)	)(4)
Common stock transactions, net	(448)	)(461)
Net cash required for financing activities	(7,483)	)(16,897)
Net increase in cash and cash equivalents	10,529	3,225
Cash and cash equivalents:		
Beginning of period	5,380	10,621
End of period	15,909	13,846

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

Table of Contents

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

1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 December 30, 2018 and our results of operations, changes in stockholder's equity 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 2018 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks ended December 30, 2018 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 "2019", "2018" and the like refer to the fiscal years ended the last Sunday in September.

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

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

On June 26, 2018, in the Company's fourth fiscal quarter, we entered into an agreement with BH Media Group, Inc. ("BH Media") to manage Berkshire Hathaway's newspaper and digital operations in 30 markets, beginning July 2, 2018 (the "Management Agreement"). The Company operates BH Media consistent with how it manages its own newspaper and digital operations. Among other decisions, Berkshire Hathaway is responsible for approving operating and capital budgets. The Management Agreement extends for a term of five years and may be extended thereafter for successive one-year terms on such terms as may be mutually agreed to by the Company and Berkshire Hathaway. The Management Agreement provides for the Company to be paid a fixed annual fee of \$5 million, payable quarterly in arrears, and a variable fee based on the financial performance of BH Media. The variable fees are payable annually in arrears.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles ("GAAP") 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.

7

---

## Table of Contents

### New accounting pronouncements

Between 2014 and 2017, the FASB issued several new standards which collectively comprise ASC Topic 606 “Revenue from Contracts with Customers”. Topic 606 supersedes the revenue recognition requirements in Topic 605 “Revenue Recognition” and is effective fiscal years beginning after December 15, 2017. Topic 606 provides a five-step model in determining when and how revenue is recognized and requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. Topic 606 also requires new disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

We adopted Topic 606 on October 1, 2018, using the modified retrospective method applied to those contracts which were not completed as of that date. We have completed our assessment and have not identified any significant changes to our revenue recognition policies. We identified similar performance obligations under Topic 606 as compared with the deliverables and separate units of accounting previously identified under Topic 605. As a result, the timing and amount of our revenue recognition were not impacted and we did not make any adjustments under the modified retrospective adoption method.

We have also assessed the new accounting principles related to the deferral and amortization of contract acquisition costs and due to the short-term nature of such costs, we will utilize the practical expedient to continue to expense these costs as incurred.

See note 11 for more information on our revenues and the application of Topic 606.

In August 2016, the FASB issued a new standard to conform the presentation in the statement of cash flows for certain transactions, including cash distributions from equity method investments, among others. There was no change to the Consolidated Statement of Cash Flows as a result of the adoption of this standard for the quarter ended December 30, 2018. Specifically, distributions received from equity method investees continue to be presented on the Consolidated Statement of Cash Flows utilizing the cumulative earnings approach.

In March 2017, the FASB issued a new standard to improve the presentation of pension and postretirement benefit expense. The new standard requires that the service cost component of pension and postretirement benefits expense is recognized as compensation expense, while the remaining components of the expense (benefit) are presented as non-operating income in other, net. This new standard was adopted for the quarter ended December 30, 2018 and has been retrospectively applied to the Statement of Operations for all comparative periods presented. We recorded benefits of \$711,000 in other, net in non-operating income (expense) for the quarter ended December 30, 2018. We reclassified benefits of \$708,000 from compensation to other, net in non-operating income (expense) for the quarter ended December 24, 2017.

In February 2018, FASB issued new guidance to allow a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for stranded tax effects resulting from what is commonly referred to as the Tax Cuts and Jobs Act (the “2017 Tax Act”). In the first quarter of fiscal year 2018, we remeasured our deferred taxes related to unrealized gains on our investment balances using the reduced tax rate. As required by GAAP, we recognized the net tax benefit in the provision for income taxes in our consolidated income statements, and we reclassified a \$3,067,000 net tax benefit from AOCI to retained earnings in our consolidated balance sheets. Adoption of the standard had no impact to our consolidated income statements or cash flows statements.

## 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 newspaper and other media.

Table of Contents

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	
	December 30 2018	December 24 2017
Operating revenue	12,164	13,230
Operating expenses	9,095	9,982
Operating income	3,069	3,248
Company's 50% share of operating income	1,535	1,624
Less amortization of intangible assets	105	105
Equity in earnings of TNI	1,430	1,519

TNI makes weekly distributions of its earnings and for the 13 weeks ended December 30, 2018 and December 24, 2017 we received \$549,000 and \$1,567,000 in distributions, respectively.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended	
	December 30 2018	December 24 2017
Operating revenue	14,826	16,065
Operating expenses, excluding restructuring costs, depreciation and amortization	12,663	12,932
Restructuring costs	30	64
Depreciation and amortization	280	279
Operating income	1,853	2,790
Net income	1,398	1,728
Equity in earnings of MNI	699	864

MNI makes quarterly distributions of its earnings and in the 13 weeks ended December 30, 2018 and December 24, 2017 we received dividends of \$750,000 in both years.

### 3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	13 Weeks Ended	
	December 30 2018	
Goodwill, gross amount	1,535,155	
Accumulated impairment losses	(1,288,979)	
Goodwill, beginning of period	246,176	



Goodwill, end of period            246,176

9

---

Table of Contents

Identified intangible assets consist of the following:

(Thousands of Dollars)	December 30 2018	September 30 2018
Nonamortized intangible assets:		
Mastheads	21,883	21,883
Amortizable intangible assets:		
Customer and newspaper subscriber lists	692,982	692,886
Less accumulated amortization	599,283	594,950
	93,699	97,936
Other intangible assets, net	115,582	119,819

Annual amortization of intangible assets for the years ending December 2019 to December 2023 is estimated to be \$16,069,000, \$15,608,000, \$13,706,000, \$12,164,000 and \$11,513,000, respectively.

**4 DEBT**

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

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

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

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

In December 2018 we amended our 1<sup>st</sup> Lien Credit Facility to amend and extend our Revolving Facility (the "Amendment"). The Amendment, among other changes, extends the maturity of the revolving loan commitments of the 1<sup>st</sup> Lien Lenders for twelve months and reduces the revolver loan commitments from \$40,000,000 to \$27,200,000 with a further 15% reduction to the revolving loan commitments of the 1<sup>st</sup> Lien Term Lenders effective as of July 31, 2019.

Debt is summarized as follows:

(Thousands of Dollars)	December 30 2018	September 30 2018	Interest Rates (%) December 30 2018
Revolving Facility	—	—	6.1
1 <sup>st</sup> Lien Term Loan	—	6,303	8.5
Notes	385,000	385,000	9.5
2 <sup>nd</sup> Lien Term Loan	92,832	93,556	12.0
	477,832	484,859	
Unamortized debt issue costs	(16,331	)(17,055	)
Current maturities of long-term debt	1,377	7,027	
Total long-term debt	460,124	460,777	

Our weighted average cost of debt, excluding amortization of debt financing costs at December 30, 2018, is 10.0%.

## Table of Contents

At December 30, 2018, aggregate minimum required maturities of debt excluding amounts required to be paid from future excess cash flow computations total \$1,377,000 for the remainder of 2019, \$0 in 2020, \$0 in 2021, \$385,000,000 in 2022 and \$91,455,000 in 2023.

### Notes

The Notes are senior secured obligations of the Company and mature on March 15, 2022. At December 30, 2018, the principal balance of the Notes totaled \$385,000,000.

### Interest

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

### Redemption

We may redeem some, or all, of the principal amount of the Notes at any time as follows:

Period Beginning Percentage of Principal Amount

March 15, 2018 104.75

March 15, 2019 102.38

March 15, 2020 100.00

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

### Covenants and Other Matters

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

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

The 1<sup>st</sup> Lien Credit Facility consists of the \$250,000,000 1<sup>st</sup> Lien Term Loan that matures in March 31, 2019 and the \$27,200,000 Revolving Facility that matures on December 28, 2019. The 1<sup>st</sup> Lien Credit Facility documents the primary terms of the 1<sup>st</sup> Lien Term Loan and the Revolving Facility. The Revolving Facility may be used for working capital and general corporate purposes (including letters of credit). At December 30, 2018, after consideration of letters of credit, we have approximately \$21,435,000 available for future use under the Revolving Facility. The 1<sup>st</sup> Lien Term Loan was paid in full in November 2018 and has no outstanding balance as of December 30, 2018.

### Interest

Interest on the Revolving Facility, which has a principal balance of zero at December 30, 2018, accrues, at our option, at either (A) LIBOR plus 5.5%, or (B) 4.5% plus the higher of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0%.

### Covenants and Other Matters

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

## Table of Contents

The 1<sup>st</sup> Lien Credit Facility restricts us from paying dividends on our Common Stock. This restriction no longer applies if Lee Legacy leverage is below 3.25x before and after such payments. Lee Legacy leverage as defined is 4.1x at December 30, 2018. Further, the 1<sup>st</sup> Lien Credit Facility restricts or limits, among other things, subject to certain exceptions, the ability of the Company and its subsidiaries to: (i) incur indebtedness, (ii) enter into mergers, acquisitions and asset sales, (iii) incur or create liens and (iv) enter into transactions with certain affiliates. The 1<sup>st</sup> Lien Credit Facility contains various representations and warranties and may be terminated upon occurrence of certain events of default. The 1<sup>st</sup> Lien Credit Facility also contains cross-default provisions tied to the terms of each of the Indenture and 2<sup>nd</sup> Lien Term Loan.

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

The 2<sup>nd</sup> Lien Term Loan, which has a balance of \$92,832,000 at December 30, 2018, bears interest at a fixed annual rate of 12.0%, payable quarterly, and matures in December 2022.

### Principal Payments

Excluding excess cash flow payments, there are no scheduled mandatory amortization payments required under the 2<sup>nd</sup> Lien Term Loan.

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

Prior to March 31, 2017, we were required to offer the Pulitzer Excess Cash Flow to the 2<sup>nd</sup> Lien Lenders to prepay the 2<sup>nd</sup> Lien Term Loan at par, which payment the 2<sup>nd</sup> Lien Lenders could accept or reject. After March 31, 2017, Pulitzer Excess Cash Flow is used to prepay the 2<sup>nd</sup> Lien Term Loan, at par. Pulitzer Excess Cash Flow payments are required to be paid 45 days after the end of the quarter.

Payments will also be made on the 2<sup>nd</sup> Lien Term Loan, at par, with proceeds from asset sales by the Pulitzer Subsidiaries that are not reinvested subject to certain other conditions.

During the 13 weeks ended December 30, 2018, payments on the 2<sup>nd</sup> Lien Term Loan totaled \$724,000. For the 13 weeks ended December 30, 2018, Pulitzer Excess Cash Flow totaled \$1,377,000, which will be used to make a payment on the 2<sup>nd</sup> Lien Term Loan in February 2019, at par.

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

Period Beginning Percentage of Principal Amount

March 31, 2017	106
March 31, 2018	103
March 31, 2019	100

### Covenants and Other Matters

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

events of default. The 2<sup>nd</sup> Lien Term Loan also contains cross-default provisions tied to the terms of the Indenture and 1<sup>st</sup> Lien Credit Facility.

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

## Table of Contents

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 provisions requiring the Warrants to be measured at fair value and included in other liabilities in our Consolidated Balance Sheets. We re-measure the fair value of the liability each reporting period, with changes reported in other, net non-operating income (expense). The initial fair value of the Warrants was \$16,930,000. See Note 9.

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

## Security

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

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

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

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

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

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

Under the 2<sup>nd</sup> Lien Guarantee and Collateral Agreement, the Pulitzer Assignors have granted (i) first-priority security interests, subject to certain priorities and limitations in the various agreements, in the Pulitzer Collateral and (ii) have granted first-priority lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and



performance of their obligations under the 2<sup>nd</sup> Lien Term Loan.

Also, under the 2<sup>nd</sup> Lien Guarantee and Collateral Agreement, the Lee Legacy Assignors have granted (i) second-priority security interests, subject to certain priorities and limitations in the various agreements, in the Lee Legacy Collateral, and (ii) have granted second-priority lien mortgages or deeds of trust covering certain real estate, as collateral for the payment and performance of their obligations under the 2<sup>nd</sup> Lien Term Loan. Assets of, or used in the operations or business of, MNI are excluded.

## Table of Contents

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

### Other

In connection with the 2014 Refinancing, we capitalized \$37,819,000 of debt financing costs. Amortization of debt financing costs totaled \$724,000 in the 13 weeks ended December 30, 2018. Amortization of such costs is estimated to total \$2,863,000 for the remainder of 2019, \$3,958,000 in 2020, \$4,116,000 in 2021, \$4,286,000 in 2022, and \$1,108,000 in 2023. At December 30, 2018, we have \$16,331,000 of unamortized debt financing costs recorded as a reduction of Long-term debt in our Consolidated Balance Sheets.

### Liquidity

At December 30, 2018, after consideration of letters of credit, we have approximately \$21,435,000 available for future use under our Revolving Facility, which expires on December 28, 2019. Including cash, our liquidity at December 30, 2018 totals \$37,344,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by existing cash and our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000 subject to a reduction for any amounts the Company may elect to use to repay our 1<sup>st</sup> Lien Term Loan and/or the Notes.

Excluding our Revolving Facility, which is undrawn as of December 30, 2018, final maturities of our debt range from March 2022 through December 2022. Our Revolving Facility expires December 28, 2019.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to repay, refinance or amend our debt agreements as they become due. The Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at December 30, 2018.

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

We have several noncontributory defined benefit pension plans that together cover selected employees. Benefits under the plans were generally based on salary and years of service. Effective in 2012, substantially all benefits are frozen and only a small amount of additional benefits are being accrued. Our liability and related expense for benefits under the plans are recorded over the service period of employees based upon annual actuarial calculations. Plan funding strategies are influenced by government regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, hedge fund investments and cash.

In addition, we provide retiree medical and life insurance benefits under postretirement plans at several of our operating locations. The level and adjustment of participant contributions vary depending on the specific plan. In addition, St. Louis Post-Dispatch LLC, provides postemployment disability benefits to certain employee groups prior to retirement. Our liability and related expense for benefits under the postretirement plans are recorded over the

service period of active employees based upon annual actuarial calculations. We accrue postemployment disability benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid.

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

Table of Contents

The net periodic postretirement cost (benefit) components for our postretirement plans are as follows:

PENSION PLANS (Thousands of Dollars)	13 Weeks Ended	
	December 30	December 24
	2018	2017
Service cost for benefits earned during the period	9	12
Interest cost on projected benefit obligation	1,641	1,438
Expected return on plan assets	(2,018	)(1,983 )
Amortization of net loss	284	506
Amortization of prior service benefit	(25	)(34 )
Pension benefit	(109	)(61 )
POSTRETIREMENT MEDICAL PLANS (Thousands of Dollars)	13 Weeks Ended	
	December 30	December 24
	2018	2017
Service cost for benefits earned during the period	—	—
Interest cost on projected benefit obligation	103	90
Expected return on plan assets	(270	)(270 )
Amortization of net gain	(244	)(246 )
Amortization of prior service benefit	(181	)(196 )
Postretirement medical benefit	(592	)(622 )

In the 13 weeks ended December 30, 2018, we adopted the new accounting standard to improve the presentation of pension and postretirement benefit expenses. As a result, the service cost for benefits earned during the period continue to be included as compensation in the Consolidated Statement of Income and Comprehensive income, while the other components of the pension benefit are recorded as non-operating income in other, net. Prior period amounts have been reclassified to conform to current period presentation.

In the 13 weeks ended December 30, 2018, we contributed \$650,000 to our pension plans. Based on our forecast at December 30, 2018, we do not expect to make contributions to our pension trust during the remainder of 2019.

## 6INCOME TAXES

We recorded income tax expense of \$4,513,000 related to income before taxes of \$15,232,000 for the 13 weeks ended December 30, 2018. For the 13 weeks ended December 24, 2017, we recorded \$19,690,000 in income tax benefit related to income before taxes of \$15,637,000. The effective income tax rate for the 13 weeks ended December 30, 2018 and December 24, 2017 was a 29.6% expense and 125.9% benefit, respectively. Excluding the transitional impact from the 2017 Tax Act, the effective income tax rate for the 13 weeks ended December 24, 2017 was 33.1%.

The primary differences between these rates and the U.S. federal statutory rate of 21% 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.

We file a consolidated federal tax return, as well as combined and separate tax returns in approximately 27 state and local jurisdictions. We do not currently have any federal or state income tax examinations in progress. Our income tax returns have generally been audited or closed to audit through 2012. See Note 10 for a discussion of our tax audits.

At September 25, 2018, we had approximately \$63,048,000 of state net operating loss benefits. The Company consumed its federal net operating losses in the year ended September 30, 2018.

Table of Contents

## 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	
	December 30 2018	December 24 2017
Income attributable to Lee Enterprises, Incorporated:	10,361	35,003
Weighted average common shares	57,303	56,782
Less weighted average restricted Common Stock	(2,099	)(2,453
Basic average common shares	55,204	54,329
Dilutive stock options and restricted Common Stock	1,497	1,483
Diluted average common shares	56,701	55,812
Earnings per common share:		
Basic	0.19	0.64
Diluted	0.18	0.63

For the 13 weeks ended December 30, 2018, and December 24, 2017, 6,448,000 and 6,707,000 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.

## 8 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 13 weeks ended December 30, 2018 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 30, 2018	1,100	1.88		
Exercised	(8	)1.48		
Cancelled	(69	)2.32		
Outstanding, December 30, 2018	1,023	1.86	2.3	443
Exercisable, December 30, 2018	1,023	1.86	2.3	443

## Restricted Common Stock

The table below summarizes restricted Common Stock activity during the 13 weeks ended December 30, 2018:

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 30, 2018	2,059	2.31
Vested	(728	)1.53
Granted	788	2.18

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

Cancelled	(24	)2.01
Outstanding, December 30, 2018	2,095	2.53

16

---

## Table of Contents

Total unrecognized compensation expense for unvested restricted Common Stock at December 30, 2018 is \$3,224,000, which will be recognized over a weighted average period of 1.9 years.

### 9 FAIR VALUE MEASUREMENTS

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

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

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

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

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

The carrying amounts of cash equivalents, accounts receivable, contract assets and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling \$6,068,000, including our 17% ownership of the nonvoting common stock of TCT and a private equity investment, are carried at cost. As of December 30, 2018, based on the most recent data available, the approximate fair value of the private equity investment is \$9,118,000, which is a level 3 fair value measurement. Fair value of the remaining investments approximates book value.

Our fixed rate debt consists of \$385,000,000 principal amount of the Notes and \$92,832,000 principal amount under the 2<sup>nd</sup> Lien Term Loan. At December 30, 2018, based on private market price quotations, the fair values were \$390,293,750 and \$91,903,892 for the Notes and 2<sup>nd</sup> Lien Term Loan, respectively. These represent level 2 fair value measurements.

As discussed more fully in Note 4, we recorded a liability for the Warrants issued in connection with the Warrant Agreement. The liability was initially measured at its fair value and we remeasure the liability to fair value each reporting period, with changes reported in other non-operating income (expense). The initial fair value of the Warrants was \$16,930,000. The fair value of Warrants at September 2018 and December 2018 are \$1,807,000 and \$1,726,000, respectively. Fair value is determined using the Black-Scholes option pricing model. These represent level 2 fair value measurements.

### 10 COMMITMENTS AND CONTINGENT LIABILITIES

#### Income Taxes

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



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

Table of Contents

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

## Legal Proceedings

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

## Multiemployer Pension Plans

The Company contributes to three multiemployer pension plans. In June 2017, a union contract covering certain of our employees under a multiemployer pension plan expired resulting in a partial withdrawal from one of the multiemployer plans. In 2017, the Company recorded an estimate of the partial withdrawal liability totaling \$2,600,000. Once the multiemployer pension plan's administrators finalize the partial withdrawal liability, it will be paid in equal installments over a twenty year period.

## 11 REVENUE

In the current quarter, we adopted the new revenue recognition accounting pronouncement related to revenue from contracts with customers, using the modified retrospective method applied to those contracts which were not completed as of the adoption date. Results for reporting periods beginning after October 1, 2018 are presented under the new guidance while prior period amounts are not adjusted and continue to be reported in accordance with legacy accounting under the old guidance. We did not record any adjustments to beginning retained earnings at October 1, 2018 as a result of adopting the new guidance.

The following table presents our revenues disaggregated by source:

(Thousands of Dollars)	13 Weeks Ended	
	December 30	December 24
	2018	2017
Subscription revenue	46,268	48,269
Advertising and marketing services revenues	75,962	84,661
TownNews and other digital services revenues	4,677	3,661
Other revenues	9,294	7,195
Total operating revenue	136,201	143,786

Recognition principles: Revenues are recognized when a performance obligation is satisfied by the transfer of control of the contracted goods or services to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services.

Advertising and marketing services revenues: Advertising and marketing services revenues include amounts charged to customers for retail or classified advertising space purchased in our newspapers, retail or classified advertisements placed on our digital platforms, and other print advertising products such as preprint inserts and direct mail. Advertising and marketing services revenues also include amounts charged to customers for digital marketing services which include: Audience extension, Search Engine Optimization ("SEO"), Search Engine Marketing ("SEM"), web and mobile production, social media services and reputation monitoring and management. The following define the timing of revenue recognition for each general revenue category:

Print advertising revenues are recognized at the point in time the associated publication has been delivered.  
Digital advertising revenues are recognized at the point in time that impressions are delivered.  
Digital marketing services revenues are recognized over the period of time which the service is performed.

## Table of Contents

Advertising and marketing services contract transaction prices consist of fixed consideration. We recognize revenue when control of the related performance obligation transfers to the customer.

Payments for advertising revenues are due upon completion of our performance obligations at previously agreed upon rates. In instances where the timing of revenue recognition differs from the timing of invoicing, such timing differences are not large. As a result, we have determined that our contracts do not include a significant financing component.

**Subscription revenues:** Subscription revenues include revenues for content delivered to consumers via print and digital products purchased by readers or distributors. Single copy revenues are also included in subscription revenues. Subscription revenues from single-copy and home delivery subscriptions are recognized at the point in time the publications are delivered. Digital subscription revenues are recognized over time as performance obligations are met via on-demand availability of online content made available to customers throughout the contract term. Payments for subscription revenues are typically collected in advance, are for contract periods of one year or less and result in an unearned revenue liability that is reduced when revenue is recognized.

**Other revenues:** Other revenues are primarily comprised of digital services, Management Agreement revenues, commercial printing and delivery of third party products. Digital services revenues, which are primarily delivered through TownNews, are primarily comprised of contractual agreements to provide webhosting and content management services. As such, digital services revenues are recognized over the contract period. Prices for digital services are agreed upon in advance of the contract beginning and are typically billed in arrears on a monthly basis, with the exception of implementation fees which are recognized as deferred revenue and amortized over the contract period. Management Agreement revenues, consisting of fees collected from our Management Agreement, are recognized based on BH Media financial progress toward contractual performance goals related to certain financial benchmarks. BH Media provides historical and projected financial reports, which serve as the basis for our revenue recognition. Fixed Management Agreement revenues are recognized over time and paid quarterly and variable fees are paid annually. Variable fees are recognized when the fees are deemed earned and it is probable that substantially all of the consideration will be collected. Commercial printing and delivery revenues are recognized when the product is delivered to the customer.

**Arrangements with multiple performance obligations:** We have various advertising and subscription agreements which include both print and digital performance obligations. Revenues from sales agreements that contain multiple performance obligations are allocated to each obligation based on the relative standalone selling price. We determine standalone selling prices based on observable prices charged to customers.

**Contract Assets and Liabilities:** The Company's primary source of unearned revenue is from subscriptions paid in advance of the service provided. The Company expects to recognize the revenue related to unsatisfied performance obligations over the next three to twelve months in accordance with the terms of the subscriptions and other contracts with customers. The unearned revenue balances described herein are the Company's only contract liability under ASC 606. Unearned revenues were \$23,430,000 as of December 30, 2018 and \$23,895,000 as of September 30, 2018. Revenues recognized in the quarter that were included in the contract liability as of September 30, 2018 were \$15,727,000.

Contract asset balances relate to our Management Agreement revenues and were \$1,106,000 as of December 30, 2018 and \$0 as of September 30, 2018 and consisted solely of the variable portion of the contract. These contract asset balances are included in accounts receivable and contract assets, net. There are no other contract assets recorded. Accounts receivable, excluding allowance for doubtful accounts and contract assets, was \$55,139,000 and \$48,517,000 as of December 30, 2018 and September 30, 2018, respectively. Allowance for doubtful accounts was \$5,208,000 and \$4,806,000 as of December 30, 2018 and September 30, 2018, respectively.

Practical expedients and exemptions: Sales commissions are expensed as incurred as the associated contractual periods are one year or less. These costs are recorded within compensation. Additionally, we do not disclose the value of unsatisfied performance obligations because the vast majority of our contracts have original expected lengths of one year or less and revenue is earned at a rate and amount that corresponds directly with the value to the customer.

Table of Contents

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks ended December 30, 2018. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2018 Annual Report on Form 10-K.

NON-GAAP FINANCIAL MEASURES

We use non-GAAP financial performance measures to supplement the financial information presented on a GAAP basis. These non-GAAP financial measures should not be considered in isolation or as a substitute for the relevant GAAP measures and should be read in conjunction with information presented on a GAAP basis.

In this report, we present adjusted EBITDA, adjusted income (loss), adjusted earnings (loss) per common share (EPS), and cash costs, which are non-GAAP financial performance measures that exclude from our reported GAAP results the impact of certain items consisting primarily of restructuring charges and non-cash charges. We believe such expenses, charges, and gains are not indicative of normal, ongoing operations, and their inclusion in our results makes for more difficult comparisons between years and with peer group companies. In the future, however, we are likely to incur expenses, charges, and gains similar to the items for which the applicable GAAP financial measures have been adjusted and to report non-GAAP financial measures excluding such items. Accordingly, exclusion of those or similar items in our non-GAAP presentations should not be interpreted as implying the items are non-recurring, infrequent, or unusual.

We define our non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, as follows:

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

Adjusted Income (Loss) and Adjusted Earnings (Loss) Per Common Share are non-GAAP financial performance measures that we believe offer a useful metric to evaluate overall performance of the Company by providing financial statement users the operating performance of the Company excluding the impact of changes in the valuation of the Warrants, which are non-cash transactions, and the impact of the 2017 Tax Act. It is defined as income (loss) attributable to Lee Enterprises, Incorporated and diluted earnings (loss) per common share adjusted to exclude the impact of the valuation of the Warrants, the impact of the 2017 Tax Act, and the gain on insurance settlement.

Cash Costs represent a non-GAAP financial performance measure of operating expenses which are measured on an accrual basis and settled in cash. This measure is useful to investors in understanding the components of the Company's cash-settled operating costs. Generally, the Company provides forward-looking guidance of Cash Costs,

which can be used by financial statement users to assess the Company's ability to manage and control its operating cost structure. Cash Costs are defined as compensation, newsprint and ink and other operating expenses. Depreciation and amortization, assets loss (gain) on sales, impairments and other, other non-cash operating expenses and other expenses are excluded. Cash Costs also exclude restructuring costs and other, which are typically paid in cash.

Table of Contents

A table reconciling adjusted EBITDA to net income, the most directly comparable measure under GAAP, is set forth below under the caption "Reconciliation of Non-GAAP Financial Measures". Reconciliations of adjusted income (loss) and adjusted earnings (loss) per diluted common share to income (loss) attributable to Lee Enterprises, Incorporated and earnings (loss) per diluted common share, respectively, the most directly comparable measures under GAAP, are set forth in Item 7, included herein, under the caption "Net Income and Earnings Per Share".

The subtotals of operating expenses representing cash costs can be found in tables in Item 2, included herein, under the captions "13 Weeks Ended December 30, 2018".

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

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

(Thousands of Dollars)	13 Weeks Ended		52 Weeks Ended
	December 30 2018	December 24 2017	December 30 2018
Net Income	10,719	35,327	19,609
Adjusted to exclude			
Income tax expense (benefit)	4,513	(19,690	)7,975
Non-operating expenses, net	12,487	14,195	55,995
Equity in earnings of TNI and MNI	(2,129	)(2,383	)(8,995 )
Loss (gain) on sale of assets and other, net	(100	)2	6,327
Depreciation and amortization	7,529	8,053	31,242
Restructuring costs	62	468	5,144
Stock compensation	463	519	1,801
Add:			
Ownership share of TNI and MNI EBITDA (50%)	2,601	3,159	9,325
Adjusted EBITDA	36,145	39,650	128,423

#### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2018, the Financial Accounting Standards Board ("FASB") issued a new standard which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The modifications remove disclosures, clarify the specific requirements of disclosures and add disclosure requirements identified as relevant. We are currently in the process of evaluating the impact of this guidance on our Consolidated Financial Statements.

In August 2018, the FASB a new standard which modifies the disclosure requirements on fair value measurements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently in the process of evaluating the impact of this guidance on our Consolidated Financial Statements.

In July 2018, the FASB issued a new standard which provides for an optional transition method that allows issuers to initially apply the new lease standard to all leases that exist as of the adoption date, with the cumulative effect of initially applying the new lease standard recognized as an adjustment to retained earnings as of the adoption date. We



intend to adopt the optional transition approach in fiscal year 2020. To date we have made progress in our assessment of the new lease standard. We are currently compiling an inventory of leases, evaluating the provisions of the updated guidance and assessing the impact on our Consolidated Financial Statements.

## Table of Contents

In February 2016, the FASB issued a new standard for the accounting treatment of leases. The new standard is based on the principle that entities should recognize assets and liabilities arising from leases. The new standard does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Leases are classified as finance or operating. The new standard's primary change is the requirement for entities to recognize a lease liability for payments and a right of use asset representing the right to use the leased asset during the term on most operating lease arrangements. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. In addition, the new standard expands the disclosure requirements of lease arrangements. Lessees have the option to use a modified retrospective transition approach, which includes a number of practical expedients. We are currently in the process of evaluating the impact of this guidance on our Consolidated Financial Statements.

## CRITICAL ACCOUNTING POLICIES

Our critical accounting policies include the following:

- Intangible assets, other than goodwill;
- Pension, postretirement and postemployment benefit plans; and
- Income taxes.

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 2018 Annual Report on Form 10-K.

## EXECUTIVE OVERVIEW

Lee Enterprises, Incorporated is a leading provider of high quality, trusted, local news and information, and a major platform for advertising in the markets we serve. We operate 49 principally mid-sized local media operations and manage 30 additional local media operations through the Management Agreement with BH Media.

We reach 79% of all adults in our larger markets through a combination of our print and digital content offerings.

Our web and mobile sites are the number one digital source of local news in most of our markets, reaching more than 29.0 million unique visitors each month with a monthly average of 289.0 million page views. Page views per session, one metric we use to monitor engagement, increased 12.9% in 2018.

- Our printed newspapers reach more than 0.7 million households daily and more than 1.1 million on Sunday, with estimated readership totaling three million.

Our products include daily newspapers, websites and mobile applications, mobile news and advertising, video products, a digital marketing agency, digital services including web hosting and content management, niche publications and community newspapers. Our local media operations range from large daily newspapers and the associated digital products, such as the St. Louis Post-Dispatch, to non-daily newspapers with news websites and digital platforms serving smaller communities.

We also operate TownNews, through our 82.5% owned subsidiary INN Partners, L.C. ("TownNews"). TownNews provides state-of-the-art web hosting, content management services and video management services to 1,700 other media organizations including broadcast.

On June 26, 2018, in the Company's fourth fiscal quarter, we entered into the Management Agreement to manage Berkshire Hathaway's newspaper and digital operations in 30 markets, beginning July 2, 2018. The Company operates

BH Media consistent with how it manages its own newspaper and digital operations. Among other decisions, Berkshire Hathaway is responsible for approving operating and capital budgets. The Management Agreement extends for a term of five years and may be extended thereafter for successive one-year terms on such terms as may be mutually agreed to by the Company and Berkshire Hathaway. The Management Agreement provides for the Company to be paid a fixed annual fee of \$5 million, payable quarterly in arrears, and a variable fee based on the financial performance of BH Media. The variable fees are payable annually in arrears.

Table of Contents

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

DEBT AND LIQUIDITY

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

As of December 30, 2018, our debt consists of the following:

\$400,000,000 aggregate principal amount of 9.5% Senior Secured Notes (the "Notes"), pursuant to an Indenture dated as of March 31, 2014 (the "Indenture"), of which \$385,000,000 is outstanding at December 30, 2018;

\$250,000,000 first lien term loan (the "1st Lien Term Loan") and \$40,000,000 revolving facility (the "Revolving Facility") under a First Lien Credit Agreement dated as of March 31, 2014 (together, the "1st Lien Credit Facility"), of which \$0 is outstanding at December 30, 2018; and

\$150,000,000 second lien term loan under a Second Lien Loan Agreement dated as of March 31, 2014 (the "2<sup>d</sup> Lien Term Loan"), of which \$92,832,000 is outstanding at December 30, 2018.

In December 2018 we amended our 1<sup>st</sup> Lien Credit Facility to amend and extend our Revolving Facility (the "Amendment"). The Amendment, among other changes, extends the maturity of the revolving loan commitments of the 1<sup>st</sup> Lien Lenders for twelve months, reduces the revolver loan commitments from \$40,000,000 to \$27,200,000 with a further 15% reduction to the revolving loan commitments of the 1<sup>st</sup> Lien Term Lenders effective as of July 31, 2019.

Our ability to make payments on our indebtedness will depend on our ability to generate future cash flows from operations. Cash generated from future asset sales could serve as an additional source of repayment. This ability, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

At December 30, 2018, after consideration of letters of credit, we have approximately \$21,435,000 available for future use under our Revolving Facility, which expires December 28, 2019. Including cash, our liquidity at December 30, 2018 totals \$37,344,000. This liquidity amount excludes any future cash flows. Our adjusted EBITDA has been strong for the last seven years and totaled \$128,423,000 for the trailing twelve months ended December 30, 2018, but there can be no assurance that such performance will continue. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows from operations and certain asset sales, which will allow us to maintain an adequate level of liquidity.

At December 30, 2018, the principal amount of our outstanding debt totaled \$477,832,000. The December 30, 2018 principal amount of our debt, net of cash, is 3.6 times our trailing twelve months adjusted EBITDA.

Excluding our Revolving Facility which is undrawn as of December 30, 2018, final maturities of our debt range from March 2022 through December 2022. Our Revolving Facility expires December 28, 2019.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to repay, refinance or amend our debt agreements as they become due, if necessary. The Notes, 1<sup>st</sup> Lien Credit Facility

Table of Contents

and 2<sup>nd</sup> Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at December 30, 2018.

Table of Contents

13 WEEKS ENDED DECEMBER 30, 2018

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

(Thousands of Dollars, Except Per Share Data)	December 30 2018	December 24 2017	Percent Change
Advertising and marketing services revenue	75,962	84,661	(10.3 )
Subscription	46,268	48,269	(4.1 )
Other	13,971	10,856	28.7
Total operating revenue	136,201	143,786	(5.3 )
Operating expenses:			
Compensation	47,038	51,619	(8.9 )
Newsprint and ink	6,339	5,838	8.6
Other operating expenses	49,743	50,357	(1.2 )
Cash costs	103,120	107,814	(4.4 )
Total operating revenue less cash costs	33,081	35,972	(8.0 )
Depreciation and amortization	7,529	8,053	(6.5 )
Assets loss (gain) on sales, impairments and other	(100	)2	NM
Restructuring costs and other	62	468	(86.8 )
Operating expenses	110,611	116,337	(4.9 )
Equity in earnings of associated companies	2,129	2,383	(10.7 )
Operating income	27,719	29,832	(7.1 )
Non-operating income (expense):			
Interest expense	(12,256	)(13,650	)(10.2 )
Debt financing and administrative cost	(896	)(1,096	)(18.2 )
Other, net	665	551	20.7
Non-operating expenses, net	(12,487	)(14,195	)(12.0 )
Income before income taxes	15,232	15,637	(2.6 )
Income tax expense (benefit)	4,513	(19,690	)NM
Net income	10,719	35,327	(69.7 )
Net income attributable to non-controlling interests	(358	)(324	)10.5
Income attributable to Lee Enterprises, Incorporated	10,361	35,003	(70.4 )
Other comprehensive income (loss), net of income taxes	(122	)27	NM
Comprehensive income attributable to Lee Enterprises, Incorporated	10,239	35,030	(70.8 )
Earnings per common share:			
Basic	0.19	0.64	(70.3 )
Diluted	0.18	0.63	(71.4 )

References to the "2019 Quarter" refer to the 13 weeks ended December 30, 2018. Similarly, references to the "2018 Quarter" refer to the 13 weeks ended December 24, 2017.

## Operating Revenue

In the 2019 Quarter, advertising and marketing services revenue decreased \$8,698,000, or 10.3%, compared to the 2018 Quarter. The decrease in advertising and marketing services revenue is due to softness in print advertising demand resulting in reduced advertising volume primarily from large retail, big box stores and classifieds.

Digital advertising increased 8.0% to \$25,494,000 in the 2019 Quarter and represents 33.6% of total advertising and marketing services revenue. Digital retail advertising, which represents 63.3% of total digital advertising, increased

10.1%, partially offsetting print declines.

Subscription revenue decreased \$2,001,000, or 4.1%, in the 2019 Quarter. Strategic pricing programs and premium content helped offset lower paid circulation units. Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 0.7 million in the 2019 Quarter. Sunday circulation totaled 1.1 million.

25

---



## Table of Contents

Other revenue, which consists of digital services, Management Agreement revenues, commercial printing, revenue from delivery of third party products and the sale of books, increased 28.7% in the 2019 Quarter. The increase was due to revenue at TownNews as well as management fees under the Management Agreement with BH Media.

Excluding intercompany activity, revenue at TownNews increased 25.5% in the 2019 Quarter, due to an increase in customers, including broadcast, and monetizing digital audience with programmatic digital advertising revenue. On a stand alone basis, revenue at TownNews totaled \$19,797,000 over the last twelve months.

In the 2019 Quarter, our mobile, tablet, desktop and app sites, including TNI and MNI, attracted a monthly average of 29.0 million unique visitors, with 289.0 million page views, a 17.3% increase in page views compared to the 2018 Quarter. Increased audience engagement is driving a higher number pages viewed per user session in the 2019 Quarter. Research in our larger markets indicates we are maintaining our share of audience in our markets through the combination of strong digital audience growth and print newspaper readership.

Equity in earnings of TNI and MNI decreased \$254,000 in the 2019 Quarter.

## Operating Expenses

Operating expenses for the 2019 Quarter decreased 4.9%. Cash costs decreased 4.4% compared to the prior year quarter.

Compensation expense decreased \$4,581,000, or 8.9%, driven by a 13.9% decline in average full-time equivalent employees. Outsourcing certain functions and continued business transformation affected the number of full-time equivalents in the 2019 Quarter.

Newsprint and ink costs increased \$501,000, or 8.6%, due to significant increases in newsprint prices partially offset by a 10.8% reduction in newsprint volume from unit declines. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint prices on our business.

Other operating expenses for the 2019 Quarter decreased \$614,000, or 1.2%. Other operating expenses include all operating costs not considered to be compensation, newsprint, depreciation and amortization, or restructuring costs and other. The largest components of these costs include delivery, postage, outsourced printing, digital cost of goods sold and facility expenses. Cost reductions were primarily related to lower delivery and other print-related costs offset in part by higher costs associated with growing digital revenue and outsourcing.

Depreciation expense decreased \$562,000, or 15.0%, and amortization expense increased \$38,000, or 0.9%, in the 2019 Quarter.

Assets loss (gain) on sales, impairments and other, was a net gain of \$100,000 in the 2019 Quarter compared to a net loss of \$2,000 in the 2018 Quarter.

Restructuring costs totaled \$62,000 and \$468,000 in the 2019 Quarter and 2018 Quarter, respectively. The majority of restructuring costs relate to severance.

## Results of Operations

The factors noted above resulted in operating income of \$27,719,000 in the 2019 Quarter compared to \$29,832,000 in the 2018 Quarter.

Non-operating Income and Expense

Interest expense decreased \$1,394,000, or 10.2%, to \$12,256,000 in the 2019 Quarter due to lower debt balances. Our weighted average cost of debt, excluding amortization of debt financing costs, was 10.0% at the end of the 2019 Quarter compared to 9.9% at the end of the 2018 Quarter, as the majority of our debt repayments were made on our lowest cost debt.

We recognized \$896,000 of debt financing and administrative costs in the 2019 Quarter compared to \$1,096,000 in the 2018 Quarter. The majority of the costs represent amortization of refinancing costs paid in 2014.

Table of Contents

Other non-operating income and expense consists of benefits associated with our pension and other postretirement plans and the fair value adjustment of our Warrants.

We recorded \$711,000 of other periodic pension benefits in the 2019 Quarter and \$708,000 in the 2018 Quarter.

Due to the fluctuation in the price of our Common Stock, we recorded non-operating income of \$80,000 in the 2019 Quarter and non-operating expense of \$431,000 in the 2018 Quarter, related to the changes in the value of the Warrants.

## Overall Results

On December 22, 2017, the 2017 Tax Act was signed into law. Among other provisions, the 2017 Tax Act reduced the federal statutory corporate income tax rate from 35% to 21%. The reduction of the corporate tax rate caused us to re-measure our deferred tax assets and liabilities to the lower federal base rate of 21% in the 2018 Quarter. We reported a discrete adjustment from revaluing our deferred tax assets and liabilities resulting in a net decrease in income tax expense of \$24,872,000 in the 2018 Quarter.

We recorded an income tax expense of \$4,513,000, or 29.6%, of pretax income in the 2019 Quarter. For the 13 weeks ended December 24, 2017, we recognized a \$19,690,000 income tax benefit. Excluding the transitional impact from the 2017 Tax Act, the effective income tax rate for the 13 weeks ended December 24, 2017 was 33.1%.

## NET INCOME AND EARNINGS PER SHARE

The following table summarizes the fair value adjustments of our Warrants and the impact from 2017 Tax Act on income attributable to Lee Enterprises, Incorporated and earnings per diluted common share. Per share amounts may not add due to rounding.

	13 Weeks Ended			
	December 30 2018		December 24 2017	
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	10,361	0.18	35,003	0.63
Adjustments (tax affected):				
Warrants fair value adjustment	(80)	)—	431	0.01
Income tax effect of 2017 Tax Act	—		(24,872)	(0.45)
Income attributable to Lee Enterprises, Incorporated, as adjusted	10,281	0.18	10,562	0.19

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities was \$19,407,000 in the 2019 Quarter and \$21,178,000 in the 2018 Quarter. Net income for the 2019 Quarter totaled \$10,719,000 compared to \$35,327,000 in the 2018 Quarter. The decrease in cash provided by operating activities in the 2019 Quarter is mainly attributed to year-over-year changes in operating income.

Investing Activities

Cash required for investing activities totaled \$1,395,000 in the 2019 Quarter compared to \$1,056,000 in the 2018 Quarter. Capital spending totaled \$1,002,000 in the 2019 Quarter compared to \$1,103,000 in the 2018 Quarter.

We anticipate that funds necessary for capital expenditures, which are expected to total up to \$11,000,000 in 2019, and other requirements, will be available from internally generated funds or available under our Revolving Facility.

Financing Activities

Cash required for financing activities totaled \$7,483,000 in the 2019 Quarter and \$16,897,000 in the 2018 Quarter. Debt reduction accounted for the majority of the usage of funds in both the 2019 Quarter and the 2018 Quarter.

Liquidity

At December 30, 2018, after consideration of letters of credit, we have approximately \$21,435,000 available for future use under our Revolving Facility. Including cash and availability under our Revolving Facility, our liquidity at December 30, 2018 totals \$37,344,000. 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.

Our Revolving Facility expires December 28, 2019.

At December 30, 2018, the principal amount of our outstanding debt totals \$477,832,000. The December 30, 2018 principal amount of debt, net of cash, is 3.6 times our trailing 12 months adjusted EBITDA.

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and repay, refinance or amend our debt agreements as they become due, if available liquidity is consumed. The Notes, 1<sup>st</sup> Lien Credit Facility and 2<sup>nd</sup> Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at December 30, 2018.

In February 2017 our filing of a replacement Form S-3 registration statement ("Shelf") with the SEC, was declared effective and expires February 2020. The Shelf registration gives us the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, warrants, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of \$750,000,000. SEC issuer eligibility rules require us to have a public float of at least \$75,000,000 in order to use the Shelf. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Under our existing debt agreements, net proceeds from the sale of any securities may be used generally to reduce debt.

## Table of Contents

### CHANGES IN LAWS AND REGULATIONS

#### Pension Plans

In 2012, the Surface Transportation Extension Act of 2012 ("STEА") was signed into law. STEА provides for changes in the determination of discount rates that result in a near-term reduction in minimum funding requirements for our defined benefit pension plans. STEА 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 STEА and further increases premiums to be paid to the PBGC.

#### Income Taxes

On December 22, 2017, the 2017 Tax Act was signed into law. Among other provisions, the 2017 Tax Act reduces the federal statutory corporate income tax rate from 35% to 21%. The reduction of the corporate tax rate caused us to re-measure our deferred tax assets and liabilities to the lower federal base rate of 21%. We reported a discrete adjustment from revaluing our deferred tax assets and liabilities which resulted in a provisional net decrease in income tax expense of \$24,872,000 for the 13 weeks ended December 24, 2017.

The Securities Exchange Commission has issued rules that allow for a measurement period of up to one year after the enactment date of the 2017 Tax Act to finalize the recording of the related transitional impact. Apart from any future changes in interpretations, legislative action or changes in accounting standards, we finalized and recorded the resulting adjustments as of September 30, 2018.

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

#### Wage Laws

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

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

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

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

### INTEREST RATES ON DEBT

Our debt structure, which is entirely fixed rate, eliminates the potential impact of an increase in interest rates. At December 30, 2018, we had no floating rate debt outstanding. We have no interest rate hedging instruments in place.

#### COMMODITIES

Newsprint prices increased in the 2019 Quarter as a result of tightening supply versus demand for newsprint as well as a general reduction in newsprint production capacity as Canadian producers shifted production to the United States. A portion of the price increases were offset by reduced consumption of newsprint by the Company.

## Table of Contents

Our long-term supply strategy is to align the Company with those cost-effective suppliers most likely to continue producing and supplying newsprint to the North American market and geographically aligned with our print locations. Where possible the Company will align supply with the lowest cost material, but may be restricted due to current supply chain tightness and paper production availability.

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before taxes of approximately \$400,000 based on anticipated consumption in 2019, excluding consumption of TNI and MNI and the impact of LIFO accounting.

## SENSITIVITY TO CHANGES IN VALUE

Our debt consists of \$385,000,000 principal amount of the Notes and \$92,832,000 principal amount under the 2<sup>nd</sup> Lien Term Loan, which are subject to fixed interest rates. At December 30, 2018, based on an average of private market price quotations, the fair values were \$390,293,750 and \$91,903,892 for the Notes and 2<sup>nd</sup> Lien Term Loan, respectively.

## Item 4. Controls and Procedures

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended December 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

PART II  
OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits  
Number Description

- 31.1 Rule 13a-14(a)/15d-14(a) certification
- 31.2 Rule 13a-14(a)/15d-14(a) certification
- 32 Section 1350 certification

SIGNATURES

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

LEE ENTERPRISES, INCORPORATED

/s/ Timothy R. Millage  
Timothy R. Millage  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

February 8, 2019