LEE ENTERPRISES, INC
Form 10-Q
May 04, 2018

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

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

For The Quarterly Period Ended March 25, 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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes [X] 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 [X]
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. [ ]

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 April 30, 2018 57,039,805 shares of Common Stock of the Registrant were outstanding.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the "Company"). References to "2018", "2017" 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 new tax legislation;
•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 sho considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. We do not undertake to publicly update or revise our forward-looking statements, except as required by law.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	March 25 2018	September 24 2017
ASSETS		
Current assets:		
Cash and cash equivalents	12,301	10,621
Accounts receivable, net	44,711	49,469
Inventories	4,044	3,616
Other	4,104	4,132
Total current assets	65,160	67,838
Investments:		
Associated companies	27,975	29,181
Other	10,572	9,949
Total investments	38,547	39,130
Property and equipment:		
Land and improvements	20,038	20,424
Buildings and improvements	170,024	172,138
Equipment	276,020	278,880
Construction in process	1,941	752
	468,023	472,194
Less accumulated depreciation	360,516	357,998
Property and equipment, net	107,507	114,196
Goodwill	246,426	246,426
Other intangible assets, net	127,545	136,302
Medical plan assets, net	15,825	15,392
Other	1,613	1,566
Total assets	602,623	620,850

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

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(Thousands of Dollars and Shares, Except Per Share Data)	March 25 2018	September 24 2017
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	30,904	30,182
Accounts payable	15,688	17,027
Compensation and other accrued liabilities	18,824	22,423
Accrued interest	1,607	1,512
Income taxes payable	—	183
Unearned revenue	27,516	26,881
Total current liabilities	94,539	98,208
Long-term debt, net of current maturities	465,796	496,379
Pension obligations	42,444	43,537
Postretirement and postemployment benefit obligations	2,959	5,004
Deferred income taxes	33,814	53,397
Income taxes payable	6,291	5,497
Warrants and other	10,193	10,041
Total liabilities	656,036	712,063
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: March 25, 2018: 57,046 shares; September 24, 2017: 56,712 shares	570	567
Class B Common Stock, $2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	252,302	251,790
Accumulated deficit	(291,282)	(328,524)
Accumulated other comprehensive loss	(16,077)	(16,068)
Total stockholders' deficit	(54,487)	(92,235)
Non-controlling interests	1,074	1,022
Total deficit	(53,413)	(91,213)
Total liabilities and deficit	602,623	620,850

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

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended		26 Weeks Ended	
	March 25 2018	March 26 2017	March 25 2018	March 26 2017
Operating revenue:				
Advertising and marketing services	71,553	77,533	156,213	170,568
Subscription	45,972	45,009	94,241	93,896
Other	10,280	10,845	21,136	22,912
Total operating revenue	127,805	133,387	271,590	287,376
Operating expenses:				
Compensation	48,656	52,414	99,567	107,470
Newsprint and ink	5,640	6,200	11,478	13,093
Other operating expenses	49,315	48,756	99,671	101,533
Depreciation	3,685	4,008	7,441	8,079
Amortization of intangible assets	4,331	6,310	8,627	12,619
Gain on sales of assets and other, net	(1,300)	(3,783)	(1,297)	(3,716)
Workforce adjustments and other	1,816	2,405	2,284	2,470
Total operating expenses	112,143	116,310	227,771	241,548
Equity in earnings of associated companies	1,608	1,729	3,991	4,417
Operating income	17,270	18,806	47,810	50,245
Non-operating income (expense):				
Interest expense	(13,274)	(14,637)	(26,924)	(29,588)
Debt financing and administrative costs	(1,217)	(1,075)	(2,313)	(2,026)
Other, net	681	4,427	524	7,597
Total non-operating expense, net	(13,810)	(11,285)	(28,713)	(24,017)
Income before income taxes	3,460	7,521	19,097	26,228
Income tax expense (benefit)	927	1,144	(18,763)	7,410
Net income	2,533	6,377	37,860	18,818
Net income attributable to non-controlling interests	(294)	(249)	(618)	(517)
Income attributable to Lee Enterprises, Incorporated	2,239	6,128	37,242	18,301
Other comprehensive income, net of income taxes	(36)	894	(9)	949
Comprehensive income attributable to Lee Enterprises, Incorporated	2,203	7,022	37,233	19,250
Earnings per common share:				
Basic:	0.04	0.11	0.68	0.34
Diluted:	0.04	0.11	0.67	0.33

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

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

(Thousands of Dollars)	26 Weeks Ended March 25 2018	March 26 2017
Cash provided by (required for) operating activities:		
Net income	37,860	18,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,068	20,698
Curtailment gains	(2,031)	(3,741)
Stock compensation expense	1,016	1,083
Distributions greater than earnings of MNI	672	650
Deferred income taxes	(19,557)	6,181
Debt financing and administrative costs	2,313	2,026
Other, net	169	(474)
Changes in operating assets and liabilities:		
Decrease in receivables	4,758	4,245
Decrease (increase) in inventories and other	(468)	433
Decrease in accounts payable and other accrued liabilities	(4,367)	(7,677)
Decrease in pension and other postretirement and postemployment benefit obligations	(1,575)	(1,880)
Change in income taxes payable	510	552
Other, including warrants	(253)	(7,529)
Net cash provided by operating activities	35,115	33,385
Cash provided by (required for) investing activities:		
Purchases of property and equipment	(2,452)	(2,079)
Proceeds from sales of assets	1,989	1,078
Distributions greater (less) than earnings of TNI	535	(397)
Other, net	(995)	(489)
Net cash required for investing activities	(923)	(1,887)
Cash provided by (required for) financing activities:		
Payments on long-term debt	(32,064)	(32,249)
Debt financing costs paid	(5)	—
Common stock transactions, net	(443)	(230)
Net cash required for financing activities	(32,512)	(32,479)
Net increase (decrease) in cash and cash equivalents	1,680	(981)
Cash and cash equivalents:		
Beginning of period	10,621	16,984
End of period	12,301	16,003

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

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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 March 25, 2018 and our results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2017 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks and 26 weeks ended March 25, 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 “2018”, “2017” 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 TownNews.com.

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 30, 2017, in the Company's fourth fiscal quarter of 2017, we purchased the assets of the Dispatch-Argus serving Moline and Rock Island, Illinois for $7,150,000 plus an adjustment for working capital. The purchase included one daily newspaper, a weekly publication, two niche publications as well as the related digital platforms. The purchase was funded with cash on the balance sheet. Operating results of the Dispatch-Argus were consolidated beginning in the 13 weeks ended September 24, 2017.

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.

New accounting pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued a new standard that gives entities the option to reclassify the tax effects related to items in accumulated other comprehensive income as a result of tax reform to retained earnings. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

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 outside of operating income. The current presentation includes all components of the expense (benefit) as Compensation in our Consolidated Statements of Income and Comprehensive Income

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for the periods presented. The adoption of the new standard is required in fiscal 2019. If adopted in fiscal year 2018, compensation expense would increase $2,776,000 on an annual basis.

In August 2016, the FASB issued a new standard to conform the presentation in the statement of cash flows for certain transactions, including cash distribution from equity method investments, among others. The adoption of the new standard is required in fiscal year 2020. The adoption of this standard will reclassify certain cash receipts within the Consolidation Statements of Cash Flows.

In March 2016, the FASB issued a new standard with improvements to the accounting for employee share-based payments. The new standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this new standard in 2018, as required, and the adoption did not have a material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued a new standard for the accounting treatment of leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. We currently anticipate adopting the new lease standard in the first quarter of our fiscal year 2020. To date we have made progress in our assessment of the new lease standard. We are currently evaluating the provisions of the updated guidance and assessing the impact on our Consolidated Financial Statements.

In May 2014, the FASB issued a new revenue recognition standard which prescribes a single comprehensive model for entities to use to account for revenue arising from contracts with customers. The new guidance will supersede virtually all existing revenue guidance under U.S. GAAP and is effective for our fiscal year 2019. The core principle contemplated by this new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers are also required. In April and May 2016, the FASB also issued clarifying updates to the new standard specifically to address certain core principles including the identification of performance obligations, licensing guidance, the assessment of the collectability criterion, the presentation of taxes collected from customers, noncash considerations, contract modifications, and completed contracts at transition.

We are currently evaluating the impact that the new revenue recognition standard will have on our financial statements and related disclosures. As part of the implementation process, we are holding regular meetings with key stakeholders to discuss the impact of the standard across our organization. We are continuing to review our customer contracts, identifying contractual provisions that may result in a change in the timing or the amount of revenue recognized and assessing the enhanced disclosure requirements of the new guidance. We expect to complete our assessment in the fourth quarter of fiscal year 2018.

We currently anticipate adopting the new revenue recognition standard using the modified retrospective approach in the fiscal year beginning October 1, 2018. This approach consists of recognizing the cumulative effect, if any, of initially applying the standard as an adjustment to opening retained earnings.

No other new accounting pronouncement issued or effective during the fiscal year had, or is expected to have, a material impact on our Consolidated Financial 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.

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

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Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		26 Weeks Ended	
	March 25 2018	March 26 2017	March 25 2018	March 26 2017
Operating revenue	11,851	12,507	25,081	25,821
Operating expenses	9,354	9,770	19,338	19,770
Operating income	2,497	2,737	5,743	6,051
Company's 50% share of operating income	1,248	1,368	2,872	3,026
Less amortization of intangible assets	104	104	209	209
Equity in earnings of TNI	1,144	1,264	2,663	2,817

TNI makes weekly distributions of its earnings and for the 13 weeks ended March 25, 2018 and March 26, 2017 we received $1,631,000 and $1,437,000 in distributions, respectively. In the 26 weeks ended March 25, 2018 and March 26, 2017 we received $3,198,000 and $2,420,000 in distributions, respectively.

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses in our Consolidated Statements of Income and Comprehensive Income. These amounts totaled $127,000 and $159,000 in the 13 weeks ended March 25, 2018 and March 26, 2017, respectively, and $261,000 and $301,000 in the 26 weeks ended March 25, 2018 and March 26, 2017, respectively.

Annual amortization of intangible assets is estimated to be $418,000 for the 52 weeks ending March 2019 and 2020, respectively, and zero thereafter.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		26 Weeks Ended	
	March 25 2018	March 26 2017	March 25 2018	March 26 2017
Operating revenue	13,838	14,382	29,903	31,424
Operating expenses, excluding workforce adjustments, depreciation and amortization	12,016	12,548	24,948	25,928
Workforce adjustments	146	129	210	155
Depreciation and amortization	280	348	558	696
Operating income	1,396	1,357	4,187	4,645
Net income	928	929	2,656	3,200
Equity in earnings of MNI	464	465	1,328	1,600

MNI makes quarterly distributions of its earnings and in the 13 weeks ended March 25, 2018 and March 26, 2017 we received dividends of $1,250,000 and $1,000,000, respectively. In the 26 weeks ended March 25, 2018 and March 26,

2017 we received dividends of $2,000,000 and $2,250,000, respectively.

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3 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	26 Weeks Ended March 25 2018
Goodwill, gross amount	1,535,155
Accumulated impairment losses	(1,288,729)
Goodwill, beginning of period	246,426
Goodwill, end of period	246,426

Identified intangible assets consist of the following:

(Thousands of Dollars)	March 25 2018	September 24 2017
Nonamortized intangible assets:		
Mastheads	21,883	22,035
Amortizable intangible assets:		
Customer and newspaper subscriber lists	692,016	691,994
Less accumulated amortization	586,354	577,727
	105,662	114,267
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,524	28,524
	—	—
Other intangible assets, net	127,545	136,302

Annual amortization of intangible assets for the 52 or 53 weeks ended March 2019 to March 2023 is estimated to be $16,992,000, $15,827,000, $15,564,000, $12,924,000 and $12,019,000, 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 "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”).

- $150,000,000 second lien term loan under a Second Lien Loan Agreement dated as of March 31, 2014 (the “2nd Lien Term Loan”).

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Debt is summarized as follows:

(Thousands of Dollars)	March 25 2018	September 24 2017	Interest Rates (%) March 25 2018
Revolving Facility	—	—	5.63
1st Lien Term Loan	24,645	45,145	7.90
Notes	385,000	385,000	9.50
2nd Lien Term Loan	106,676	118,240	12.00
	516,321	548,385	
Unamortized debt issue costs	(19,621)	(21,824)	
Current maturities of long-term debt	30,904	30,182	
Total long-term debt	465,796	496,379	

Our weighted average cost of debt, excluding amortization of debt financing costs at March 25, 2018, is 9.9%.

At March 25, 2018, aggregate minimum required maturities of debt excluding amounts required to be paid from future excess cash flow computations total $18,759,000 for the remainder of 2018, $12,145,000 in 2019, $0 in 2020, $0 in 2021, $385,000,000 in 2022 and $100,417,000 thereafter.

Notes

The Notes are senior secured obligations of the Company and mature on March 15, 2022. At March 25, 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. On or after March 15, 2018, we may redeem the Notes 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 1st Lien Credit Facility contains restrictive covenants as discussed more fully below. However, certain of these covenants will cease to apply if the Notes are rated investment grade by either Moody’s Investors Service, Inc. or Standard & Poor’s Ratings Group and there is no default or event of default under the Indenture.

1st Lien Credit Facility

The 1st Lien Credit Facility consists of the $250,000,000 1st Lien Term Loan that matures in March 31, 2019 and the $40,000,000 Revolving Facility that matures on December 28, 2018. The 1st Lien Credit Facility documents the primary terms of the 1st Lien Term Loan and the Revolving Facility. The Revolving Facility may

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be used for working capital and general corporate purposes (including letters of credit). At March 25, 2018, after consideration of letters of credit, we have approximately $33,835,000 available for future use under the Revolving Facility.

Interest

Interest on the 1st Lien Term Loan, which has a principal balance of $24,645,000 at March 25, 2018, accrues, at our option, at either (A) LIBOR plus 6.25% (with a LIBOR floor of 1.0%) or (B) 5.25% plus the higher of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0% (with a floor of 2.0%). Interest is payable quarterly.

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

Interest on the Revolving Facility, which has a principal balance of zero at March 25, 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%.

Principal Payments

Quarterly principal payments of $6,250,000 are required under the 1st Lien Term Loan, with additional payments required to be made based on 90% of excess cash flow of Lee Legacy ("Lee Legacy Excess Cash Flow"), as defined, or from proceeds of asset sales, which are not reinvested, as defined, from our subsidiaries other than Pulitzer Inc. ("Pulitzer") and its subsidiaries (collectively, the "Pulitzer Subsidiaries"). For excess cash flow calculation purposes, Lee Legacy constitutes the business of the Company, including MNI, but excluding Pulitzer and TNI. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1st Lien Credit Facility at any time without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

Quarterly, the Company is required to prepare a Lee Legacy Excess Cash Flow calculation, which is generally determined as the cash earnings of our subsidiaries other than the Pulitzer Subsidiaries and includes adjustments for changes in working capital, capital spending, pension contributions, debt principal payments and income tax payments or refunds. Any excess cash flow as calculated is required to be paid to the 1st Lien lenders 45 days after the end of the quarter. For the 13 weeks ended March 25, 2018, the required Lee Legacy Excess Cash Flow payment was zero.

2018 payments made, or required to be made for the remainder of the year, under the 1st Lien Term Loan are summarized as follows:

	13 Weeks Ended			13 Weeks Ending
(Thousands of Dollars)	December 24 2017	March 25 2018	June 24 2018	September 30 2018
Mandatory	6,250	6,250	6,250	6,250
Voluntary	5,000	3,000	—	—
	11,250	9,250	6,250	6,250

Covenants and Other Matters

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

The 1st Lien Credit Facility restricts us from paying dividends on our Common Stock. This restriction no longer applies if Lee Legacy leverage is below 3.25x before and after such payments. Lee Legacy leverage as defined is 3.93x at March 25, 2018. Further, the 1st Lien Credit Facility restricts or limits, among other things, subject to certain exceptions, the ability of the Company and its subsidiaries to: (i) incur indebtedness, (ii) enter into mergers, acquisitions and asset sales, (iii) incur or create liens and (iv) enter into transactions with certain affiliates. The 1st Lien Credit Facility contains various representations and warranties and may be terminated

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upon occurrence of certain events of default. The 1st Lien Credit Facility also contains cross-default provisions tied to the terms of each of the Indenture and 2nd Lien Term Loan.

2nd Lien Term Loan

The 2nd Lien Term Loan, which has a balance of $106,676,000 at March 25, 2018, bears interest at a fixed annual rate of 12.0%, payable quarterly, and matures in December 2022.

Principal Payments

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

Prior to March 31, 2017, we were required to offer the Pulitzer Excess Cash Flow to the 2nd Lien Lenders to prepay the 2nd Lien Term Loan at par, which payment the 2nd Lien Lenders could accept or reject. After March 31, 2017, Pulitzer Excess Cash Flow is used to prepay the 2nd 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 2nd 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 and 26 weeks ended March 25, 2018, payments on the 2nd Lien Term Loan totaled $6,382,000 and $11,564,000, respectively. For the 13 weeks ended March 25, 2018, Pulitzer Excess Cash Flow totaled $6,259,000, which will be used to make a payment on the 2nd Lien Term Loan in May 2018, at par.

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

In connection with the 2nd 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 2nd Lien Lenders received on March 31, 2014 their pro rata share of warrants to purchase, in cash, an initial aggregate of 6,000,000 shares of Common Stock, subject to adjustment pursuant to anti-dilution provisions (the "Warrants"). The Warrants represent,

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

The Warrant Agreement contains 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.

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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 1st 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 "1st Lien Guarantee and Collateral Agreement").

The Notes, the 1st 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 1st 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 1st Lien Credit Facility are subject to a Pari Passu Intercreditor Agreement dated March 31, 2014.

The Notes, the 1st 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 1st Lien Guarantee and Collateral Agreement on a second lien basis.

Also, the Notes and the 1st 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 2nd 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 “2nd Lien Guarantee and Collateral Agreement”) among the Pulitzer Assignors and the 2nd Lien collateral agent.

Under the 2nd 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 2nd Lien Term Loan.

Also, under the 2nd 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 2nd Lien Term Loan. Assets of, or used in the operations or business of, MNI are excluded.

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

Other

In connection with the 2014 Refinancing, we capitalized $37,819,000 of debt financing costs. Amortization of debt financing costs totaled $2,203,000 in the 26 weeks ended March 25, 2018. Amortization of such costs is estimated to total $2,029,000 in 2018, $3,925,000 in 2019, $4,005,000 in 2020, $4,175,000 in 2021, and

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$4,359,000 in 2022. At March 25, 2018, we have $19,621,000 of unamortized debt financing costs recorded as a reduction of Long-term debt in our Consolidated Balance Sheets.

Liquidity

At March 25, 2018, after consideration of letters of credit, we have approximately $33,835,000 available for future use under our Revolving Facility, which expires on December 28, 2018. Including cash, our liquidity at March 25, 2018 totals $46,136,000. 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 1st Lien Term Loan and/or the Notes.

Final maturities of our debt range from December 2018 through December 2022.

There are numerous potential consequences under the Notes, 1st Lien Credit Facility and 2nd 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, 1st Lien Credit Facility and 2nd 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, 1st Lien Credit Facility and 2nd Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at March 25, 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.

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

PENSION PLANS	13 Weeks Ended		26 Weeks Ended	
(Thousands of Dollars)	March 25 2018	March 26 2017	March 25 2018	March 26 2017
Service cost for benefits earned during the period	12	21	24	42
Interest cost on projected benefit obligation	1,438	1,349	2,876	2,698
Expected return on plan assets	(1,983)	(1,969)	(3,966)	(3,938)
Amortization of net loss	506	736	1,012	1,472
Amortization of prior service benefit	(34)	(34)	(68)	(68)
Pension expense (benefit)	(61)	103	(122)	206

POSTRETIREMENT MEDICAL PLANS	13 Weeks Ended		26 Weeks Ended	
(Thousands of Dollars)	March 25 2018	March 26 2017	March 25 2018	March 26 2017
Service cost for benefits earned during the period	—	9	—	12
Interest cost on projected benefit obligation	90	110	181	232
Expected return on plan assets	(270)	(264)	(540)	(528)
Amortization of net gain	(246)	(243)	(492)	(480)
Amortization of prior service benefit	(196)	(365)	(392)	(730)
Curtailment gains	(2,031)	(3,741)	(2,031)	(3,741)
Postretirement medical benefit	(2,653)	(4,494)	(3,274)	(5,235)

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

Based on our forecast at March 25, 2018, we expect to make contributions of $4,940,000 to our pension trust during the remainder of fiscal 2018.

In March 2017, we notified certain participants in one of our post employment medical plans of changes to their plan and in December 2017, our fiscal second quarter, the plan was terminated. These changes resulted in a non-cash curtailment gain of $2,031,000 in the 13 weeks ended March 25, 2018 and $3,741,000 in the 13 weeks ended March 26, 2017. Curtailment gains are recorded in gain on sales of assets and other, net in the Consolidated Statements of Income and Comprehensive income.

6INCOME TAXES

On December 22, 2017, comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (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%. The discrete adjustment from revaluing our deferred tax assets and liabilities resulted in a provisional net decrease in income tax expense of $24,872,000 for the 26 weeks ended March 25, 2018.

The changes resulting from the 2017 Tax Act are complex and the final transitional impact of the 2017 Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the 2017 Tax Act, any legislative action to address questions that arise because of the 2017 Tax Act, changes in accounting standards for income taxes or related interpretations in response to the 2017 Tax Act and updates or changes to

estimates the Company has used to calculate the transition impacts, including impacts from changes to current year earnings estimates and changes in the timing of reversals of deferred income tax assets and liabilities. 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. We did not make any adjustments to the provisional amount recorded and currently anticipate finalizing the transitional impact of the 2017 Tax Act in the fourth quarter of 2018.

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Including the transitional impact of revaluing deferred tax assets and liabilities, we recorded an income tax expense of $927,000 and a tax benefit of $18,763,000 related to income before taxes of $3,460,000 and $19,097,000 for the 13 and 26 weeks ended March 25, 2018, respectively. We recorded income tax expense of $1,144,000 and $7,410,000 related to income before taxes of $7,521,000 and $26,228,000 for the 13 and 26 weeks ended March 26, 2017, respectively.

The effective income tax rate for the 13 and 26 weeks ended March 25, 2018 was 26.8% and a negative 98.3%, respectively. The effective income tax rate for the 13 and 26 weeks ended March 26, 2017 was 15.2% and 28.3%, respectively. The majority of the differences between the effective tax rates and the statutory tax rates were due to the transitional adjustments from the 2017 Tax Act as well as the nontaxable income and nondeductible expenses related to the fair value adjustment of the warrants.

We file a consolidated federal tax return, as well as combined and separate tax returns in approximately 27 state and local jurisdictions. We have various income tax examinations ongoing which are at different stages of completion, but generally our income tax returns have been audited or closed to audit through 2009. See Note 10 for a discussion of our tax audits.

At September 25, 2017, we had approximately $57,856,000 of state net operating loss tax benefits and a federal net operating loss carryforward of approximately $6,247,000.

7EARNINGS PER COMMON SHARE

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

(Thousands of Dollars and Shares, Except Per Share Data)	13 Weeks Ended		26 Weeks Ended	
	March 25 2018	March 26 2017	March 25 2018	March 26 2017
Income attributable to Lee Enterprises, Incorporated:	2,239	6,128	37,242	18,301
Weighted average common shares	57,070	56,607	56,924	56,268
Less weighted average restricted Common Stock	(2,378)	(2,552)	(2,416)	(2,479)
Basic average common shares	54,692	54,055	54,508	53,789
Dilutive stock options and restricted Common Stock	1,169	1,415	1,309	1,631
Diluted average common shares	55,861	55,470	55,817	55,420
Earnings per common share:				
Basic	0.04	0.11	0.68	0.34
Diluted	0.04	0.11	0.67	0.33

For the 13 and 26 weeks ended March 25, 2018, 6,500,900 and 6,706,603, weighted average shares, respectively, were not considered in the computation of diluted earnings per common share because the exercise prices of the related stock options and Warrants were in excess of the fair market value of our Common Stock. For the 13 and 26 weeks ended March 26, 2017, 6,823,500, weighted average shares 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.

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8 STOCK OWNERSHIP PLANS

A summary of stock option activity during the 26 weeks ended March 25, 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 24, 2017	1,271	1.86		
Exercised	(18)	1.39		
Cancelled	(12)	1.99		
Outstanding, March 25, 2018	1,241	1.86	3.1	448
Exercisable, March 25, 2018	1,241	1.86	3.1	448

Restricted Common Stock

The table below summarizes restricted Common Stock activity during the 26 weeks ended March 25, 2018:

(Thousands of Shares, Except Per Share Data)	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 24, 2017	2,478	2.69
Vested	(644)	3.62
Granted	572	2.32
Cancelled	(57)	2.96
Outstanding, March 25, 2018	2,349	2.34

Total unrecognized compensation expense for unvested restricted Common Stock at March 25, 2018 is $3,003,892, which will be recognized over a weighted average period of 1.5 years.

9 FAIR VALUE MEASUREMENTS

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

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

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

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

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

The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. Investments totaling $6,318,000, including our 17% ownership of the nonvoting common stock of TCT and a private equity investment, are carried at cost. As of September 30, 2017, based on the most recent data available, the approximate fair value of the private equity

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investment is $9,183,000, which is a level 3 fair value measurement. Fair value of the remaining investments approximates book value.

The fair value of floating rate debt, which consists of our 1st Lien Term Loan, is $24,645,000, based on an average of private market price quotations. Our fixed rate debt consists of $385,000,000 principal amount of the Notes and $106,676,000 principal amount under the 2nd Lien Term Loan. At March 25, 2018, based on private market price quotations, the fair values were $401,603,000 and $109,876,000 for the Notes and 2nd 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 2017, December 2017 and March 2018 is $1,580,000, $2,011,000 and $1,456,000, respectively. Fair value is determined using the Black-Scholes option pricing model. These represent level 2 fair value measurements.

10COMMITMENTS 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.

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.

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

The following discussion includes comments and analysis relating to our results of operations and financial condition as of and for the 13 weeks and 26 weeks ended March 25, 2018. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2017 Annual Report on Form 10-K.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

Reconciliations of adjusted income (loss) and adjusted earnings (loss) per common share to income (loss) attributable to Lee Enterprises, Incorporated and earnings (loss) per common share, respectively, the most directly comparable

measures under GAAP, are set forth in Item 2, included herein, under the caption “Overall Results”.

The subtotals of operating expenses representing cash costs and cash costs excluding workforce adjustments and other can be found in tables in Item 2, included herein, under the captions “13 Weeks Ended March 25, 2018" and “26 Weeks Ended March 25, 2018".

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

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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		26 Weeks Ended		52 Weeks Ended
	March 25 2018	March 26 2017	March 25 2018	March 26 2017	March 25 2018
Net Income	2,533	6,377	37,860	18,818	47,647
Adjusted to exclude					
Income tax expense (benefit)	927	1,144	(18,763)	7,410	(14,562)
Non-operating expenses, net	13,810	11,285	28,713	24,017	57,027
Equity in earnings of TNI and MNI	(1,608)	(1,729)	(3,991)	(4,417)	(7,183)
Loss on sale of assets and other, net	(1,300)	(3,783)	(1,297)	(3,716)	(1,248)
Impairment of intangible and other assets	—	—	—	—	2,517
Depreciation and amortization	8,016	10,318	16,068	20,698	36,652
Workforce adjustments and other	1,816	2,405	2,284	2,470	7,337
Stock compensation	497	559	1,016	1,083	2,021
Add:					
Ownership share of TNI and MNI EBITDA (50%)	2,086	2,220	5,245	5,696	9,476
Adjusted EBITDA	26,777	28,796	67,135	72,059	139,684

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies include the following:

•Intangible assets, other than goodwill;
•Pension, postretirement and postemployment benefit plans;
•Income taxes;
•Revenue recognition; and
•Uninsured risks.

Additional information regarding these critical accounting policies can be found under the caption “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2017 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 are located primarily in the Midwest, Mountain West and West regions of the United States, and our 49 markets (including TNI Partners ("TNI") and Madison Newspapers, Inc. ("MNI")), across 21 states are principally mid-sized or small. Our printed newspapers reach more than 0.8 million households daily and more than 1.1 million on Sunday, with estimated readership totaling three million. Our web and mobile sites are the number one digital source of local news in most of our markets, reaching more than 27 million unique visitors each month.

Our products include:

•46 daily and 34 Sunday newspapers; all with related digital operations; and

- Nearly 300 weekly newspapers and niche publications, most with related digital operations.

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We also operate TownNews.com, through our 82.5% owned subsidiary INN Partners, L.C. ("TownNews.com"). TownNews.com provides digital infrastructure and digital publishing services for nearly 1,600 daily and weekly newspapers as well as universities, television stations, niche publications, and Lee Enterprises properties.

Our markets have established retail bases. Most are regional shopping hubs, and we are located in four state capitals. Six of our top ten markets, by revenue, include major universities, and seven are home to major corporate headquarters. We believe that operating the dominate provider of local news, information and advertising in these markets - combined with our ability to distribute our content across print and digital platforms - enables us to better execute our strategy.

We generate revenue primarily through print and digital advertising, subscriptions to our publications and digital services, primarily through TownNews.com. Our operations also provide commercial printing, distribution of third party publications and marketing services.

IMPAIRMENT OF GOODWILL AND OTHER ASSETS

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

DEBT AND LIQUIDITY

We have a substantial amount of debt, as discussed more fully 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 March 25, 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 March 25, 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 $24,645,000 is outstanding at March 25, 2018; and

- $150,000,000 second lien term loan under a Second Lien Loan Agreement dated as of March 31, 2014 (the “2nd Lien Term Loan”), of which $106,676,000 is outstanding at March 25, 2018.

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 March 25, 2018, after consideration of letters of credit, we have approximately $33,835,000 available for future use under our Revolving Facility, which expires December 28, 2018. Including cash, our liquidity at March 25, 2018 totals $46,136,000. This liquidity amount excludes any future cash flows. Our adjusted EBITDA has been strong for the last seven years and totaled $139,684,000 for the trailing twelve months ended March 25, 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 March 25, 2018, the principal amount of our outstanding debt totaled $516,321,000. The March 25, 2018 principal amount of our debt, net of cash, is 3.61 times our trailing twelve months adjusted EBITDA.

Final maturities of our debt range from December 2018 through December 2022.

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There are numerous potential consequences under the Notes, 1st Lien Credit Facility and 2nd 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, 1st Lien Credit Facility and 2nd 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, 1st Lien Credit Facility and 2nd Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at March 25, 2018.

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13 WEEKS ENDED MARCH 25, 2018

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

(Thousands of Dollars, Except Per Share Data)	March 25 2018	March 26 2017	Percent Change
Advertising and marketing services revenue	71,553	77,533	(7.7)
Subscription	45,972	45,009	2.1
Other	10,280	10,845	(5.2)
Total operating revenue	127,805	133,387	(4.2)
Operating expenses:			
Compensation	48,656	52,414	(7.2)
Newsprint and ink	5,640	6,200	(9.0)
Other operating expenses	49,315	48,756	1.1
Cash costs excluding workforce adjustments and other	103,611	107,370	(3.5)
Workforce adjustments and other	1,816	2,405	(24.5)
Cash costs	105,427	109,775	(4.0)
	22,378	23,612	(5.2)
Depreciation	3,685	4,008	(8.1)
Amortization	4,331	6,310	(31.4)
Gain on sales of assets and other, net	(1,300)	(3,783)	(65.6)
Equity in earnings of associated companies	1,608	1,729	(7.0)
Operating income	17,270	18,806	(8.2)
Non-operating income (expense):			
Interest expense	(13,274)	(14,637)	(9.3)
Debt financing and administrative cost	(1,217)	(1,075)	13.2
Other, net	681	4,427	(84.6)
Non-operating expenses, net	(13,810)	(11,285)	22.4
Income before income taxes	3,460	7,521	(54.0)
Income tax expense	927	1,144	(19.0)
Net income	2,533	6,377	(60.3)
Net income attributable to non-controlling interests	(294)	(249)	18.1
Income attributable to Lee Enterprises, Incorporated	2,239	6,128	(63.5)
Other comprehensive income, net of income taxes	(36)	894	NM
Comprehensive income attributable to Lee Enterprises, Incorporated	2,203	7,022	(68.6)
Earnings per common share:			
Basic	0.04	0.11	NM
Diluted	0.04	0.11	NM

References to the "2018 Quarter" refer to the 13 weeks ended March 25, 2018. Similarly, references to the "2017 Quarter" refer to the 13 weeks ended March 26, 2017. Due to publications purchased in 2017 and the sale of a newspaper in 2018, certain of the revenue and operating expense trends discussed below are on a same property basis.

Advertising and Marketing Services Revenue

In the 2018 Quarter, advertising and marketing services revenue decreased $5,980,000, or 7.7% compared to the 2017 Quarter. On a same property basis, advertising and marketing services declined 9.9%. The decrease in advertising and marketing services revenue is due to continued softness in print advertising demand resulting in reduced advertising volume primarily from large retail, big box stores and classifieds. Digital retail advertising on a stand-alone basis

increased 6.5%, representing 62.7% of total digital advertising.

Digital advertising increased 2.7% to $22,852,000 in the 2018 Quarter and represents 31.9% of total advertising revenue. On a same property basis digital advertising increased 2.2%.Total digital revenue including TownNews.com and all other digital business totaled $26,666,000 in the 2018 Quarter, an increase of 3.6% over the 2017 Quarter.

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TownNews.com generates the majority of its revenue from content management services at our properties as well as 1,600 other newspapers and other media operations.

Subscription and Other Revenue

Subscription revenue increased $963,000, or 2.1%, in the 2018 Quarter and decreased $179,000, or 0.4% on a same property basis. Higher subscription rates and charges for premium content helped offset lower paid circulation units. Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 0.8 million in the 2018 Quarter. Sunday circulation totaled 1.1 million.

Other revenue, which consists of digital services, commercial printing, revenue from delivery of third party products and the sale of books, decreased 5.2% in the 2018 Quarter. The decrease was due to volume declines in commercial printing and third party delivery, partially offset by an increase in content management services revenue at TownNews.com.

Excluding intercompany revenue, revenue at TownNews.com increased 17.0% to $3,528,000 in the 2018 Quarter.

In the 2018 Quarter, our mobile, tablet, desktop and app sites, including TNI and MNI, attracted an average of 77.5 million visits per month, a 11.6% increase compared to the 2017 Quarter. Increased audience engagement is driving a higher number pages viewed per user session in the 2018 Quarter. Our 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.

Operating Expenses

Operating expenses for the 2018 Quarter decreased 3.6%. Cash costs excluding workforce adjustments decreased 3.5% compared to the prior year quarter and decreased 6.0% on a same property basis.

Compensation expense decreased $4,921,000, or 9.4% on a same property basis driven by a decline of 13.1% in average full-time equivalent employees.

Newsprint and ink costs decreased $566,000, or 9.2% on a same property basis due to a 15.4% reduction in newsprint volume from unit declines and using lower basis weight newsprint partially offset by higher prices. 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 2018 Quarter decreased $940,000, or 1.9% on a same property basis. Other operating expenses include all operating costs not considered to be compensation, newsprint, depreciation, amortization, or workforce adjustments 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.

Workforce adjustment and other costs totaled $1,816,000 and $2,405,000 in the 2018 Quarter and 2017 Quarter, respectively.

Results of Operations

Depreciation expense decreased $323,000, or 8.1%, and amortization expense decreased $1,979,000, or 31.4%, in the 2018 Quarter.

Sales of operating assets and other, net resulted in a net gain of $1,300,000 in the 2018 Quarter compared to a net gain of $3,783,000 in the 2017 Quarter. The net gain includes a $2,031,000 and a $3,741,000 curtailment gain in the 2018 Quarter and the 2017 Quarter, respectively.

Equity in earnings of TNI and MNI decreased $121,000 in the 2018 Quarter.

The factors noted above resulted in operating income of $17,270,000 in the 2018 Quarter compared to $18,806,000 in the 2017 Quarter.

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Nonoperating Income and Expense

Interest expense decreased $1,363,000, or 9.3%, to $13,274,000 in the 2018 Quarter due to lower debt balances. Our weighted average cost of debt, excluding amortization of debt financing costs, was 9.9% at the end of the 2018 Quarter compared to 9.8% at the end of the 2017 Quarter, as the majority of our debt repayments were made on the 1st Lien Term Loan, our lowest cost debt.

We recognized $1,217,000 of debt financing and administrative costs in the 2018 Quarter compared to $1,075,000 in the 2017 Quarter. The majority of the costs represent amortization of refinancing costs paid in 2014.

Due to the fluctuation in the price of our Common Stock, we recorded non-operating income of $555,000 in the 2018 Quarter and $4,283,000 in the 2017 Quarter, related to the changes in the value of the Warrants.

Overall Results

We recorded an income tax expense of $927,000, resulting in an effective tax rate of 26.8% in the 2018 Quarter compared to 15.2% in the 2017 Quarter. See Note 6 of the Notes to the Consolidated Financial Statements, included herein, for a discussion of the difference between the expected federal income tax rate and the actual tax rates.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated totaled $2,239,000 in the 2018 Quarter compared to $6,128,000 in the 2017 Quarter. We recorded earnings per diluted common share of $0.04 in the 2018 Quarter and $0.11 in the 2017 Quarter. Excluding the warrants fair value adjustment, as detailed in the table bellow, diluted earnings per common share, as adjusted, were $0.03 in the 2018 Quarter, the same as the 2017 Quarter. Per share amounts may not add due to rounding.

	13 Weeks Ended			
	March 25 2018		March 26 2017	
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	2,239	0.04	6,128	0.11
Adjustments (tax affected):				
Warrants fair value adjustment	(555)		(4,283)	
	(555)	(0.01)	(4,283)	(0.08)
Income attributable to Lee Enterprises, Incorporated, as adjusted	1,684	0.03	1,845	0.03

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26 WEEKS ENDED MARCH 25, 2018

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

(Thousands of Dollars, Except Per Share Data)	March 25 2018	March 26 2017	
Total advertising and marketing services revenue	156,213	170,568	(8.4)
Subscription	94,241	93,896	0.4
Other	21,136	22,912	(7.8)
Total operating revenue	271,590	287,376	(5.5)
Operating expenses:			
Compensation	99,567	107,470	(7.4)
Newsprint and ink	11,478	13,093	(12.3)
Other operating expenses	99,671	101,533	(1.8)
Cash costs excluding workforce adjustments and other	210,716	222,096	(5.1)
Workforce adjustments	2,284	2,470	(7.5)
Cash costs	213,000	224,566	(5.2)
	58,590	62,810	(6.7)
Depreciation	7,441	8,079	(7.9)
Amortization	8,627	12,619	(31.6)
Gain on sales of assets and other, net	(1,297)	(3,716)	(65.1)
Equity in earnings of associated companies	3,991	4,417	(9.6)
Operating income	47,810	50,245	(4.8)
Non-operating income (expense):			
Interest expense	(26,924)	(29,588)	(9.0)
Debt financing and administrative cost	(2,313)	(2,026)	14.2
Other, net	524	7,597	(93.1)
Non-operating expenses, net	(28,713)	(24,017)	19.6
Income before income taxes	19,097	26,228	(27.2)
Income tax expense (benefit)	(18,763)	7,410	NM
Net income	37,860	18,818	NM
Net income attributable to non-controlling interests	(618)	(517)	19.5
Income attributable to Lee Enterprises, Incorporated	37,242	18,301	NM
Other comprehensive loss, net of income taxes	(9)	949	NM
Comprehensive income attributable to Lee Enterprises, Incorporated	37,233	19,250	93.4
Earnings per common share:			
Basic	0.68	0.34	NM
Diluted	0.67	0.33	NM

References to the "2018 Period" refer to the 26 weeks ended March 25, 2018. Similarly, references to the "2017 Period" refer to the 26 weeks ended March 26, 2017. Due to publications purchased in 2017 and sold in 2018, certain of the revenue and operating expense trends discussed below are on a same property basis.

Advertising and Marketing Services Revenue

In the 2018 Period, advertising and marketing services revenue decreased $14,355,000, or 8.4% compared to the 2017 Period. On a same property basis, advertising services revenue decreased 10.9%. The decrease in advertising and marketing services revenue is due to continued softness in print advertising demand resulting in reduced advertising volume primarily from large retail, big box stores and classifieds. Digital retail advertising on a stand-alone basis

increased 6.1%, representing 62.5% of total digital advertising.

Digital advertising increased 2.8% to $46,451,000 in the 2018 Period and represents 29.7% of total advertising revenue. On a same property basis digital advertising increased 2.1%. Total digital revenue including TownNews.com and all other digital business totaled $53,927,000 in the 2018 Period, an increase of 3.4% over the 2017 Period.

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TownNews.com generates the majority of its revenue from content management services at our properties as well as 1,600 other newspapers and other media operations.

Subscription and Other Revenue

Subscription revenue increased $345,000, or 0.4%, in the 2018 Period and decreased $1,742,000 or 1.9% on a same property basis. Higher subscription rates and charges for premium content helped offset lower paid circulation units. Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 0.8 million in the 2018 Period. Sunday circulation totaled 1.1 million.

Other revenue, which consists of digital services, commercial printing, revenue from delivery of third party products and the sale of books, decreased 7.8% in the 2018 Period. The decrease was due to volume declines in commercial printing, third party delivery and the sale of books partially offset by an increase in content management services revenue at TownNews.com.

Excluding intercompany revenue, revenue at TownNews.com increased 14.8% in the 2018 Period. On a stand alone basis, revenue at TownNews.com totaled $17.3 million over the last twelve months.

In the 2018 Period, our mobile, tablet, desktop and app sites, including TNI and MNI, attracted an average of 75.0 million visits per month, a 8.9% increase compared to the 2017 Period. Increased audience engagement is driving a higher number pages viewed per user session in the 2018 Period. Our 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.

Operating Expenses

Operating expenses for the 2018 Period decreased 5.7%. Cash cost excluding workforce adjustments decreased 5.1% compared to the prior year period and decreased 7.5% on the same property basis.

Compensation expense decreased $10,261,000, or 9.6% on a same property basis driven by a decline of 12.5% in average full time equivalent employees.

Newsprint and ink costs decreased $1,625,000, or 12.5% on a same property basis due to a 16.1% reduction in newsprint volume from unit declines and increased use of lower basis weight newsprint partially offset by higher prices. See Item 3, “Commodities”, included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses for the 2018 Period decreased $4,684,000, or 4.6% on a same property basis. Other operating expenses include all operating costs not considered to be compensation, newsprint, depreciation, amortization, or workforce adjusments 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.

Workforce adjustment and other costs totaled $2,284,000 and $2,470,000 in the 2018 Period and 2017 Period, respectively.

For fiscal 2018, we expect cash cost excluding workforce adjustments and other, to decrease 6.0-6.5% on a same property basis.

Results of Operations

Depreciation expense decreased $638,000, or 7.9%, and amortization expense decreased $3,992,000, or 31.6%, in the 2018 Period.

Sales of operating assets and other, net includes curtailment gains of $2,031,000 and $3,741,000 in the 2018 Period and 2017 Period, respectively, and totaled a net gain of $1,297,000 in the 2018 Period compared to a net gain of $3,716,000 in the 2017 Period.

Equity in earnings in associated companies decreased $426,000 in the 2018 Period.

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The factors noted above resulted in operating income of $47,810,000 in the 2018 Period compared to $50,245,000 in the 2017 Period.

Nonoperating Income and Expense

Interest expense decreased $2,664,000, or 9.0%, to $26,924,000 in the 2018 Period due to lower debt balances.

We recognized $2,313,000 of debt financing and administrative costs in the 2018 Period compared to $2,026,000 in the 2017 Period. The majority of the costs represent amortization of refinancing costs paid in 2014.

Due to the fluctuation in the price of our Common Stock, we recorded non-operating income of $124,000 in 2018 Period and $7,378,000 in the 2017 Period, related to the changes in the value of the Warrants.

Income Taxes

On December 22, 2017, comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (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% in December 2017. As a result of the reduction of the corporate tax rate, our deferred tax assets and liabilities were revalued to reflect the lower federal base rate of 21%. The transitional impact from revaluing our deferred tax assets and liabilities resulted in a provisional net decrease in income tax expense of $24,872,000 for the 26 weeks ended March 25, 2018.

The changes resulting from the 2017 Tax Act are complex and the final impact of the 2017 Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the 2017 Tax Act, any legislative action to address questions that arise because of the 2017 Tax Act, changes in accounting standards for income taxes or related interpretations in response to the 2017 Tax Act, updates or changes to estimates the Company has used to calculate the transition impacts, including impacts from changes to current year earnings estimates. 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 tax impacts. We did not make any adjustments to the provisional amount recorded and currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending September 30, 2018.

Overall Results

Including the transitional impact of revaluing deferred tax assets and liabilities, we recorded an income tax benefit of $18,763,000 in the 2018 Period. Excluding the transitional impact from the 2017 Tax Act, the effective income tax rate for the 26 weeks ended March 25, 2018 was 32.0%. In the 2017 Period, we recognized income tax expense of $7,410,000, resulting in an effective tax rate of 28.3%.

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

	26 Weeks Ended			
	March 25 2018		March 26 2017	
(Thousands of Dollars, Except Per Share Data)	Amount	Per Share	Amount	Per Share
Income attributable to Lee Enterprises, Incorporated, as reported	37,242	0.67	18,301	0.33
Adjustments (tax affected):				

Warrants fair value adjustment	(124)		(7,378)	
Income tax adjustment related to the 2017 Tax Act	(24,872)		—	
	(24,996)	(0.45)	(7,378)	(0.13)
Income attributable to Lee Enterprises, Incorporated, as adjusted	12,246	0.22	10,923	0.20

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LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities was $35,115,000 in the 2018 Period and $33,385,000 in the 2017 Period. Net income for the 2018 Period totaled $37,860,000, including the $24,872,000 adjustment to deferred taxes related to the 2017 Tax Act that increased net income, compared to $18,818,000 in the 2017 Period. The increase in cash provided by operating activities in the 2018 Period is mainly attributed to year over year changes in operating assets and liabilities.

Investing Activities

Cash required for investing activities totaled $923,000 in the 2018 Period compared to cash required for investing activities of $1,887,000 in the 2017 Period. The increase in the 2018 Period is due to an increase in cash distributions from TNI Partners and an increase in proceeds from sales of assets in the 2018 Period. Capital spending totaled $2,452,000 in the 2018 Period compared to $2,079,000 in the 2017 Period.

We anticipate that funds necessary for capital expenditures, which are expected to total up to $10,000,000 in 2018, and other requirements, will be available from internally generated funds or available under our Revolving Facility.

Financing Activities

Cash required for financing activities totaled $32,512,000 in the 2018 Period and $32,479,000 in the 2017 Period. Debt reduction accounted for the majority of the usage of funds in both the 2018 Period and the 2017 Period.

Liquidity

At March 25, 2018, after consideration of letters of credit, we have approximately $33,835,000 available for future use under our Revolving Facility which expires December 28, 2018. Including cash and availability under our Revolving Facility, our liquidity at March 25, 2018 totals $46,136,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to $25,140,000.

At March 25, 2018, the principal amount of our outstanding debt totals $516,321,000. The March 25, 2018 principal amount of debt, net of cash, is 3.61 times our trailing 12 months adjusted EBITDA.

There are numerous potential consequences under the Notes, 1st Lien Credit Facility and 2nd 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, 1st Lien Credit Facility and 2nd 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, 1st Lien Credit Facility and 2nd Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at March 25, 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.

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CHANGES IN LAWS AND REGULATIONS

Pension Plans

In 2012, the Surface Transportation Extension Act of 2012 (“STEA”) was signed into law. STEA provides for changes in the determination of discount rates that result in a near-term reduction in minimum funding requirements for our defined benefit pension plans. STEA will also result in an increase in future premiums to be paid to the Pension Benefit Guarantee Corporation ("PBGC").

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

Income Taxes

On December 22, 2017, comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (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 adjust our deferred tax assets and liabilities to the lower federal base rate of 21% in December 2017. The transitional impact from revaluing our deferred tax assets and liabilities resulted in a provisional net decrease in income tax expense of $24,872,000 for the 26 weeks ended March 25, 2018.

The changes resulting from the 2017 Tax Act are complex and the final impact of the 2017 Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the 2017 Tax Act, any legislative action to address questions that arise because of the 2017 Tax Act, changes in accounting standards for income taxes or related interpretations in response to the 2017 Tax Act, updates or changes to estimates the Company has used to calculate the transition impacts, including impacts from changes to current year earnings estimates. 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 tax impacts. We did not make any adjustments to the provisional amount recorded and currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending 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 predominantly fixed rate, significantly reduces the potential impact of an increase in interest rates. At March 25, 2018, only 4.8% of the principal amount of our debt is subject to floating interest rates. Our primary exposure is to LIBOR. A 100 basis point increase to LIBOR would decrease income before income taxes on an annualized basis by approximately $246,450 based on $24,645,000 of floating rate debt outstanding at March 25, 2018.

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

COMMODITIES

Newsprint price increases are being implemented in April and May of 2018, as a result of tightening supply vs demand for newsprint and as a result of preliminary duties and tariffs being imposed by the United States Department of Commerce on newsprint imported from Canada. A portion of the recent price increases are expected to be offset by reduced consumption of newsprint by the Company. We also manage significant newsprint inventories, which will temporarily mitigate the impact of any price increases.

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 $365,000 based on anticipated consumption in 2018, excluding consumption of TNI and MNI and the impact of LIFO accounting.

SENSITIVITY TO CHANGES IN VALUE

At March 25, 2018, the fair value of floating rate debt, which consists primarily of our 1st Lien Term Loan, is $24,645,000, based on an average of private market price quotations. Our fixed rate debt consists of $385,000,000 principal amount of the Notes and $106,676,000 principal amount under the 2nd Lien Term Loan. At March 25, 2018, based on an average of private market price quotations, the fair values were $401,603,000 and $109,876,000 for the Notes and 2nd 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 26 weeks ended March 25, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 May 4, 2018
Timothy R. Millage
Acting Principal Financial and Accounting Officer
(Principal Financial and Accounting Officer)

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