



## Lee Enterprises Reports Results for Third Fiscal Quarter

August 7, 2014

DAVENPORT, Iowa--(BUSINESS WIRE)--Aug. 7, 2014-- Lee Enterprises, Incorporated (NYSE:LEE), a major provider of local news, information and advertising in 50 markets, today reported a preliminary<sup>(1)</sup> loss of 19 cents per diluted common share for its third fiscal quarter ended June 29, 2014, compared with earnings of 3 cents a year ago. Excluding unusual matters, adjusted earnings per diluted common share<sup>(2)</sup> totaled 11 cents, compared with earnings of 6 cents a year ago.

Mary Junck, chairman and chief executive officer, said: "Total digital revenue in the third quarter continued its impressive growth, increasing over 17%, thanks to 13% digital advertising growth and the launch of our full-access subscription model. Our optimism about the full access subscription model is growing as we have now launched in fourteen, primarily larger markets, with the early results promising. We plan to continue the roll out to the majority of our markets by the end of the fiscal year and while the third quarter results are impacted by our debt refinancing costs, our enterprises continue to drive strong cash flows."

She also noted:

- Revenue trends improved again this quarter, with total revenue down 2.3% from the same quarter a year ago;
- Mobile advertising revenue increased 25.1%, to \$1.9 million;
- Digital audiences continued to grow at a double digit clip with 211.4 million mobile, tablet, desktop and app page views and 23.1 million unique visitors in the month of June 2014;
- We are on track to achieve our 3.0-3.5% cash cost<sup>(2)</sup> reduction target for 2014; and
- Since our March 31, 2014 refinancing and prior to the end of the third quarter, we have repaid \$30.0 million of debt, bringing the balance largely in line with where it was before the refinancing was completed.

### THIRD QUARTER OPERATING RESULTS

Operating revenue for the 13 weeks ended June 29, 2014 totaled \$163.1 million, a decrease of 2.3% compared with a year ago. Excluding the impact of a subscription-related expense reclassification as a result of moving to fee-for-service delivery contracts at several of our newspapers, operating revenue decreased 3.4%. This reclassification will increase both print subscription revenue and operating expenses, with no impact on operating cash flow<sup>(2)</sup> or operating income. A table later in this release details the impact of the reclassification on revenue and cash costs.

Combined print and digital advertising and marketing services revenue decreased 3.2% to \$110.3 million, an improvement from recent trends, with retail advertising down 3.1%, classified down 4.6% and national up 5.6%. Retail preprint advertising decreased 1.3%. Combined print and digital classified employment revenue increased 5.1%, while automotive decreased 14.0%, real estate decreased 6.1% and other classified decreased 4.5%. Digital advertising and marketing services revenue on a stand-alone basis increased 13.0% to \$19.5 million and now totals 17.7% of total advertising and marketing services revenue. Print advertising and marketing services revenue on a stand-alone basis decreased 6.1%.

Subscription revenue decreased 0.6%. Excluding the impact of the subscription-related expense reclassification, subscription revenue decreased 4.8%.

Total digital revenue, including advertising, marketing services, subscriptions and digital businesses, totaled \$23.4 million in the quarter, up 17.4%.

Cash costs decreased 2.7% for the 13 weeks ended June 29, 2014. Compensation decreased 3.2%, with the average number of full-time equivalent employees down 3.5%. Newsprint and ink expense decreased 11.9%, primarily a result of a reduction in newsprint volume of 11.9%. Other operating expenses increased 0.7%. Excluding the impact of the subscription-related expense reclassification, cash costs decreased 4.1%.

Operating cash flow decreased 1.2% from a year ago to \$39.3 million. Operating cash flow margin<sup>(2)</sup> increased to 24.1%, compared to 23.8% a year ago. Including equity in earnings of associated companies, depreciation and amortization, as well as unusual matters in both years, operating income increased 6.2% to \$28.6 million in the current year quarter, compared with \$26.9 million a year ago. Operating income margin increased to 17.5% up from 16.1% a year ago.

Non-operating expenses increased 97.2% for the 13 weeks ended June 29, 2014. We charged \$21.7 million of debt financing costs to expense and also recorded a \$2.3 million loss related to a litigation settlement in the current year quarter. Interest expense decreased by 10.6% due to lower debt balances and the refinancing of the Pulitzer Notes in May 2013. Loss attributable to Lee Enterprises, Incorporated for the quarter totaled \$9.7 million, compared with income of \$1.8 million a year ago.

### ADJUSTED EARNINGS AND EPS FOR THE QUARTER

The following table summarizes the impact from unusual matters on income (loss) attributable to Lee Enterprises, Incorporated and earnings (loss) per diluted common share. Per share amounts may not add due to rounding.

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13 Weeks Ended

|  | June 29 |           | June 30 |           |
|--|---------|-----------|---------|-----------|
|  | 2014    |           | 2013    |           |
| <i>(Thousands of Dollars, Except Per Share Data)</i>                     | Amount  | Per Share | Amount  | Per Share |
| Income (loss) attributable to Lee Enterprises, Incorporated, as reported | (9,746) | (0.19)    | 1,795   | 0.03      |
| Adjustments:   |         |           |         |           |
| Impairment of intangible and other assets                                | 336     |           | —       |           |
| Litigation settlement  | 2,300   |           | —       |           |
| Debt financing and reorganization costs                                  | 21,732  |           | 468     |           |
| Amortization of debt present value adjustment                            | —       |           | 1,216   |           |
| Other, net   | (153)   |           | 544     |           |
|  | 24,215  |           | 2,228   |           |
| Income tax effect of adjustments, net                                    | (8,472) |           | (763)   |           |
|  | 15,743  | 0.30      | 1,465   | 0.03      |
| Income attributable to Lee Enterprises, Incorporated, as adjusted        | 5,997   | 0.11      | 3,260   | 0.06      |

### FULL-ACCESS SUBSCRIPTION INITIATIVE

As previously reported, we launched our full-access subscription initiative in April. As of today, fourteen markets have been launched and we are on track to launch the majority of our markets before the end of our fiscal year. Early results are promising, with more than 20% of print subscribers activating their digital subscriptions in several of the early launch markets. And, thanks, in part, to a major customer service initiative, subscriber losses have been lower than expected. Digital subscription revenue increased 116.0% in the quarter, largely due to full-access. Also as previously reported, due to the timing of the rollout and subscriber renewal dates, we expect the bulk of the revenue from this initiative to be realized in 2015.

### YEAR-TO-DATE OPERATING RESULTS<sup>(3)</sup>

Operating revenue for the 39 weeks ended June 29, 2014, totaled \$494.6 million, a decrease of 3.5% compared with the 39 weeks ended June 30, 2013. Excluding the impact of the subscription-related expense reclassification, operating revenue decreased 3.9%.

Combined print and digital advertising and marketing services revenue decreased 4.2% to \$335.4 million, retail advertising decreased 3.1%, classified decreased 8.1% and national increased 3.0%. Combined print and digital classified employment revenue decreased 2.5%, while automotive decreased 14.4%, real estate decreased 5.9% and other classified decreased 8.3%. Digital advertising and marketing services revenue on a stand-alone basis increased 11.0% to \$55.5 million. Mobile advertising revenue increased 23.6%, to \$5.1 million.

Print advertising and marketing services revenue on a stand-alone basis decreased 6.8%.

Subscription revenue decreased 2.1%. Excluding the impact of the subscription-related expense reclassification, subscription revenue decreased 3.8%.

Total digital revenue totaled \$65.5 million year to date, up 14.5% compared with a year ago.

Cash costs for the 39 weeks ended June 29, 2014 decreased 4.0% compared to the same period a year ago. Compensation decreased 5.7%, with the average number of full-time equivalent employees down 5.2%. Newsprint and ink expense decreased 12.7%, a result of a reduction in newsprint volume of 11.8%. Other operating expenses increased 0.5%. Excluding the impact of the subscription-related expense reclassification, cash costs decreased 4.6%.

Operating cash flow decreased 1.6% from a year ago to \$121.3 million. Operating cash flow margin increased to 24.5% from 24.1% a year ago. Including equity in earnings of associated companies, depreciation and amortization, as well as unusual matters in both years, operating income increased 8.7% to \$92.5 million in the 39 weeks ended June 29, 2014, compared with \$85.1 million a year ago.

Non-operating expenses increased 37.5%, as we charged \$21.9 million of debt financing costs to expense in the current year period. These costs were partially offset by a 10.8% decrease in interest expense in the current year due to lower debt balances and the refinancing of the Pulitzer Notes in May 2013. We recorded a \$6.9 million gain on sale of an investment in the prior year period. Income attributable to Lee Enterprises, Incorporated totaled \$3.6 million, compared to \$10.4 million a year ago.

### ADJUSTED EARNINGS AND EPS FOR THE YEAR TO DATE

The following table summarizes the impact from unusual matters on income attributable to Lee Enterprises, Incorporated and earnings per diluted common share. Per share amounts may not add due to rounding.

|   | 39 Weeks Ended |           |         |           |
|---|----------------|-----------|---------|-----------|
|   | June 29        |           | June 30 |           |
|   | 2014           |           | 2013    |           |
| <i>(Thousands of Dollars, Except Per Share Data)</i>              | Amount         | Per Share | Amount  | Per Share |
| Income attributable to Lee Enterprises, Incorporated, as reported | 3,632          | 0.07      | 10,372  | 0.20      |
| Adjustments:  |                |           |         |           |

|   |         |         |        |      |
|---|---------|---------|--------|------|
| Impairment of intangible and other assets                         | 336     | —       |        |      |
| Gain on sale of investment, net                                   | —       | (6,909) |        |      |
| Litigation settlement   | 2,300   | —       |        |      |
| Debt financing and reorganization costs                           | 21,935  | 557     |        |      |
| Amortization of debt present value adjustment                     | 2,394   | 3,932   |        |      |
| Other, net  | 424     | 2,170   |        |      |
|   | 27,389  | (250)   |        |      |
| Income tax effect of adjustments, net                             | (9,551) | 102     |        |      |
|   | 17,838  | 0.33    | (148)  | —    |
| Unusual matters related to discontinued operations                | —       | —       | 1,014  | 0.02 |
| Income attributable to Lee Enterprises, Incorporated, as adjusted | 21,470  | 0.40    | 11,238 | 0.22 |

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

|  | 13 Weeks Ended  |                 |                   | 39 Weeks Ended  |                 |                   |
|--|-----------------|-----------------|-------------------|-----------------|-----------------|-------------------|
|  | June 29<br>2014 | June 30<br>2013 | Percent<br>Change | June 29<br>2014 | June 30<br>2013 | Percent<br>Change |
| <i>(Thousands of Dollars)</i>                                |                 |                 |                   |                 |                 |                   |
| Subscription revenue, as reported                            | 43,339          | 43,583          | (0.6)             | 130,744         | 133,609         | (2.1)             |
| Adjustment for subscription-related expense reclassification | (1,842)         | —               | NM                | (2,242)         | —               | NM                |
| Subscription revenue, as adjusted                            | 41,497          | 43,583          | (4.8)             | 128,502         | 133,609         | (3.8)             |
| Total operating revenue, as reported                         | 163,125         | 167,019         | (2.3)             | 494,603         | 512,277         | (3.5)             |
| Adjustment for subscription-related expense reclassification | (1,842)         | —               | NM                | (2,242)         | —               | NM                |
| Total operating revenue, as adjusted                         | 161,283         | 167,019         | (3.4)             | 492,361         | 512,277         | (3.9)             |
| Total cash costs, as reported                                | 123,813         | 127,217         | (2.7)             | 373,296         | 389,051         | (4.0)             |
| Adjustment for subscription-related expense reclassification | (1,842)         | —               | NM                | (2,242)         | —               | NM                |
| Total cash costs, as adjusted                                | 121,971         | 127,217         | (4.1)             | 371,054         | 389,051         | (4.6)             |

#### DEBT AND FREE CASH FLOW<sup>(2)</sup>

The principal amount of debt totaled \$815.0 million at June 29, 2014. As previously announced, on March 31, 2014, subsequent to the end of the March quarter, we completed a comprehensive refinancing of our long-term debt and incurred an additional \$32.0 million of debt in order to pay related debt refinancing costs. Debt payments since the refinancing totaled \$30.0 million in the quarter, resulting in a \$2.0 million increase in debt in the June quarter. Debt has been reduced \$58.5 million in the last twelve months. We expect debt principal payments to fluctuate more in the future due to the semi-annual timing of Senior Notes interest payments in March and September.

Unlevered free cash flow increased 25.5%, due primarily to the timing of an income tax refund in the current year quarter and pension contributions in the prior year quarter. Free cash flow was negative \$5.8 million for the quarter due to \$31.0 million of debt refinancing costs paid, compared with free cash flow of \$14.4 million a year ago. In the last twelve months, free cash flow totaled \$64.8 million.

#### CONFERENCE CALL INFORMATION

As previously announced, we will hold an earnings conference call and audio webcast later today at 9 a.m. Central Daylight Time. The live webcast will be accessible at [lee.net](http://lee.net) and will be available for replay two hours later. The call also may be monitored on a listen-only conference line by dialing (toll free) 877-407-0613 and entering a conference passcode of 13581947 at least five minutes before the scheduled start.

#### ABOUT LEE

Lee Enterprises is a leading provider of local news and information, and a major platform for advertising, in its markets, with 46 daily newspapers and a joint interest in four others, rapidly growing digital products and nearly 300 specialty publications in 22 states. Lee's newspapers have circulation of 1.2 million daily and 1.5 million Sunday, reaching nearly four million readers in print alone. Lee's websites and mobile and tablet products attracted 23.1 million unique visitors in June 2014. Lee's markets include St. Louis, MO; Lincoln, NE; Madison, WI; Davenport, IA; Billings, MT; Bloomington, IL; and Tucson, AZ. Lee Common Stock is traded on the New York Stock Exchange under the symbol LEE. For more information about Lee, please visit [www.lee.net](http://www.lee.net).

**FORWARD-LOOKING STATEMENTS** — The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This release 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 or obtain amendments or waivers of the financial covenants contained in our credit facilities, if

necessary;

- Our ability to refinance our debt as it comes due;
- That the warrants issued in our refinancing will not be exercised;
- The impact and duration of adverse conditions in certain aspects of the economy affecting our business;
- Changes in advertising demand;
- Potential changes in newsprint, other commodities and energy costs;
- Interest rates;
- Labor costs;
- Legislative and regulatory rulings;
- Our ability to achieve planned expense reductions;
- Our ability to maintain employee and customer relationships;
- Our ability to manage increased capital costs;
- Our ability to maintain our listing status on the NYSE;
- Competition; and
- Other risks detailed from time to time in our publicly filed documents.

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

|   | 13 Weeks Ended  |                 |                   | 39 Weeks Ended  |                 |                   |
|---|-----------------|-----------------|-------------------|-----------------|-----------------|-------------------|
|   | June 29<br>2014 | June 30<br>2013 | Percent<br>Change | June 29<br>2014 | June 30<br>2013 | Percent<br>Change |
| <i>(Thousands of Dollars and Shares, Except Per Share Data)</i> |                 |                 |                   |                 |                 |                   |
| Advertising and marketing services                              |                 |                 |                   |                 |                 |                   |
| Retail  | 69,507          | 71,718          | (3.1)             | 216,591         | 223,438         | (3.1)             |
| Classified:   |                 |                 |                   |                 |                 |                   |
| Employment  | 9,277           | 8,824           | 5.1               | 24,546          | 25,165          | (2.5)             |
| Automotive  | 7,266           | 8,452           | (14.0)            | 22,309          | 26,074          | (14.4)            |
| Real estate   | 4,569           | 4,864           | (6.1)             | 13,113          | 13,941          | (5.9)             |
| All other   | 11,926          | 12,491          | (4.5)             | 32,683          | 35,634          | (8.3)             |
| Total classified  | 33,038          | 34,631          | (4.6)             | 92,651          | 100,814         | (8.1)             |
| National  | 5,268           | 4,988           | 5.6               | 18,879          | 18,327          | 3.0               |
| Niche publications and other                                    | 2,471           | 2,607           | (5.2)             | 7,273           | 7,646           | (4.9)             |
| Total advertising and marketing services revenue                | 110,284         | 113,944         | (3.2)             | 335,394         | 350,225         | (4.2)             |
| Subscription  | 43,339          | 43,583          | (0.6)             | 130,744         | 133,609         | (2.1)             |
| Commercial printing   | 3,147           | 3,258           | (3.4)             | 9,170           | 9,681           | (5.3)             |
| Digital services and other                                      | 6,355           | 6,234           | 1.9               | 19,295          | 18,762          | 2.8               |
| Total operating revenue   | 163,125         | 167,019         | (2.3)             | 494,603         | 512,277         | (3.5)             |
| Operating expenses:   |                 |                 |                   |                 |                 |                   |
| Compensation  | 60,330          | 62,340          | (3.2)             | 181,543         | 192,505         | (5.7)             |
| Newsprint and ink   | 9,224           | 10,471          | (11.9)            | 29,120          | 33,357          | (12.7)            |
| Other operating expenses  | 53,840          | 53,461          | 0.7               | 161,708         | 160,929         | 0.5               |
| Workforce adjustments   | 419             | 945             | (55.7)            | 925             | 2,260           | (59.1)            |
| Cash costs  | 123,813         | 127,217         | (2.7)             | 373,296         | 389,051         | (4.0)             |
| Operating cash flow   | 39,312          | 39,802          | (1.2)             | 121,307         | 123,226         | (1.6)             |
| Depreciation  | 5,293           | 5,327           | (0.6)             | 15,700          | 16,123          | (2.6)             |
| Amortization  | 6,901           | 9,542           | (27.7)            | 20,710          | 28,635          | (27.7)            |

|  |        |        |       |         |        |       |
|--|--------|--------|-------|---------|--------|-------|
| Loss (gain) on sales of assets, net        | 9      | (112)  | NM    | (1,622) | 23     | NM    |
| Impairment of intangible and other assets  | 336    | —      | NM    | 336     | —      | NM    |
| Equity in earnings of associated companies | 1,836  | 1,893  | (3.0) | 6,348   | 6,671  | (4.8) |
| Operating income                           | 28,609 | 26,938 | 6.2   | 92,531  | 85,116 | 8.7   |

## CONSOLIDATED STATEMENTS OF OPERATIONS, continued

|  | 13 Weeks Ended  |                 |                   | 39 Weeks Ended  |                 |                   |
|--|-----------------|-----------------|-------------------|-----------------|-----------------|-------------------|
|  | June 29<br>2014 | June 30<br>2013 | Percent<br>Change | June 29<br>2014 | June 30<br>2013 | Percent<br>Change |
| <i>(Thousands of Dollars and Shares, Except Per Share Data)</i>                        |                 |                 |                   |                 |                 |                   |
| Non-operating income (expense):  |                 |                 |                   |                 |                 |                   |
| Financial income   | 85              | 134             | (36.6)            | 306             | 219             | 39.7              |
| Interest expense   | (19,654)        | (21,991)        | (10.6)            | (61,033)        | (68,390)        | (10.8)            |
| Debt financing costs   | (21,732)        | (468)           | NM                | (21,935)        | (557)           | NM                |
| Other, net   | (1,701)         | 520             | NM                | (1,579)         | 7,466           | NM                |
|  | (43,002)        | (21,805)        | 97.2              | (84,241)        | (61,262)        | 37.5              |
| Income (loss) before income taxes  | (14,393)        | 5,133           | NM                | 8,290           | 23,854          | (65.2)            |
| Income tax expense (benefit)   | (4,882)         | 3,165           | NM                | 3,995           | 11,805          | (66.2)            |
| Income (loss) from continuing operations   | (9,511)         | 1,968           | NM                | 4,295           | 12,049          | (64.4)            |
| Discontinued operations, net of income taxes   | —               | —               | NM                | —               | (1,247)         | NM                |
| Net income (loss)  | (9,511)         | 1,968           | NM                | 4,295           | 10,802          | (60.2)            |
| Net income attributable to non-controlling interests                                   | (235)           | (173)           | 35.8              | (663)           | (430)           | 54.2              |
| Income (loss) attributable to Lee Enterprises, Incorporated                            | (9,746)         | 1,795           | NM                | 3,632           | 10,372          | (65.0)            |
| Income (loss) from continuing operations attributable to Lee Enterprises, Incorporated | (9,746)         | 1,795           | NM                | 3,632           | 11,619          | (68.7)            |
| Earnings (loss) per common share:  |                 |                 |                   |                 |                 |                   |
| Basic:   |                 |                 |                   |                 |                 |                   |
| Continuing operations  | (0.19)          | 0.03            | NM                | 0.07            | 0.22            | (68.2)            |
| Discontinued operations  | —               | —               | NM                | —               | (0.02)          | NM                |
|  | (0.19)          | 0.03            | NM                | 0.07            | 0.20            | (65.0)            |
| Diluted:   |                 |                 |                   |                 |                 |                   |
| Continuing operations  | (0.19)          | 0.03            | NM                | 0.07            | 0.22            | (68.2)            |
| Discontinued operations  | —               | —               | NM                | —               | (0.02)          | NM                |
|  | (0.19)          | 0.03            | NM                | 0.07            | 0.20            | (65.0)            |
| Average common shares:   |                 |                 |                   |                 |                 |                   |
| Basic  | 52,344          | 51,825          |                   | 52,215          | 51,805          |                   |
| Diluted  | 52,344          | 52,038          |                   | 53,655          | 51,912          |                   |

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

(UNAUDITED)

|                                     | 13 Weeks Ended  |                 | 39 Weeks Ended  |                 | 52 Weeks Ended  |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                     | June 29<br>2014 | June 30<br>2013 | June 29<br>2014 | June 30<br>2013 | June 29<br>2014 |
| <i>(Thousands of Dollars)</i>       |                 |                 |                 |                 |                 |
| Advertising and marketing services  | 110,284         | 113,944         | 335,394         | 350,225         | 445,709         |
| Subscription                        | 43,339          | 43,583          | 130,744         | 133,609         | 174,192         |
| Other                               | 9,502           | 9,492           | 28,465          | 28,443          | 37,165          |
| Total operating revenue             | 163,125         | 167,019         | 494,603         | 512,277         | 657,066         |
| Compensation                        | 60,330          | 62,340          | 181,543         | 192,505         | 243,870         |
| Newsprint and ink                   | 9,224           | 10,471          | 29,120          | 33,357          | 39,244          |
| Other operating expenses            | 53,840          | 53,461          | 161,708         | 160,929         | 213,800         |
| Depreciation and amortization       | 12,194          | 14,869          | 36,410          | 44,758          | 47,180          |
| Loss (gain) on sales of assets, net | 9               | (112)           | (1,622)         | 23              | (1,535)         |

|   |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|
| Impairment of goodwill and other assets     | 336      | —        | 336      | —        | 171,430  |
| Workforce adjustments                       | 419      | 945      | 925      | 2,260    | 1,344    |
| Total operating expenses                    | 136,352  | 141,974  | 408,420  | 433,832  | 715,333  |
| Equity in earnings of associated companies  | 1,836    | 1,893    | 6,348    | 6,671    | 8,362    |
| Operating income (loss)                     | 28,609   | 26,938   | 92,531   | 85,116   | (49,905) |
| Adjusted to exclude:                        |          |          |          |          |          |
| Depreciation and amortization               | 12,194   | 14,869   | 36,410   | 44,758   | 47,180   |
| Loss (gain) on sales of assets, net         | 9        | (112)    | (1,622)  | 23       | (1,535)  |
| Impairment of intangible and other assets   | 336      | —        | 336      | —        | 171,430  |
| Equity in earnings of associated companies  | (1,836)  | (1,893)  | (6,348)  | (6,671)  | (8,362)  |
| Operating cash flow                         | 39,312   | 39,802   | 121,307  | 123,226  | 158,808  |
| Add:  |          |          |          |          |          |
| Ownership share of TNI and MNI EBITDA (50%) | 2,587    | 2,770    | 8,540    | 9,310    | 11,009   |
| Adjusted to exclude:                        |          |          |          |          |          |
| Stock compensation                          | 397      | 377      | 1,081    | 1,109    | 1,233    |
| Adjusted EBITDA <sup>(2)</sup>              | 42,296   | 42,949   | 130,928  | 133,645  | 171,050  |
| Adjusted to exclude:                        |          |          |          |          |          |
| Ownership share of TNI and MNI EBITDA (50%) | (2,587)  | (2,770)  | (8,540)  | (9,310)  | (11,009) |
| Add (deduct):                               |          |          |          |          |          |
| Distributions from TNI and MNI              | 2,346    | 3,394    | 7,654    | 8,179    | 10,873   |
| Capital expenditures                        | (3,309)  | (2,136)  | (8,204)  | (6,835)  | (11,109) |
| Pension contributions                       | (17)     | (5,741)  | (722)    | (6,016)  | (722)    |
| Cash income tax refunds (payments)          | 6,051    | (27)     | 5,933    | (360)    | 15,419   |
| Unlevered free cash flow <sup>(2)</sup>     | 44,780   | 35,669   | 127,049  | 119,303  | 174,502  |
| Add (deduct):                               |          |          |          |          |          |
| Financial income                            | 85       | 134      | 306      | 219      | 387      |
| Interest expense settled in cash            | (19,654) | (20,775) | (58,639) | (64,141) | (78,510) |
| Debt financing costs paid                   | (31,008) | (666)    | (31,276) | (766)    | (31,581) |
| Free cash flow (deficit)                    | (5,797)  | 14,362   | 37,440   | 54,615   | 64,798   |

**SELECTED LEE LEGACY<sup>(2)</sup> ONLY FINANCIAL INFORMATION**  
(UNAUDITED)

|  | 52 Weeks       |         |                |         |         |
|--|----------------|---------|----------------|---------|---------|
|  | 13 Weeks Ended |         | 39 Weeks Ended |         | Ended   |
|  | June 29        | June 30 | June 29        | June 30 | June 29 |
| (Thousands of Dollars)                     | 2014           | 2013    | 2014           | 2013    | 2014    |
| Advertising and marketing services         | 76,148         | 78,266  | 231,411        | 240,241 | 308,331 |
| Subscription                               | 28,022         | 27,092  | 83,499         | 83,028  | 110,807 |
| Other                                      | 8,330          | 7,774   | 24,959         | 23,446  | 32,591  |
| Total operating revenue                    | 112,500        | 113,132 | 339,869        | 346,715 | 451,729 |
| Compensation                               | 45,086         | 45,457  | 135,035        | 139,412 | 181,094 |
| Newsprint and ink                          | 6,550          | 7,224   | 20,623         | 22,992  | 27,826  |
| Other operating expenses                   | 28,954         | 27,741  | 86,706         | 85,605  | 113,869 |
| Depreciation and amortization              | 8,322          | 6,837   | 24,633         | 20,569  | 31,314  |
| Loss (gain) on sales of assets, net        | 8              | (98)    | (1,643)        | 52      | (1,561) |
| Impairment of goodwill and other assets    | 336            | —       | 336            | —       | 859     |
| Workforce adjustments                      | 265            | 572     | 436            | 1,185   | 796     |
| Total operating expenses                   | 89,521         | 87,733  | 266,126        | 269,815 | 354,197 |
| Equity in earnings of associated companies | 790            | 877     | 2,232          | 2,658   | 3,084   |
| Operating income                           | 23,769         | 26,276  | 75,975         | 79,558  | 100,616 |
| Adjusted to exclude:                       |                |         |                |         |         |
| Depreciation and amortization              | 8,322          | 6,837   | 24,633         | 20,569  | 31,314  |
| Loss (gain) on sales of assets, net        | 8              | (98)    | (1,643)        | 52      | (1,561) |
| Impairment of intangible and other assets  | 336            | —       | 336            | —       | 859     |
| Equity in earnings of associated companies | (790)          | (877)   | (2,232)        | (2,658) | (3,084) |
| Operating cash flow                        | 31,645         | 32,138  | 97,069         | 97,521  | 128,144 |
| Add:                                       |                |         |                |         |         |
| Ownership share of MNI EBITDA (50%)        | 1,436          | 1,598   | 4,110          | 4,781   | 5,311   |

|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Adjusted to exclude:                     |          |          |          |          |          |
| Stock compensation                       | 397      | 377      | 1,081    | 1,109    | 1,233    |
| Adjusted EBITDA                          | 33,478   | 34,113   | 102,260  | 103,411  | 134,688  |
| Adjusted to exclude:                     |          |          |          |          |          |
| Ownership share of MNI EBITDA (50%)      | (1,436)  | (1,598)  | (4,110)  | (4,781)  | (5,311)  |
| Add (deduct):                            |          |          |          |          |          |
| Distributions from MNI                   | 1,000    | 1,850    | 3,750    | 4,000    | 5,000    |
| Capital expenditures                     | (2,900)  | (1,685)  | (7,145)  | (5,127)  | (9,731)  |
| Pension contributions                    | (17)     | —        | (17)     | —        | (17)     |
| Cash income tax refunds (payments)       | (199)    | (27)     | (317)    | (360)    | (322)    |
| Intercompany charges not settled in cash | (2,099)  | (2,146)  | (6,297)  | (6,438)  | (8,255)  |
| Other                                    | (2,000)  | —        | (2,000)  | (2,000)  | (2,000)  |
| Unlevered free cash flow                 | 25,827   | 30,507   | 86,124   | 88,705   | 114,052  |
| Add (deduct):                            |          |          |          |          |          |
| Financial income                         | 85       | 134      | 306      | 219      | 387      |
| Interest expense settled in cash         | (18,834) | (18,619) | (55,397) | (56,454) | (73,584) |
| Debt financing costs paid                | (31,000) | —        | (31,268) | (100)    | (31,308) |
| Free cash flow (deficit)                 | (23,922) | 12,022   | (235)    | 32,370   | 9,547    |

**SELECTED PULITZER<sup>(2)</sup> ONLY FINANCIAL INFORMATION**  
(UNAUDITED)

|  | 13 Weeks Ended |         | 39 Weeks Ended |         | 52 Weeks Ended |
|--|----------------|---------|----------------|---------|----------------|
|  | June 29        | June 30 | June 29        | June 30 | June 29        |
|  | 2014           | 2013    | 2014           | 2013    | 2014           |
| <i>(Thousands of Dollars)</i>              |                |         |                |         |                |
| Advertising and marketing services         | 34,136         | 35,678  | 103,983        | 109,984 | 137,378        |
| Subscription                               | 15,317         | 16,491  | 47,245         | 50,581  | 63,385         |
| Other                                      | 1,172          | 1,718   | 3,506          | 4,997   | 4,574          |
| Total operating revenue                    | 50,625         | 53,887  | 154,734        | 165,562 | 205,337        |
| Compensation                               | 15,244         | 16,883  | 46,508         | 53,093  | 62,776         |
| Newsprint and ink                          | 2,674          | 3,247   | 8,497          | 10,365  | 11,418         |
| Other operating expenses                   | 24,886         | 25,720  | 75,002         | 75,324  | 99,931         |
| Depreciation and amortization              | 3,872          | 8,032   | 11,777         | 24,189  | 15,866         |
| Loss (gain) on sales of assets, net        | 1              | (14)    | 21             | (29)    | 26             |
| Impairment of goodwill and other assets    | —              | —       | —              | —       | 170,571        |
| Workforce adjustments                      | 154            | 373     | 489            | 1,075   | 548            |
| Total operating expenses                   | 46,831         | 54,241  | 142,294        | 164,017 | 361,136        |
| Equity in earnings of associated companies | 1,046          | 1,016   | 4,116          | 4,013   | 5,278          |
| Operating income (loss)                    | 4,840          | 662     | 16,556         | 5,558   | (150,521)      |
| Adjusted to exclude:                       |                |         |                |         |                |
| Depreciation and amortization              | 3,872          | 8,032   | 11,777         | 24,189  | 15,866         |
| Loss (gain) on sales of assets, net        | 1              | (14)    | 21             | (29)    | 26             |
| Impairment of intangible and other assets  | —              | —       | —              | —       | 170,571        |
| Equity in earnings of associated companies | (1,046)        | (1,016) | (4,116)        | (4,013) | (5,278)        |
| Operating cash flow                        | 7,667          | 7,664   | 24,238         | 25,705  | 30,664         |
| Add:                                       |                |         |                |         |                |
| Ownership share of TNI EBITDA (50%)        | 1,151          | 1,172   | 4,430          | 4,529   | 5,698          |
| Adjusted EBITDA                            | 8,818          | 8,836   | 28,668         | 30,234  | 36,362         |
| Adjusted to exclude:                       |                |         |                |         |                |
| Ownership share of TNI EBITDA (50%)        | (1,151)        | (1,172) | (4,430)        | (4,529) | (5,698)        |
| Add (deduct):                              |                |         |                |         |                |
| Distributions from TNI                     | 1,346          | 1,544   | 3,904          | 4,179   | 5,873          |
| Capital expenditures                       | (409)          | (451)   | (1,059)        | (1,708) | (1,378)        |
| Pension contributions                      | —              | (5,741) | (705)          | (6,016) | (705)          |
| Cash income tax refunds (payments)         | 6,250          | —       | 6,250          | —       | 15,741         |
| Intercompany charges not settled in cash   | 2,099          | 2,146   | 6,297          | 6,438   | 8,255          |
| Other                                      | 2,000          | —       | 2,000          | 2,000   | 2,000          |
| Unlevered free cash flow                   | 18,953         | 5,162   | 40,925         | 30,598  | 60,450         |

Add (deduct):

|                                  |        |         |         |         |         |
|----------------------------------|--------|---------|---------|---------|---------|
| Interest expense settled in cash | (820)  | (2,156) | (3,242) | (7,687) | (4,926) |
| Debt financing costs paid        | (8)    | (666)   | (8)     | (666)   | (273)   |
| Free cash flow                   | 18,125 | 2,340   | 37,675  | 22,245  | 55,251  |

## REVENUE BY REGION

|               | 13 Weeks Ended         |         |         | 39 Weeks Ended |         |         |
|---------------|------------------------|---------|---------|----------------|---------|---------|
|               | June 29                | June 30 | Percent | June 29        | June 30 | Percent |
|               | (Thousands of Dollars) | 2014    | 2013    | Change         | 2014    | 2013    |
| Midwest       | 102,194                | 105,858 | (3.5)   | 308,841        | 322,468 | (4.2)   |
| Mountain West | 33,455                 | 33,510  | (0.2)   | 98,558         | 101,179 | (2.6)   |
| West          | 11,070                 | 11,273  | (1.8)   | 32,875         | 34,050  | (3.5)   |
| East/Other    | 16,406                 | 16,378  | 0.2     | 54,329         | 54,580  | (0.5)   |
| Total         | 163,125                | 167,019 | (2.3)   | 494,603        | 512,277 | (3.5)   |

## SELECTED BALANCE SHEET INFORMATION

|                         | June 29 | June 30 |
|-------------------------|---------|---------|
| (Thousands of Dollars)  | 2014    | 2013    |
| Cash                    | 17,758  | 11,630  |
| Debt (Principal Amount) | 815,000 | 873,500 |

## SELECTED STATISTICAL INFORMATION

|   | 13 Weeks Ended         |         |         | 39 Weeks Ended |         |         |
|---|------------------------|---------|---------|----------------|---------|---------|
|   | June 29                | June 30 | Percent | June 29        | June 30 | Percent |
|   | (Thousands of Dollars) | 2014    | 2013    | Change         | 2014    | 2013    |
| Capital expenditures                                      | 3,309                  | 2,136   | 54.9    | 8,204          | 6,835   | 20.0    |
| Newsprint volume (Tonnes)                                 | 14,405                 | 16,353  | (11.9)  | 44,317         | 50,226  | (11.8)  |
| Average full-time equivalent employees                    | 4,514                  | 4,678   | (3.5)   | 4,539          | 4,787   | (5.2)   |
| Shares outstanding at end of period (Thousands of Shares) |                        |         |         | 53,694         | 52,389  | 2.5     |

## NOTES

- (1) This earnings release is a preliminary report of results for the periods included. The reader should refer to the Company's Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K for definitive information.
- (2) The following are non-GAAP (Generally Accepted Accounting Principles) financial measures for which reconciliations to relevant GAAP measures are included in tables accompanying this release:
  - *Adjusted EBITDA* is defined as operating income (loss), plus depreciation, amortization, impairment charges, stock compensation and 50% of EBITDA from associated companies, minus equity in earnings of associated companies and curtailment gains.
  - *Adjusted Income (Loss)* and *Adjusted Earnings (Loss) Per Common Share* are defined as income (loss) attributable to Lee Enterprises, Incorporated and earnings (loss) per common share adjusted to exclude both unusual matters and those of a substantially non-recurring nature.
  - *Cash Costs* are defined as compensation, newsprint and ink, other operating expenses and certain unusual matters, such as workforce adjustment costs. Depreciation, amortization, impairment charges, other non-cash operating expenses and other unusual matters are excluded.
  - *Operating Cash Flow* is defined as operating income (loss) plus depreciation, amortization and impairment charges, minus equity in earnings of associated companies and curtailment gains. *Operating Cash Flow margin* is defined as operating cash flow divided by operating revenue. The terms operating cash flow and EBITDA are used interchangeably.

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

We also present selected information for Lee Legacy and Pulitzer Inc. ("Pulitzer"). Lee Legacy constitutes the business of the Company excluding Pulitzer, a wholly-owned subsidiary of the Company.

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

- (3) Certain amounts as previously reported have been reclassified to conform with the current period presentation. The prior periods have been adjusted for comparative purposes, and the reclassifications have no impact on earnings.

Results of *North County Times* operations and *The Garden Island* operations have been reclassified as discontinued operations for all periods presented.



Source: Lee Enterprises, Incorporated

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