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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 28, 2020

OR

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

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

4600 E. 53rd Street, Davenport, Iowa 52807
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	LEE	New York Stock Exchange

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

Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files.

Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
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

As of July 31, 2020, 58,358,584 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 “2020”, “2019” 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:

- Revenues may continue to diminish or declines in revenue could accelerate as a result of the COVID-19 pandemic;
- Revenues may continue to be diminished longer than anticipated as a result of the COVID-19 pandemic;
- The COVID-19 pandemic may result in material long-term changes to the publishing industry which may result in permanent revenue reductions for the Company and other risks and uncertainties;
- We may experience increased costs, inefficiencies and other disruptions as a result of the COVID-19 pandemic;

- We may be required to indemnify the previous owners of the BH Media Newspaper Business or the Buffalo News for unknown legal and other matters that may arise;
- Our ability to generate cash flows and maintain liquidity sufficient to service our debt;
- Our ability to manage declining print revenue and circulation subscribers;
- That the warrants issued in our 2014 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;
- Significant cyber security breaches or failure of our information technology systems;
- Our ability to achieve planned expense reductions and realize the expected benefit of our acquisitions;
- 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. Statements regarding our plans, strategies, prospects and expectations regarding our business and industry, including statements regarding the impacts that the COVID-19 pandemic and our responses thereto may have on our future operations, are forward-looking statements. They reflect our expectations, are not guarantees of performance and speak only as of the date the statement is made. 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)	
<i>(Thousands of Dollars)</i>	June 28, 2020	September 29, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	56,710	8,645
Accounts receivable and contract assets, net	55,540	42,536
Inventories	8,305	3,769
Prepays and other	19,979	5,353
Total current assets	140,534	60,303
Investments:		
Associated companies	28,315	28,742
Other	8,173	10,684
Total investments	36,488	39,426
Property and equipment:		
Land and improvements	19,106	16,979
Buildings and improvements	128,469	148,514
Equipment	246,623	237,289
Construction in process	7,104	1,980
	401,302	404,762
Less accumulated depreciation	289,702	322,723

Property and equipment, net	111,600	82,039
Operating lease right-of-use assets	70,626	—
Goodwill	313,868	250,309
Other intangible assets, net	206,245	107,393
Medical plan assets, net	14,981	14,338
Other	8,026	1,394
Total assets	902,368	555,202

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

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	(Unaudited)	
	June 28,	September 29,
<i>(Thousands of Dollars and Shares, Except Per Share Data)</i>	2020	2019
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of lease liabilities	8,886	—
Current maturities of long-term debt	36,710	2,954
Accounts payable	19,446	16,750
Compensation and other accrued liabilities	45,187	17,711
Accrued interest	—	1,903
Unearned revenue	59,285	21,720
Total current liabilities	169,514	61,038
Long-term debt, net of current maturities	539,290	429,391
Operating lease liabilities	62,585	—

Pension obligations	87,649	47,037
Postretirement and postemployment benefit obligations	39,796	2,550
Deferred income taxes	10,061	29,806
Income taxes payable	17,497	8,742
Warrants and other	12,211	13,469
Total liabilities	938,603	592,033
Equity (deficit):		
Stockholders' equity (deficit):		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, \$0.01 par value; authorized 120,000 shares; issued and outstanding: June 28, 2020; 58,359 shares; \$0.01 par value September 29, 2019; 57,646 shares; \$0.01 par value	584	577
Class B Common Stock, \$2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	256,179	255,476
Accumulated deficit	(266,744)	(265,423)
Accumulated other comprehensive loss	(28,164)	(29,114)
Total stockholders' deficit	(38,145)	(38,484)
Non-controlling interests	1,910	1,653
Total deficit	(36,235)	(36,831)
Total liabilities and deficit	902,368	555,202

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 (LOSS)
(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	June 28,	June 30,	June 28,	June 30,

(Thousands of Dollars, Except Per Common Share Data)

	2020	2019	2020	2019
Operating revenue:				
Advertising and marketing services	77,754	65,754	204,426	204,651
Subscription	88,517	46,620	176,655	137,965
Other	16,257	14,910	45,157	43,573
Total operating revenue	182,528	127,284	426,238	386,189
Operating expenses:				
Compensation	72,396	45,373	164,330	140,197
Newsprint and ink	7,572	5,230	16,629	17,394
Other operating expenses	77,440	48,157	178,744	145,915
Depreciation and amortization	11,201	7,347	25,196	22,263
Assets loss (gain) on sales, impairments and other, net	147	(195)	(5,153)	(212)
Restructuring costs and other	2,865	2,792	6,422	5,612
Total operating expenses	171,621	108,704	386,168	331,169
Equity in earnings of associated companies	842	1,451	3,773	5,298
Operating income	11,749	20,031	43,843	60,318
Non-operating income (expense):				
Interest expense	(13,135)	(11,860)	(35,377)	(36,256)
Debt financing and administrative costs	—	(4,196)	(11,865)	(6,053)
Other, net	1,027	3,702	3,309	2,730
Total non-operating expense, net	(12,108)	(12,354)	(43,933)	(39,579)
Income (loss) before income taxes	(359)	7,677	(90)	20,739
Income tax expense (benefit)	368	1,505	(92)	6,175
Net income (loss)	(727)	6,172	2	14,564
Net income attributable to non-controlling interests	(548)	(406)	(1,322)	(1,115)
Income (loss) attributable to Lee Enterprises, Incorporated	(1,275)	5,766	(1,320)	13,449
Other comprehensive income (loss), net of income taxes	317	(122)	950	(365)

Comprehensive income (loss) attributable to (958) 5,644 (370) 13,084
Lee Enterprises, Incorporated

Earnings per common share:

Basic:	(0.02)	0.10	(0.02)	0.24
Diluted:	(0.02)	0.10	(0.02)	0.24

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (Unaudited)

<i>(Thousands of Dollars)</i>	Accumulated Deficit	Comm on Stock	Additio nal paid-in capital	Accum ulated Other Compr ehensi ve Loss	Total
September 30, 2019	(265,423)	577	255,476	(29,114)	(38,484)
Shares issued (redeemed)	—	4	(379)	—	(375)
Income attributable to Lee Enterprises, Incorporated	5,320	—	—	—	5,320
Stock compensation	—	—	545	—	545
Other comprehensive loss	—	—	—	452	452
Deferred income taxes, net	—	—	—	(135)	(135)
December 29, 2019	(260,103)	581	255,642	(28,797)	(32,677)
Shares issued (redeemed)	—	—	(199)	—	(199)
Loss attributable to Lee Enterprises, Incorporated	(5,367)	—	—	—	(5,367)
Stock compensation	—	—	269	—	269
Other comprehensive loss	—	—	—	451	451

Deferred income taxes, net	—	—	—	(135)	(135)
March 29, 2020	(265,4)	581	255,71	(28,48)	(37,65)
	70		2	1	8
Shares issued (redeemed)	—	3	239	—	242
Loss attributable to Lee Enterprises, Incorporated	(1,275)	—	—	—	(1,275)
Stock compensation	—	—	228	—	228
Other comprehensive loss	—	—	—	451	451
Deferred income taxes, net	—	—	—	(134)	(134)
June 28, 2020	(266,7)	584	256,17	(28,16)	(38,14)
	44		9	4	5

	Accumulated Deficit	Comm on Stock	Additio nal paid-in capital	Accum ulated Other Compr ehensi ve Loss	Total
<i>(Thousands of Dollars)</i>					
October 1, 2018	(279,6)	572	253,51	(11,74)	(37,35)
	91		1	6	4
Shares issued (redeemed)	—	5	(453)	—	(448)
Income attributable to Lee Enterprises, Incorporated	10,361	—	—	—	10,361
Stock compensation	—	—	385	—	385
Other comprehensive income	—	—	—	(163)	(163)
Deferred income taxes, net	—	—	—	41	41
December 30, 2018	(269,3)	577	253,44	(11,86)	(27,17)
	30		3	8	8
Shares issued (redeemed)	—	—	317	—	317
Loss attributable to Lee Enterprises, Incorporated	(2,678)	—	—	—	(2,678)
Stock compensation	—	—	425	—	425
Other comprehensive loss	—	—	—	(163)	(163)
Deferred income taxes, net	—	—	—	41	41
March 31, 2019	(272,0)	577	254,18	(11,99)	(29,23)
	08		5	0	6

Shares issued (redeemed)	—	1	221	—	222
Income attributable to Lee Enterprises, Incorporated	5,766	—	—	—	5,766
Stock compensation	—	—	321	—	321
Other comprehensive income	—	—	—	(163)	(163)
Deferred income taxes, net	—	—	—	41	41
June 30, 2019	(266,2)	578	254,72	(12,11)	(23,04)
	42		7	2	9

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)

	39 Weeks Ended	
	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>		
Cash provided by operating activities:		
Net income	2	14,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,196	22,263
Stock compensation expense	1,042	1,131
Assets (gain) loss on sales, impairments and other, net	(5,153)	(212)
Distributions greater than earnings of MNI	1,031	648
Deferred income taxes	(8,377)	253
Debt financing and administrative costs	11,865	6,053
Pension contributions	—	(650)
Payments to collateralize letters of credit	(6,105)	—
Other, net	(316)	(745)

Changes in operating assets and liabilities:		
Decrease in receivables and contract assets	24,173	(3,435)
Decrease in inventories and other	855	2,383
Decrease in accounts payable and other accrued liabilities	(7,893)	2,666
Decrease in pension and other postretirement and postemployment benefit obligations	(3,947)	(782)
Change in income taxes payable	6,875	(419)
Other, including warrants	(1,238)	68
Net cash provided by operating activities	38,010	43,786
Cash required for investing activities:		
Purchases of property and equipment	(7,297)	(3,753)
Proceeds from sales of assets	17,649	1,477
Acquisitions, net of cash acquired	(130,985)	(5,274)
Distributions greater (less) than earnings of TNI	(154)	(358)
Other, net	(350)	(3)
Net cash required for investing activities	(121,137)	(7,911)
Cash provided by (required for) financing activities:		
Proceeds from long-term debt	576,000	—
Payments on long-term debt	(443,627)	(26,301)
Debt financing and administrative costs paid	(609)	(1,149)
Common stock transactions, net	(572)	(289)
Net cash provided by (required for) financing activities	131,192	(27,739)
Net increase (decrease) in cash and cash equivalents	48,065	8,136
Cash and cash equivalents:		
Beginning of period	8,645	5,380
End of period	56,710	13,516

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

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. The Consolidated Financial Statements include the accounts of the March 16, 2020 Transactions, as defined and further described below, for approximately 15 weeks in the 39 weeks ended June 28, 2020. All significant intercompany accounts and transactions have been eliminated. 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 its subsidiaries (the “Company”) as of June 28, 2020 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 2019 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 and 39 weeks ended June 28, 2020 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 “2020”, “2019” 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 82.5% interest in INN Partners, L.C. (“TownNews.com”), 50% interest in TNI Partners (“TNI”) and 50% interest in Madison Newspapers, Inc. (“MNI”).

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.

COVID-19 Pandemic

With the outbreak of COVID-19 and the declaration of a pandemic by the World Health Organization on March 11, 2020, governments implemented a combination of shelter-in-place orders and other recommendations severely limiting or restricting economic activity in our local markets. Certain aspects of our operations have experienced lower revenue and profitability over the last several years and these trends are expected to continue in the future; however, the pandemic and government restrictions caused significant and immediate declines in demand for certain of our products and services, particularly in advertising revenue.

The COVID-19 pandemic has had, and the Company expects that it will continue to have, a significant negative near term impact on the Company’s business and operating results. The long-term impact of the COVID-19 pandemic will depend on the length, severity and recurrence of the pandemic, the availability of antiviral medications and vaccinations, the duration and extent of government actions designed to combat the pandemic, as well as changes in consumer behavior, all of which are highly uncertain.

As a result, the Company has implemented, and continues to implement, measures to solidify our relationship with our local advertisers, reduce our cost structure and preserve liquidity. Restructuring costs and other, which were predominantly severance, totaled \$2,865,000 and \$6,422,000 in the 13 and 39 weeks ended June 28, 2020, respectively. Substantially all charges related to Restructuring and other were paid in the period incurred. The Company believes these initiatives will allow us to meet our commitments; however, they may not be sufficient to fully offset the negative impact of the COVID-19 pandemic on the Company’s business and results of operations.

Purchase Agreement with Berkshire Hathaway

On March 16, 2020, the Company completed the Asset and Stock Purchase Agreement dated as of January 29, 2020 with Berkshire Hathaway Inc., a Delaware corporation (“Berkshire”) and BH Media Group, Inc., a Delaware corporation (“BHMGM”) (the “Purchase Agreement”). As part of the Purchase Agreement, the Company purchased certain assets and assumed certain liabilities of BHMGM’s newspapers and related community publications business (“BH Media Newspaper Business”), excluding real estate and fixtures such as production equipment and all of the issued and outstanding capital stock of The Buffalo News, Inc., a Delaware corporation (“Buffalo News”) for a combined purchase price of \$140,000,000 (collectively, the “Transactions”).

BHMGM includes 30 daily newspapers and digital operations, in addition to 49 paid weekly newspapers with websites and 32 other print products. Buffalo News is a provider of local print and digital news to the Buffalo, NY area. The rationale for the acquisition was primarily the attractive nature of the various publications, businesses, and digital platforms as well as the revenue growth and operating expense synergy opportunities.

The Transactions were funded pursuant to a Credit Agreement dated as of January 29, 2020 between the Company and BH Finance LLC, a Delaware limited liability company affiliated with Berkshire (the “Credit Agreement”), as described further in Note 5. Our Consolidated Financial Statements show the combined results of the Company for the period of March 16, 2020 through and as of June 28, 2020.

Between July 2, 2018 and March 16, 2020, the Company managed the BHMGM newspaper business pursuant to a Management Agreement between BHMGM and the Company dated June 26, 2018 (“the Management Agreement”).

In connection with the Transactions, the Management Agreement terminated on March 16, 2020. As part of the settlement of the preexisting relationship, the Company received \$5,425,000 at closing. This amount represents \$1,245,000 in fixed fees pro-rated under the contract and \$4,180,000 in variable fees based upon the pro-rated annual target. The amount we received settled our existing contract assets balance, which totaled \$3,589,000 as of December 29, 2019, and the remaining amount was reflected in Other Revenue for the 13 weeks ended March 29, 2020. The amount of variable fees was estimated

based on expected BHMG financial performance through March 16, 2020. Actual financial performance through March 16, 2020 did not vary materially from the estimated amount. As such, the Company did not recognize a gain or loss as a result of the settlement of this preexisting relationship.

In connection with the Transactions, the Company also entered into a 10-year term lease with BHMG as described in Note 6.

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Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with U.S. 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.

Business Combinations

The Company accounts for acquisitions in accordance with the provisions of Accounting Standards Codification 805 “Business Combinations” (“ASC 805”), which provides guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value. In a business combination, the assets acquired, liabilities assumed and non-controlling interest in the acquiree are recorded as of the date of acquisition at their respective fair values with limited exceptions. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs are expensed as incurred. The operating results of the

acquired business are reflected in the Company's Consolidated Financial Statements from the date of the acquisition.

Recently Issued Accounting Standards - Standards Adopted in 2020

In February 2016, the FASB issued a new standard for the accounting treatment of leases, known as Accounting Standards Codification 842 ("ASC 842"). The new standard is based on the principle that entities should recognize assets and liabilities arising from leases. The new standard's primary change is the requirement for entities to recognize a lease liability for payments and a right-of-use ("ROU") asset representing the right to use the leased asset during the term on most operating lease arrangements. We adopted the standard effective September 30, 2019, the first day of fiscal year 2020.

We elected the package of practical expedients which permits the Company to not reassess under the new standard the prior conclusions about lease identification, lease classification, or initial direct costs. In addition, we did reassess whether existing land easements which were previously not accounted for as leases are or contain leases under the new guidance. We have elected to combine non-lease and lease components when accounting for leases. The Company has made a policy election to exclude short-term leases, those with an original term of less than twelve months, from recognition and measurement under ASC 842. As such, we have not recognized an ROU asset or lease liability for these leases. Additional information and disclosures required by this new standard are contained in Note 6.

Effective September 30, 2019, the first day of fiscal year 2020, we adopted ASC 842 using the modified retrospective method as of the adoption date. As a result of electing the modified retrospective approach, we have not restated prior year financial statements to conform to the new guidance. Our operating lease portfolio primarily includes real estate, office equipment, and vehicles.

As a result of the adoption of ASC 842, on September 30, 2019, we recorded operating lease right-of-use assets of \$10,709,000, current portion of lease liabilities of \$2,281,000, and long-term operating lease liabilities of \$8,353,000.

Recently Issued Accounting Standards - Standards Not Yet Adopted

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a wider array of reasonable and supportable information to inform and develop credit loss estimates. We will be required to use a forward-looking expected credit loss model for both accounts receivables and other financial instruments. The new standard will be adopted beginning September 28, 2020 using a modified retrospective approach through a cumulative-effect adjustment to accumulated deficit as of the effective date to align our credit loss methodology with the new standard. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

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2 REVENUE

The following table presents our revenue disaggregated by source:

	13 Weeks Ended		39 Weeks Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>				
Advertising and marketing services revenue	77,754	65,754	204,426	204,651
Subscription revenue	88,517	46,620	176,655	137,965
TownNews and other digital services revenue	5,608	5,087	16,123	14,507
Other revenue	10,649	9,823	29,034	29,066
Total operating revenue	182,528	127,284	426,238	386,189

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

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

Contract Assets and Liabilities: The Company's primary source of contract liabilities is unearned revenue from subscriptions paid in advance of the service provided. The Company expects to recognize the revenue related to unsatisfied performance obligations over the next twelve months in accordance with the terms of the subscriptions and other contracts with customers. The unearned revenue balances described herein are the Company's only contract liability. Unearned revenue was \$59,285,000 as of June 28, 2020 and \$21,720,000 as of September 29, 2019. Revenue recognized in the 13 and 39 weeks ended June 28, 2020 that was included in the contract liability as of September 29, 2019 was \$2,653,000 and \$20,512,000.

Contract asset balances relate to our Management Agreement revenue and was \$1,107,000 as of September 29, 2019 and consisted solely of the variable consideration earned under the Management Agreement. As a result of the transactions, we had no contract asset balances as of June 28, 2020. In conjunction with the execution of the Purchase Agreement, the previously recorded contract asset balance was collected on March 16, 2020. Accounts receivable, excluding allowance for doubtful accounts and contract assets, was \$65,298,000 and \$47,863,000 as of June 28, 2020 and September 29, 2019, respectively. Allowance for doubtful accounts was \$9,758,000 and \$6,434,000 as of June 28, 2020 and September 29, 2019, respectively.

Practical expedients: Sales commissions are expensed as incurred as the associated contractual periods are one year or less. These costs are recorded within compensation. The vast majority of our contracts have original expected lengths of one year or less and revenue is earned at a rate and amount that corresponds directly with the value to the

customer.

3 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.

Summarized results of TNI are as follows:

	13 Weeks Ended		39 Weeks Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>				
Operating revenue	8,222	10,465	28,602	34,109
Operating expenses	6,645	8,363	22,576	26,291
Operating income	1,577	2,102	6,026	7,818
Company's 50% share of operating income	789	1,051	3,013	3,909
Less amortization of intangible assets	—	105	209	313
Equity in earnings of TNI	789	946	2,804	3,596

TNI makes weekly distributions of its earnings and for the 13 weeks ended June 28, 2020 and June 30, 2019, we received \$959,000 and \$731,000 in

distributions, respectively. In the 39 weeks ended June 28, 2020 and June 30, 2019, we received \$2,650,000 and \$3,328,000 in distributions, respectively.

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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:

	13 Weeks Ended		39 Weeks Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>				
Operating revenue	10,875	13,709	37,125	41,627
Operating expenses, excluding restructuring costs, depreciation and amortization	10,542	12,132	34,222	36,338
Restructuring costs	—	67	—	134
Depreciation and amortization	172	280	514	839
Operating income	161	1,230	2,389	4,316
Net income	107	1,010	1,938	3,405
Equity in earnings of MNI	54	505	969	1,702

MNI makes quarterly distributions of its earnings and in the 13 weeks ended June 28, 2020 and June 30, 2019, we received dividends of \$0 and \$850,000, respectively. In the 39 weeks ended June 28, 2020 and June 30, 2019, we received dividends of \$1,000,000 and \$2,350,000 respectively.

4 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

<i>(Thousands of Dollars)</i>	June 28, 2020
Goodwill, gross amount	1,539, 038
Accumulated impairment losses	(1,288, 729)
Goodwill, beginning of period	250,30 9
Goodwill acquired in business combinations	63,559
Goodwill, end of period	313,86 8

Identified intangible assets consist of the following:

<i>(Thousands of Dollars)</i>	June 28, 2020	September 29, 2019
Non-amortized intangible assets:		
Mastheads	42,722	21,883
Amortizable intangible assets:		
Customer and newspaper subscriber lists	790,278	697,145
Less accumulated amortization	626,848	611,786
	163,430	85,359
Non-compete and consulting agreements	28,675	28,675
Less accumulated amortization	28,582	28,524
	93	151
Other intangible assets, net	206,245	107,393

The Company recognized \$38,780,000 of advertiser relationships, \$36,060,000 of subscriber relationships, \$17,130,000 of commercial print relationships and \$21,680,000 of indefinite-lived masthead assets as part of the Transactions.

Annual amortization of intangible assets for the five years ending June 2021 to June 2025 is estimated to be \$26,447,000, \$23,578,000, \$22,967,000, \$21,888,000 and \$17,397,000, respectively. The weighted average amortization period for those amortizable assets acquired as part of the Transactions is 9.2 years.

As of June 28, 2020, the weighted average amortization periods for amortizable intangible assets are 5.2 years for advertiser relationships, 4.7 years for customer relationships, 8.5 years for subscriber relationships. The weighted average amortization period in total for all amortizable intangible assets is 6.2 years.

The Company recognized \$63,559,000 of Goodwill as part of the Transactions. The value of the acquired Goodwill is primarily related to an assembled workforce and expected synergies from combining operations. For tax purposes, the amount of Goodwill that is expected to be deductible is \$28,118,000. Refer to Note 8 for more information regarding preliminary purchase accounting for the Transactions.

5 DEBT

On March 16, 2020 in connection with the closing of the Transactions, the Company completed a comprehensive refinancing of its debt (the “2020 Refinancing”). The 2020 Refinancing consists of a 25-year term loan with BH Finance LLC (“BH Finance”), an affiliate of Berkshire, in an aggregate principal amount of \$576,000,000 at a 9% annual rate (referred to herein as “Credit Agreement” and “Term Loan”). The proceeds of the Term Loan were used, along with cash on hand, to refinance the Company's \$431,502,000 in existing debt as well as to fund the acquisition of the BH Media Newspaper Business assets and the stock of the Buffalo News for \$140,000,000 in cash. With the closing of this deal, BH Finance became Lee's sole lender. Proceeds of the Term Loan were used to finance the Transactions and refinance all of the Company's outstanding debt at par, including:

- To redeem the 9.5% senior secured notes (“Notes”) pursuant to an indenture dated as of March 31, 2014 (the “Indenture”); and
- To repay the 12.0% second lien term loan pursuant to a Second Lien Term Loan Agreement dated as of March 31, 2014, as amended (the “2nd Lien Term Loan”).

There was no gain or loss recognized upon extinguishment of the Indenture and the 2nd Lien Term Loan.

As a result of the 2020 Refinancing, the Indenture, First Lien Credit Agreement dated as of March 31, 2014 (the “1st Lien Credit Facility”) and 2nd Lien Loan Agreement were terminated, and BH Finance is the Company’s sole lender. The Credit Agreement documents the primary terms of the Term Loan. The Term Loan matures on March 16, 2045.

Debt is summarized as follows:

<i>(Thousands of Dollars)</i>	June 28, 2020	September 29, 2019	Interest Rates (%)
Term Loan	576,000	—	9.0
Revolving Facility	—	—	—
Notes	—	363,420	9.5
2nd Lien Term Loan	—	80,207	12.0
	576,000	443,627	
Unamortized debt issue costs	—	(11,282)	
Less current maturities of long-term debt	36,710	2,954	
Total long-term debt	539,290	429,391	

As part of our refinancing, we incurred approximately \$417,000 in debt financing costs, which are reflected in Debt financing and administrative costs. On March 16, 2020, we recognized \$9,583,000 in Debt financing and administrative costs related to previously unamortized debt issuance costs related to the extinguished debt.

Our weighted average cost of debt at June 28, 2020 is 9.0%.

For the 13-weeks ended June 28, 2020, excess cash flow totaled \$36,710,000 and was used to pay debt in July 2020. This balance was recognized in Current maturities of long-term debt as of June 28, 2020. Future payments are contingent on the Company's ability to generate future excess cash flow, as defined in the Credit Agreement.

- The Company must prepay the Term Loan in an aggregate amount equal to 100% of any Net Cash Proceeds received by the Company nor any subsidiary from a sale, transfer, license, lease or other disposition of any property of the Company or any subsidiary in excess of \$500,000 in any ninety (90) day period.

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- Beginning on June 28, 2020, the Company is required to prepay the Term Loan with excess cash flow, defined as cash on the balance sheet in excess of \$20,000,000 (“Excess Cash Flow”). Excess Cash Flow is used to prepay the Term Loan, at par, and is due within 50-days of quarter end.
- If there is a Change of Control (as defined in the Credit Agreement), BH Finance has the option to require the Company to prepay the Term Loan in cash equal to 105% of the unpaid principal balance, plus accrued and unpaid interest.

The Company may, upon notice to BH Finance, at any time or from time to time, voluntarily prepay the Term Loan in whole or in part, at par, provided that any voluntary prepayment of the Term Loan shall be accompanied by payment of all accrued interest on the amount of principal prepaid to the date of prepayment.

Covenants and Other Matters

The Credit Agreement contains certain customary representations and warranties, certain affirmative and negative covenants and certain conditions, including restrictions on incurring additional indebtedness, creating certain liens, making certain investments or acquisitions, issuing dividends, repurchasing shares of stock of the Company and certain other capital transactions. Certain existing and future direct and indirect material domestic subsidiaries of the Company are guarantors of the Company's obligations under the Credit Agreement.

The Credit Agreement restricts us from paying dividends on our Common Stock. This restriction does not apply to dividends issued with the Company's Equity Interests or from the proceeds of a sale of the Company's Equity Interests. Further, the Credit Agreement restricts or limits, among other things, subject to certain exceptions, the ability of the Company and its subsidiaries to: (i) incur additional indebtedness, (ii) make certain investments, (iii) enter into mergers, acquisitions and asset sales, (iv) incur or create liens and (v) enter into transactions with certain affiliates. The Credit Agreement contains various representation and warranties by the Company and may be terminated upon the occurrence of certain events of default, including non-payment. The Credit Agreement also contains cross-default provisions tied to other agreements with BH Finance entered into by the Company and its subsidiaries in connection with the 2020 Refinancing.

Security

The Term Loan is fully and unconditionally guaranteed on a joint and several first-priority basis by the Company's material domestic subsidiaries (excluding MNI and TNI, the "Subsidiary Guarantors"), pursuant to a Guarantee and Collateral agreement dated as of March 16, 2020 (the "Guarantee and Collateral Agreement"). The Term Loan and the subsidiary guarantees are secured, subject to certain exceptions, priorities and limitations, by perfected security interests in substantially all property and assets, including certain real estate, of the Company and the Subsidiary Guarantors.

Also, the Term Loan is 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 Company and the Subsidiary Guarantors (excluding the capital stock of MNI and TNI).

Liquidity

Pursuant to the terms of the Credit Agreement, our new debt does not include a revolver.

Our liquidity, consisting of cash on the balance sheet, totals \$56,710,000 at June 28, 2020. 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, as defined below, if and when exercised, would provide additional liquidity in an amount up to \$25,140,000, which is not considered in the calculation of Excess Cash Flow.

There are numerous potential consequences under the 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 BH Finance to exercise their remedies under the Credit Agreement 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 Credit Agreement (as defined above) has only limited affirmative covenants with which we are required to maintain compliance and there are no leverage or financial performance covenants. We are in compliance with our debt covenants at June 28, 2020.

Warrants

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 10.4% 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 warrants and 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 12.

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.

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6 LEASES

In connection with the Transactions, the Company entered into a lease agreement between BH Media, as Landlord, and the Company, as Tenant, providing for the leasing of 68 properties and related fixtures (including production equipment) used in the BH Media Newspaper Business (the “BH Lease”). The Lease was signed and commenced on March 16, 2020. The BH Media Lease requires the Company to pay annual rent of \$8,000,000, payable in equal monthly payments, as well as all operating costs relating to the properties (including maintenance, repairs, property taxes and insurance). Rent payments will be subject to a Rent Credit (as defined in the Lease) equal to 8.00% of the net consideration for any leased real estate sold by BH Media during the term of the Lease. In connection with the BH Lease, the Company recognized \$56,226,000 and \$56,226,000 in ROU assets and lease liabilities, respectively, as of March 16, 2020.

Total lease expense consists of the following:

	13	39
	Weeks	Weeks
	Ended	Ended

<i>(Thousands of Dollars)</i>	June 28, 2020	June 28, 2020
Operating lease costs	4,443	7,154
Variable lease costs	539	1,114
Short-term lease costs	146	465
Total Operating Lease Expense	5,128	8,733

Supplemental cash flow information related to our operating leases was as follows:

<i>(Thousands of Dollars)</i>	13 Weeks Ended	39 Weeks Ended
	June 28, 2020	June 28, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflow from operating leases	4,498	7,764

As of June 28, 2020, maturities of lease liabilities were as follows:

<i>(Thousands of Dollars)</i>	June 28, 2020
2020 (three months remaining)	3,872
2021	13,850
2022	11,623
2023	10,853
2024	10,319
Thereafter	50,718
Total lease payments	101,235
Less: interest	(29,764)
Present value of lease liabilities	71,471

As of the year ended September 29, 2019, minimum lease payments during the five years ending September 2024 and thereafter were \$3,403,000, \$2,290,000, \$2,238,000, \$1,637,000, \$1,367,000 and \$4,991,000, respectively.

Our lease contracts are discounted using the incremental borrowing rate for the

Company. We determined the incremental borrowing rate based on a senior secured collateral adjusted yield curve for the Company. This yield curve reflects the estimated rate that would have been paid by the Company to borrow on a collateralized basis over a similar term in a similar economic environment. This rate was reassessed as part of the Transactions and was utilized to re-measure the assumed lease liabilities as well as the BH Lease as of March 16, 2020. We will assess this rate annually to determine whether it needs to be updated. The weighted average revolving lease terms and discount rates for all of our operating leases were as follows.

	June 28, 2020
Weighted average remaining lease term (years)	8.88
Weighted Average discount rate	8.26 %

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7 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT DEFINED BENEFIT PLANS

We have several noncontributory defined benefit pension plans that together cover selected employees. Benefits under the plans were generally based on salary and years of service. With the exception of defined benefit plans acquired in the Transactions, effective in 2012, substantially all benefits are frozen. 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.

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.

As part of the Transactions, the Company assumed several non-contributory defined benefit pension plans that together cover selected employees. Benefits under the plans are generally based on salary and years of service. The 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 corporate equity securities, government and corporate bonds, money markets and deposits with insurance companies. The amount of net pension obligations for those plans as of March 16, 2020, the initial measurement date, was \$43,503,000. The total pension benefit recognized for the period between March 16, 2020 and June 28, 2020 was \$642,000.

Additionally, as part of the Transactions, the Company assumed certain unfunded postemployment benefit plans which provide coverage to retirees for portions of premiums associated with medical, dental, life, and vision insurance benefits in eight collective bargaining units. The amount of premiums paid in five bargaining units are capped at specific dollar amounts per month. The amount of premiums paid in three bargaining units are uncapped. The plan groups consist of capped retirees, uncapped retirees, capped active employees, and uncapped active employees. New participants in the uncapped plans are eligible for Medicare supplemental medical insurance. The total postemployment benefit obligation recognized for these plans as of March 16, 2020, the initial measurement date, was \$36,800,000. The total postemployment benefit cost recognized for the period between March 16, 2020 and June 28, 2020 was \$590,000.

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

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

	13 Weeks	39 Weeks
	Ended	Ended
PENSION PLANS		

	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>				
Service cost for benefits earned during the period	626	9	737	27
Interest cost on projected benefit obligation	2,462	1,641	5,113	4,923
Expected return on plan assets	(4,356)	(2,018)	(8,628)	(6,055)
Amortization of net loss	792	284	2,376	851
Amortization of prior service benefit	(2)	(25)	(6)	(75)
Pension benefit	(478)	(109)	(408)	(329)

POSTRETIREMENT MEDICAL PLANS	13 Weeks Ended		39 Weeks Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>				
Service cost for benefits earned during the period	232	—	268	—
Interest cost on projected benefit obligation	346	103	523	309
Expected return on plan assets	(265)	(270)	(795)	(811)
Amortization of net gain	(186)	(244)	(558)	(732)
Amortization of prior service benefit	(161)	(181)	(483)	(543)
Postretirement medical benefit	(34)	(592)	(1,045)	(1,777)

In the 39 weeks ended June 28, 2020 we did not contribute to our pension plans.

On March 27, 2020, Congress approved the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to address the economic impact associated with the COVID-19 virus. The CARES Act allows the Company to defer pension contributions until December 31, 2020. The Company does not expect to make pension contributions for the remainder of fiscal 2020.

8 ACQUISITIONS

On March 16, 2020, the Company completed the Asset and Stock Purchase Agreement dated as of January 29, 2020 with Berkshire Hathaway Inc., a Delaware corporation (“Berkshire”) and BH Media Group, Inc., a Delaware corporation (“BHMG”) (“Purchase Agreement”).

The allocation of the purchase price is preliminary pending the finalization of the fair value of the acquired net assets and liabilities assumed, deferred income taxes, assumed income and non-income based tax liabilities and goodwill. The valuation of property and equipment, intangibles, deferred income taxes, and residual goodwill is not complete. These amounts are subject to adjustment as additional information is obtained within the measurement period (not to exceed 12 months from the acquisition date). As part of the Transactions, the Company also entered into the Credit Agreement and the BH Lease, as described above. The Company concluded that these agreements were not separate from the Transactions and evaluated these agreements for off-market terms and no such terms were identified. As such, the consideration for the acquisitions was limited to cash consideration, as shown below. The accounting for the Credit Agreement and the BH Lease are described in Notes 5 and 6.

The following table summarizes the preliminary determination of fair values of the assets and liabilities for the Transactions.

<i>(in Thousands)</i>	
Cash and cash equivalents	22,293
Current assets	52,559
Other assets	12,167
Property and equipment	42,952
Operating lease assets	7,445
Advertiser relationships	38,780
Subscriber relationships	36,060
Commercial print relationships	17,130
Mastheads	21,680
Goodwill	63,559
Total assets	314,625
Current liabilities assumed	(73,451)

Operating lease liabilities	(6,625)
Other liabilities assumed	(2,246)
Pension obligations	(43,503)
Postemployment benefit obligations	(36,800)
Total liabilities	(162,625)
Net assets	152,000
Less: acquired cash	(22,293)
Total consideration less acquired cash	129,707

We expect to finalize our determination of fair values and liabilities by the end of fiscal year 2020.

For the 13 weeks ended June 28, 2020, the revenue and net income included in the Consolidated Income Statement related to the acquirees was \$91,173,000 and \$2,831,000, respectively. For the 39 weeks ended June 28, 2020, the revenue and net income in the Consolidated Income Statement related to the acquirees was \$105,820,000 and \$3,395,000, respectively. Acquired net income includes interest expense, net of taxes, of \$2,363,000 and \$2,726,000 for the 13 and 39 weeks ended June 28, 2020, respectively, which is associated with the cost of financing the acquisitions.

Pro Forma Information

The following table sets forth unaudited pro forma results of operations assuming the Transactions, along with the credit arrangements necessary to finance the Transactions, occurred on October 1, 2018, the first day of fiscal year 2019.

	Unaudited			
	13 Weeks Ended		39 Weeks Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars, Except Per Share Data)</i>				
Total revenues	182,528	242,475	630,027	742,593
Income (loss) attributable to Lee Enterprises, Incorporated	(1,275)	13,090	19,334	17,568
Earnings per share - diluted	(0.02)	0.23	0.34	0.31

This pro forma financial information is based on historical results of operations, adjusted for the allocation of the purchase price and other acquisition

accounting adjustments. This pro forma information is not necessarily indicative of what our results would have been had we operated the businesses since the beginning of the periods presented. The pro forma adjustments reflect the income statement effects of depreciation expense and amortization of intangibles related to the fair value adjustments of the assets acquired, acquisition-related costs, incremental interest expense related to the financing of the Transactions and 2020 Refinancing, the BH Lease entered into as part of the Transactions, the elimination of certain intercompany activity and the related tax effects of the adjustments.

The only material, nonrecurring adjustments made relate to the write-off of previously unamortized debt-issuance costs as of October 1, 2018 which resulted in the following after-tax changes to net income:

- \$0 increase to net income for the 13 weeks ended June 28, 2020.
- \$3,147,000 increase to net income for the 13 weeks ended June 28, 2019.
- \$8,900,000 increase to net income for the 39 weeks ended June 28, 2020.
- \$8,564,000 decrease to net income for the 39 weeks ended June 28, 2019.

9 INCOME TAXES

We recorded an income tax expense of \$368,000 related to a loss before taxes of \$359,000 for the 13 weeks ended June 28, 2020, and an income tax benefit of \$92,000 related to a loss before taxes of \$90,000 for the 39 weeks ended June 28, 2020. For the 13 weeks ended June 30, 2019, we recorded an income tax expense of \$1,505,000 related to income before taxes of \$7,677,000 and an income tax expense of \$6,175,000 related to income of \$20,739,000 for the 39 weeks ended June 30, 2019. The effective income tax rate for the 13 and 39 weeks ended June 28, 2020 was negative 102.5% and positive 102.2%, respectively. The effective income tax rate for the 13 and 39 weeks

ended June 30, 2019 was 19.6% and 29.8%

The primary differences between these rates and the U.S. federal statutory rate of 21% are due to the effect of state taxes, non-deductible expenses, adjustments to reserves for uncertain tax positions, including any related interest, mark-to-market adjustments to value the Warrants and certain adjustments made to reflect the impact of the Transactions.

The Company anticipates that it will realize benefits under the CARES Act related to payroll taxes, including deferrals of certain employer payroll tax payments in 2020 to the end of 2021 and 2022.

We file a consolidated federal tax return, as well as combined and separate tax returns in approximately 27 state and local jurisdictions. We do not currently have any federal tax examinations in progress. California is the only state with an income tax examination currently in progress. Our income tax returns have generally been audited or closed to audit through 2012. See Note 13 for a discussion of our tax audits.

At September 29, 2019, we had approximately \$63,338,000 of state net operating loss benefits. The Company consumed its federal net operating losses in the year ended September 30, 2018.

1 EARNINGS PER COMMON SHARE

0

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

	13 Weeks Ended		39 Weeks Ended	
	June 28,	June 30,	June 28,	June 30,
<i>(Thousands of Dollars and Shares, Except Per Share Data)</i>	2020	2019	2020	2019

(Loss) Income attributable to Lee Enterprises, Incorporated:	(1,275)	5,766	(1,320)	13,449
Weighted average common shares	58,201	57,731	58,233	57,578
Less weighted average restricted Common Stock	(1,558)	(2,088)	(1,529)	(2,094)
Basic average common shares	56,643	55,643	56,704	55,484
Dilutive stock options and restricted Common Stock	—	1,227	—	1,038
Diluted average common shares	56,643	56,870	56,704	56,522
Earnings per common share:				
Basic	(0.02)	0.10	(0.02)	0.24
Diluted	(0.02)	0.10	(0.02)	0.24

For the 13 and 39 weeks ended June 28, 2020, 8,134,965 and 7,372,002 shares, respectively, were not considered in the computation of diluted earnings per common share because the Company recorded net losses. For the 13 and 39 weeks ended June 30, 2019, 6,000,000 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.

1 STOCK OWNERSHIP PLANS

1

A summary of stock option activity during the 39 weeks ended June 28, 2020 follows:

<i>(Thousands of Dollars and Shares, Except Per Share Data)</i>	Shares	Weighted Average Exercise Price	Remaining Contractual Term (Years)	Aggregate Intrinsic Value	
Outstanding, September 29, 2019	809	1.82			
Exercised	—	—			
Cancelled	(18)	—			
Outstanding, June 28, 2020	791	1.82	1.1	—	
Exercisable, June 28, 2020	791	1.82	1.1	—	

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Restricted Common Stock

The table below summarizes restricted Common Stock activity during the 39 weeks ended June 28, 2020:

<i>(Thousands of Shares, Except Per Share Data)</i>	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 29, 2019	1,477	2.49
Vested	(605)	1.94
Granted	720	1.62
Cancelled	(37)	2.53
Outstanding, June 28, 2020	1,555	2.14

Total unrecognized compensation expense for unvested restricted Common

Stock at June 28, 2020 is \$1,503,000, which will be recognized over a weighted average period of 1.5 years.

1 FAIR VALUE MEASUREMENTS

2

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 \$6,068,000, including our 17% ownership of the non-voting common stock of TCT and a private equity investment, are carried at cost. As of June 28, 2020, based on the most recent data available, the approximate fair value of the private equity investment is \$9,610,000 which is a level 3 fair value measurement. Fair value of the remaining investments approximates book value.

Our fixed rate debt consists of \$576,000,000 principal amount of the Term

Loan recorded at carrying value, which approximates fair value. This represents a level 3 fair value measurement.

As discussed more fully in Note 5, 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 re-measure 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 June 28, 2020 and September 29, 2019 are \$430,000 and \$1,195,000, respectively. Fair value is determined using the Black-Scholes option pricing model. These represent level 2 fair value measurements.

1 COMMITMENTS AND CONTINGENT LIABILITIES

3

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 9.

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 2014.

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.

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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 and 39 weeks ended June 28, 2020. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein, and our 2019 Annual Report on Form 10-K.

NON-GAAP FINANCIAL MEASURES

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

In this report, we present Adjusted EBITDA, cash costs, and total operating revenue less cash costs which are non-GAAP financial performance measures that exclude from our reported GAAP results the impact of certain items consisting primarily of restructuring charges and non-cash charges. We believe such expenses, charges and gains are not indicative of normal, ongoing operations, and their inclusion in results makes for more difficult comparisons between years and with peer group companies. In the future, however, we are likely to incur expenses, charges and gains similar to the items for which the applicable GAAP financial measures have been adjusted and to report non-

GAAP financial measures excluding such items. Accordingly, exclusion of those or similar items in our non-GAAP presentations should not be interpreted as implying the items are non-recurring, infrequent, or unusual.

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

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

Cash Costs represent a non-GAAP financial performance measure of operating expenses which are measured on an accrual basis and settled in cash. This measure is useful to investors in understanding the components of the Company's cash-settled operating costs. Generally, the Company provides forward-looking guidance of Cash Costs, which can be used by financial statement users to assess the Company's ability to manage and control its operating cost structure. Cash Costs are defined as compensation, newsprint and ink and other operating expenses. Depreciation and amortization, assets loss (gain) on sales, impairments and other, other non-cash operating expenses and other expenses are excluded. Cash Costs also exclude restructuring costs and other, which are typically settled in cash.

Total Operating Revenue Less Cash Costs, or "margin", represents a non-GAAP financial performance measure of revenue less total cash costs, also a non-GAAP financial measure. This measure is useful to investors in understanding the profitability of the Company after direct cash costs related to

the production and delivery of products are paid. Margin is also useful in developing opinions and expectations about the Company's ability to manage and control its operating cost structure in relation to its peers.

The subtotals of operating expenses representing cash costs and total operating revenue less cash costs can be found in tables included herein, under the caption "Continuing Operations". Adjusted EBITDA is reconciled to net income, below, its closest comparable number under GAAP.

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:

	13 Weeks Ended		39 Weeks Ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
<i>(Thousands of Dollars)</i>				
Net income (loss)	(727)	6,172	2	14,564
Adjusted to exclude				
Income tax expense (benefit)	368	1,505	(92)	6,175
Non-operating expenses, net	12,108	12,354	43,933	39,579
Equity in earnings of TNI and MNI	(842)	(1,451)	(3,773)	(5,298)
Loss (gain) on sale of assets and other, net	147	(195)	(5,153)	(212)
Depreciation and amortization	11,201	7,347	25,196	22,263
Restructuring costs and other	2,865	2,792	6,422	5,612
Stock compensation	228	321	799	1,209
Add:				
Ownership share of TNI and MNI EBITDA (50%)	955	1,806	4,464	6,486
Adjusted EBITDA	26,303	30,651	71,798	90,378

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IMPACT OF RECENTLY ADOPTED ACCOUNTING STANDARDS

In February 2016, the FASB issued a new standard for the accounting treatment of leases, known as Accounting Standards Codification 842 ("ASC

842”). The new standard is based on the principle that entities should recognize assets and liabilities arising from leases. The new standard's primary change is the requirement for entities to recognize a lease liability for payments and a right-of-use (“ROU”) asset representing the right to use the leased asset during the term on most operating lease arrangements. We adopted the standard effective September 30, 2019, the first day of fiscal year 2020.

We elected the package of practical expedients which permits the Company to not reassess under the new standard the prior conclusions about lease identification, lease classification, or initial direct costs. In addition, we did reassess whether existing land easements which were previously not accounted for as leases are or contain leases under the new guidance. We have elected to combine non-lease and lease components when accounting for leases. The Company has made a policy election to exclude short-term leases, those with an original term of less than twelve months, from recognition and measurement under ASC 842. As such, we have not recognized an ROU asset or lease liability for these leases. Additional information and disclosures required by this new standard are contained in Note 6.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies include the following:

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

Accounting for business combinations requires us to make significant estimates and assumptions, especially at the acquisition date, with respect to tangible and intangible assets acquired and liabilities assumed. We use our best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date as well as the useful lives of those acquired intangible assets. The Company prepared its initial estimates of the fair values of intangible assets utilizing the multi-period excess earnings method for customer-related amortizable intangible assets and the relief from royalty method for indefinite lived masthead assets. Examples of critical estimates in valuing certain of the intangible assets and goodwill we have acquired include but are not limited to:

- future expected cash flows from subscription, advertising and commercial print relationships and related assumptions about future revenue growth and customer retention;
- discount rates; and
- royalty rates used to value acquired mastheads.

Additional information regarding our accounting for business combinations can be found in Note 1. Additional information regarding all other critical accounting policies can be found under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2019 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.

Including the recently completed acquisition of BHMG and *The Buffalo News*, we operate 77 principally mid-sized local media operations.

We reach 72.5% of all adults in our larger markets through a combination of our print and digital content offerings.

- Our web and mobile sites are the number one digital source of local news in most of our markets, reaching more than 60 million unique visitors, in the month of June 2020 with 485 million page views and 131 million visits.
- Our printed newspapers, including the acquisitions, reach approximately 1.2 million households daily and approximately 1.5 million on Sunday, with estimated readership totaling three million. Digital only subscribers totaled approximately 222,000, with a 85.4% increase over the prior year at Legacy Lee.

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

We also operate TownNews, through our 82.5% owned subsidiary INN Partners, L.C. (“TownNews”). TownNews provides state-of-the-art web hosting, content management services and video management services to nearly 2,200 other media organizations including broadcast.

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Purchase Agreement with Berkshire Hathaway

On March 16, 2020, the Company completed the Asset and Stock Purchase Agreement dated as of January 29, 2020 with Berkshire Hathaway Inc., a Delaware corporation (“Berkshire”) and BH Media Group, Inc., a Delaware corporation (“BHMG”) (the “Purchase Agreement”). As part of the Purchase Agreement, the Company purchased certain assets and assumed certain liabilities of BHMG’s newspapers and related community publications business (“BH Media Newspaper Business”), excluding real estate and fixtures such as production equipment, and all of the issued and outstanding capital stock of The Buffalo News, Inc., a Delaware corporation (“Buffalo News”), for a combined purchase price of \$140,000,000 (collectively, the “Transactions”). The Transactions were financed pursuant to a credit agreement dated as of January 29, 2020 between the Company and BH Finance LLC, a Delaware limited liability company affiliated with Berkshire (the “Credit Agreement”). Our Consolidated Financial Statements show the combined results of the Company for the period of March 16, 2020 through and as of June 28, 2020.

BHMG includes 30 daily newspapers and digital operations, in addition to 49 paid weekly newspapers with websites and 32 other print products. Buffalo News is a provider of local print and digital news to the Buffalo, NY area. Between July 2, 2018 and March 16, 2020, the Company managed the BH Media Newspaper Business pursuant to a Management Agreement between BHMG and the Company dated June 26, 2018 (the “Management Agreement”).

In connection with the Transactions, the Management Agreement terminated on March 16, 2020. As part of the settlement of the preexisting relationship, the Company received \$5,425,000 at closing. This amount represented \$1,245,000 in fixed fees pro-rated under the contract and \$4,180,000 in variable fees based upon the pro-rated annual target. The Company did not recognize a gain or loss as a result of the settlement of this preexisting relationship.

In connection with the Transactions, the Company entered into a lease agreement between BH Media, as Landlord, and the Company, as Tenant, providing for the leasing of 68 properties and related fixtures (including production equipment) used in the BH Media Newspaper Business (the “BH Lease”). The BH Lease was signed and commenced on March 16, 2020. The BH Lease requires the Company to pay annual rent of \$8,000,000, payable in equal monthly payments, as well as all operating costs relating to the properties (including maintenance, repairs, property taxes and insurance). Rent payments will be subject to a Rent Credit (as defined in the BH Lease) equal to 8.00% of the net consideration for any leased real estate sold by BH Media during the term of the BH Lease.

IMPAIRMENT OF GOODWILL AND OTHER ASSETS

We have significant amounts of goodwill and identified intangible assets. Since 2007 we have recorded impairment charges totaling almost \$1.3 billion to reduce the value of certain of these assets. Future decreases in our market value, or significant differences in revenue, expenses or cash flows from estimates used to determine fair value, could result in additional impairment charges in the future.

CERTAIN MATTERS AFFECTING CURRENT AND FUTURE OPERATING RESULTS

The following items affect period-over-period comparisons from 2020 to 2019 and will continue to affect period-over-period comparisons for future results:

Acquisitions and Divestitures

- In March 2020, we completed the acquisition of BHMG and *The Buffalo News* for a purchase price of \$140,000,000. The acquisition was funded by the Term Loan, as part of a broader comprehensive refinancing of all of our then outstanding debt, as well as cash on our balance sheet.
- In the 13 weeks ended March 2020, we disposed of substantially all of the assets of certain of our smaller properties, including four daily newspapers and related print and digital publications, for an aggregate sales price of \$3,950,000.

Impacts of COVID-19

With the outbreak of COVID-19 and the declaration of a pandemic by the World

Health Organization on March 11, 2020, governments implemented a combination of shelter-in-place orders and other recommendations severely limiting or restricting economic activity in our local markets. Certain aspects of our operating results have experienced lower revenue and profitability over the last several years and these trends are expected to continue in the future; however, the pandemic and government restrictions caused significant and immediate declines in demand for certain our products and services, and ultimately in advertising revenue.

The COVID-19 pandemic has had and the Company currently expects that it will continue to have a significant negative impact, in the near term, on the Company's business and operating results. The long-term impact of the COVID-19 pandemic will depend on the length, severity and recurrence of the pandemic, the availability of antiviral medications and vaccinations, the duration and extent of government actions designed to combat the pandemic, as well as changes in consumer behavior, all of which are highly uncertain. Despite the significant negative impacts on our operating results, we have operated uninterrupted in providing local news, information and advertising in our print and digital editions.

In combination with our acquisition integration, ongoing business transformation and addressing the continued effects of COVID-19 on our operating results, we continued to implement measures to solidify our relationship with our local advertisers, reduce our cost structure and preserve liquidity, and as a result expect to achieve \$100 million in cost reductions from December 2019 through September 2021. These reductions will be achieved by centralizing certain business functions and systems and reducing duplicate cost structures across the combined organization. The Company believes these initiatives will allow us to meet our commitments; however, they may not be sufficient to fully offset the negative impact of the COVID-19 pandemic on the Company's business and results of operations.

We have evaluated the current economic environment as of June 28, 2020 and have concluded that there is no event or circumstance that has occurred to trigger an impairment assessment of our long-lived or indefinite-lived assets. We will continue to monitor the environment to determine whether the impacts to the Company represent an event or change in circumstances that may trigger a need to reassess for useful life revision or impairment.

13 WEEKS ENDED JUNE 28, 2020

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

	June 28, 2020	June 30, 2019	Perce nt Chang e
<i>(Thousands of Dollars, Except Per Share Data)</i>			
Advertising and marketing services revenue	77,754	65,754	18.2
Subscription	88,517	46,620	89.9
Other	16,257	14,910	9.0
Total operating revenue	182,528	127,284	43.4
Operating expenses:			
Compensation	72,396	45,373	59.6
Newsprint and ink	7,572	5,230	44.8
Other operating expenses	77,440	48,157	60.8
Cash costs	157,408	98,760	59.4
Total operating revenue less cash costs	25,120	28,524	(11.9)
Depreciation and amortization	11,201	7,347	52.5
Assets loss (gain) on sales, impairments and other, net	147	(195)	NM
Restructuring costs and other	2,865	2,792	2.6
Operating expenses	171,621	108,704	57.9
Equity in earnings of associated companies	842	1,451	(42.0)
Operating income	11,749	20,031	(41.3)
Non-operating income (expense):			
Interest expense	(13,135)	(11,860)	10.8
Debt financing and administrative cost	—	(4,196)	NM
Other, net	1,027	3,702	(72.3)
Non-operating expenses, net	(12,108)	(12,354)	(2.0)
Income (loss) before income taxes	(359)	7,677	NM
Income tax expense	368	1,505	(75.5)
Net income (loss)	(727)	6,172	NM
Net income attributable to non-controlling interests	(548)	(406)	35.0

Income (loss) attributable to Lee Enterprises, Incorporated	(1,275)	5,766	NM
Other comprehensive income (loss), net of income taxes	317	(122)	NM
Comprehensive income (loss) attributable to Lee Enterprises, Incorporated	(958)	5,644	NM
Earnings per common share:			
Basic	(0.02)	0.10	NM
Diluted	(0.02)	0.10	NM

References to the “2020 Quarter” refer to the 13 weeks ended June 28, 2020. Similarly, references to the “2019 Quarter” refer to the 13 weeks ended June 30, 2019.

Operating Revenue

Total operating revenue was \$182,528,000 in the 2020 Quarter, up \$55,244,000, or 43.4%, which included \$91,173,000 in revenue from the acquisitions.

Advertising and marketing services revenue totaled \$77,754,000 in the 2020 Quarter, up 18.2% compared to the prior year. Print advertising revenues were \$51,989,000 in the 2020 Quarter, up 29.0% compared to the prior year, with \$29,536,000 attributable to acquired print advertising revenue. Digital advertising and marketing services totaled \$25,765,000 in the 2020 Quarter, up 1.2% compared to the prior year, with \$6,747,000 attributable to acquired digital advertising and marketing services revenue. Digital advertising and marketing services represented 33.1% of the 2020 Quarter total advertising and marketing services revenue. Increases in the 2020 Quarter are attributed to acquired revenue, offset by the continued downward trend in print advertising demand, and the significant negative effects of COVID-19 in the 2020 Quarter.

Subscription revenue totaled \$88,517,000 in the 2020 Quarter, up 89.9% compared to the 2019 Quarter. The increase is attributed to \$48,205,000 of acquired subscription revenue and an increase in digital-only subscription revenue partially offset by lower print circulation units, consistent with industry trends and timing of price increases. As of June 28, 2020, we now have nearly 222,000 digital only subscribers.

The COVID-19 pandemic had a significant negative effect on single copy sales due to limited economic activity in our markets. Revenue from single copy

sales were down 26.9% on a proforma basis.

Other revenue, which primarily consists of digital services revenue from TownNews and commercial printing revenue, increased \$1,347,000, or 9.0%, in the 2020 Quarter compared to the 2019 Quarter. Other revenue in the 2020 Quarter included \$6,685,000 of acquired other revenue, primarily from commercial printing. Digital services revenue totaled \$4,971,000 in the 2020 Quarter, a 2.3% decrease compared to the 2019 Quarter. On a pro-forma basis, digital services revenue increased 8.5%. On a stand-alone basis, revenue at TownNews totaled \$6,339,000, an increase of 7.7%. Investments in video and streaming technology expanded product offerings that helped gain market share in publishing and broadcast, and increased revenue. Commercial printing revenue totaled \$5,446,000 in the 2020 Quarter, a 203.2% increase compared to the 2019 Quarter, due to \$4,370,000 of acquired commercial printing revenue offset by declines in volume from our partners, consistent with general industry trends. Management Agreement revenue was \$0 in the 2020 Quarter compared to \$3,539,000 in the 2019 Quarter, due to the cessation of the agreement in conjunction with the transaction.

Total digital revenue including digital advertising revenue, digital subscription revenue and digital services revenue totaled \$42,423,000 in the 2020 Quarter, an increase of 15.0% over the 2019 Quarter, and represented 23.2% of our total operating revenue in the 2020 Quarter.

Equity in earnings of TNI and MNI decreased \$609,000 in the 2020 Quarter.

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Operating Expenses

Total operating expenses were \$171,621,000, a 57.9% increase compared to the 2019 Quarter, which included \$86,680,000 in operating expenses from acquisitions. Operating expenses include compensation expense, newsprint and ink, other operating expenses, depreciation, amortization, restructuring and other expenses, assets loss (gain) on sales, and impairments. Cash costs were \$157,408,000, a 59.4% increase compared to the 2019 Quarter, which included \$79,284,000 of acquired Cash Costs.

Compensation expense increased \$27,023,000 in the 2020 Quarter, or 59.6%, compared to the 2019 Quarter. This increase was attributable to

\$38,630,000 of acquired compensation expense, partially offset by a 22.4% reduction in FTEs on a same property basis and furlough or compensation reductions for all employees in the 2020 Quarter, totaling approximately \$10,000,000.

Newsprint and ink costs increased \$2,342,000 in the 2020 Quarter, or 44.8%, compared to the 2019 Quarter. The increase is attributable to acquired newsprint and ink expenses of \$4,799,000 offset by declines in newsprint volumes and prices. See Item 3, "Commodities", included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses increased \$29,283,000 in the 2020 Quarter, or 60.8%, compared to the 2019 Quarter. Other operating expenses include all operating costs not considered to be compensation, newsprint, depreciation and amortization, or restructuring costs and other. The largest components are costs associated with printing and distribution of our printed products, digital cost of goods sold and facility expenses. The increase is attributable to \$35,855,000 of acquired other operating expenses and increases in digital investments, partially offset by lower delivery and other print-related costs due to lower volumes of our print editions.

Restructuring costs and other totaled \$2,865,000 and \$2,792,000 in the 2020 Quarter and 2019 Quarter, respectively. Restructuring costs in 2020 and 2019 are predominately severance.

Depreciation expense increased \$1,202,000, or 38.2%, and amortization expense increased \$2,652,000, or 63.1%, in the 2020 Quarter.

Assets loss (gain) on sales, impairments and other, was a net loss of \$147,000 in the 2020 Quarter compared to a net gain of \$195,000 in the 2019 Quarter.

The factors noted above resulted in operating income of \$11,749,000 in the 2020 Quarter compared to \$20,031,000 in the 2019 Quarter.

Non-operating Income and Expense

Interest expense increased \$1,275,000, or 10.8%, to \$13,135,000 in the 2020 Quarter. Our weighted average cost of debt, excluding amortization of debt financing costs, was 9.0% at the end of the 2020 Quarter and 10.0% at the end of the 2019 Quarter. The reduction of the weighted average cost of debt is due to the 2020 Refinancing.

We recognized no debt financing and administrative expense in the 2020 Quarter compared to \$4,196,000 in the 2019 Quarter. The decrease in the 2020 Quarter is primarily driven by expensing previously unamortized financing costs which were expensed as incurred in the quarter ended March 29, 2020 as a result of the 2020 Refinancing.

Other non-operating income and expense consists of benefits associated with our pension and other postretirement plans and the fair value adjustment of our Warrants. We recorded \$1,370,000 periodic pension and other postretirement benefits in the 2020 Quarter and \$710,000 in the 2019 Quarter. We recorded non-operating expense of \$271,000 in the 2020 Quarter and non-operating income of \$3,062,000 in the 2019 Quarter, related to the changes in the value of the Warrants.

Income Tax Expense (Benefit)

We recorded an income tax expense of \$368,000, or 102.5% of pretax loss in the 2020 Quarter. In the 2019 Quarter, we recognized an income tax expense of \$1,505,000, or 19.6% of pretax loss.

Net Income and Earnings Per Share

Net loss was \$727,000 and diluted loss per share was \$0.02 for the 2020 Quarter compared to net income of \$6,172,000 and diluted earnings per share of \$0.10 for 2019 Quarter. The change reflects the various items discussed above.

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39 WEEKS ENDED JUNE 28, 2020

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

	June 28,	June 30,	Percent
<i>(Thousands of Dollars, Except Per Share Data)</i>	2020	2019	Change
Advertising and marketing services revenue	204,426	204,651	(0.1)

Subscription	176,655	137,965	28.0
Other	45,157	43,573	3.6
Total operating revenue	426,238	386,189	10.4
Operating expenses:			
Compensation	164,330	140,197	17.2
Newsprint and ink	16,629	17,394	(4.4)
Other operating expenses	178,744	145,915	22.5
Cash costs	359,703	303,506	18.5
Total operating revenue less cash costs	66,535	82,683	(19.5)
Depreciation and amortization	25,196	22,263	13.2
Assets loss (gain) on sales, impairments and other, net	(5,153)	(212)	NM
Restructuring costs and other	6,422	5,612	14.4
Operating expenses	386,168	331,169	16.6
Equity in earnings of associated companies	3,773	5,298	(28.8)
Operating income	43,843	60,318	(27.3)
Non-operating income (expense):			
Interest expense	(35,377)	(36,256)	(2.4)
Debt financing and administrative cost	(11,865)	(6,053)	96.0
Other, net	3,309	2,730	21.2
Non-operating expenses, net	(43,933)	(39,579)	11.0
Income (loss) before income taxes	(90)	20,739	NM
Income tax expense	(92)	6,175	NM
Net income (loss)	2	14,564	(100.0)
Net income attributable to non-controlling interests	(1,322)	(1,115)	18.6
Income (loss) attributable to Lee Enterprises, Incorporated	(1,320)	13,449	NM
Other comprehensive income (loss), net of income taxes	950	(365)	NM
Comprehensive income (loss) attributable to Lee Enterprises, Incorporated	(370)	13,084	NM
Earnings per common share:			
Basic	(0.02)	0.24	NM
Diluted	(0.02)	0.24	NM

References to the “2020 Period” refer to the 39 weeks ended June 28, 2020. Similarly, references to the “2019 Period” refer to the 39 weeks ended June 30, 2019.

Operating Revenue

Total operating revenue was \$426,238,000 in the 2020 Period, up \$40,049,000, or 10.4%, compared to the prior year, which included \$105,820,000 in revenue from acquisitions.

Advertising and marketing services revenue totaled \$204,426,000 in the 2020 Period, down 0.1% compared to the prior year. Print advertising revenues were \$128,024,000 in the 2020 Period, down 1.2% compared to the prior year, with \$34,923,000 attributable to acquired print advertising revenue. Digital advertising and marketing services totaled \$76,402,000 in the 2020 Period, up 1.9% compared to the prior year, with \$8,136,000 attributable to acquired digital advertising and marketing services revenue. Digital advertising and marketing services represented 37.4% of the 2020 Period total advertising and marketing services revenue. Increases are attributed to acquired revenue offset by reduced demand for print advertising, consistent with general industry trends adversely affecting the publishing industry, negative impacts from the COVID-19 pandemic and incremental advertising revenue in the 2019 Period from certain political campaigns.

Subscription revenue totaled \$176,655,000 in the 2020 Period, up 28.0% compared to the 2019 period. The increase is attributable to acquired subscription revenue of \$54,769,000 and an increase in digital only subscribers, offset by lower paid print circulation units, consistent with industry trends and timing of price increases. As of June 28, 2020, we now have nearly 222,000 digital-only subscribers.

Other revenue, which primarily consists of digital services revenue from TownNews, commercial printing revenue and until March 16, 2020, revenue from the Management Agreement, totaled \$45,157,000, a 3.6% increase compared to the 2019 Period. Other revenue in the 2020 Period includes \$7,992,000 of acquired other revenue, primarily from commercial printing.

Digital services revenue totaled \$15,400,000 in the 2020 Period, a 6.2% increase compared to the 2019 Period. On a stand-alone basis, revenue at TownNews totaled \$18,669,000, an increase of 12.0%, and totaled \$24,628,000 over the last twelve months. Investments in video and streaming technology expanded product offerings that helped gain market share in publishing and broadcast, and increased revenue.

Commercial printing revenue totaled \$9,437,000 in the 2020 Period, a 51.9% increase compared to the 2019 Period, due to acquired revenues.

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Management Agreement revenue totaled \$5,814,000 in the 2020 Period compared to \$9,989,000 in the 2019 Period. The decrease was attributable to the termination of the Management Agreement on March 16, 2020 in connection with the Transactions.

Total digital revenue including digital advertising revenue, digital subscription revenue and digital services revenue totaled \$116,332,000 in the 2020 Period, an increase of 7.3% over the 2019 Period. Total digital revenue represented 27.3% of our total operating revenue in the 2020 Period.

Equity in earnings of TNI and MNI decreased \$1,525,000 in the 2020 Period.

Operating Expenses

Total operating expenses were \$386,168,000, a 16.6% increase compared to the 2019 Period, which included \$98,291,000 in operating expenses from acquisitions. Operating expenses include compensation expense, newsprint and ink, other operating expenses, depreciation, amortization, restructuring and other expenses, assets loss (gain) on sales, and impairments. Cash Costs were \$359,703,000, a 18.5% increase compared to the 2019 Period, which included \$92,044,000 of acquired Cash Costs.

Compensation expense increased \$24,133,000 in the 2020 Period, or 17.2%, compared to the 2019 Period. The increase was attributable to a 16.1% reduction in FTEs on a same property basis, partially offset by \$45,208,000 of acquired compensation expense.

Newsprint and ink costs decreased \$765,000 in the 2020 Period, or 4.4%, compared to the 2019 Period. The decrease is attributable to declines in newsprint volumes and prices, offset by \$5,625,000 of acquired newsprint and ink expenses. See Item 3, "Commodities" included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses increased \$32,829,000 in the 2020 Period, or 22.5%, compared to the 2019 Period. Other operating expenses include all operating costs not considered to be compensation, newsprint, depreciation and amortization, or restructuring costs and other. The largest components are costs associated with printing and distribution of our printed products, digital

cost of goods sold and facility expenses. The increase is attributable to \$41,212,000 of acquired other operating expenses and increases in digital investments, partially offset by lower delivery and other print-related costs due to lower volumes of our print editions.

Restructuring costs and other totaled \$6,422,000 and \$5,612,000 in the 2020 Period and 2019 Period, respectively. Restructuring costs in 2020 and 2019 are predominately severance.

Depreciation increased \$49,000, or 0.5%, and amortization increased \$2,884,000, or 22.6%, in the 2020 Period. Assets loss (gain) on sales, impairments and other, was a net gain of \$5,153,000 in the 2020 Period compared to a net gain of \$212,000 in the 2019 Period. The net gain in the 2020 was related to the disposition of non-core assets, including real estate.

The factors noted above resulted in operating income of \$43,843,000 in the 2020 Period compared to \$60,318,000 in the 2019 Period.

Non-operating Income and Expense

Interest expense decreased \$879,000, or 2.4%, to \$35,377,000 in the 2020 Period. Our weighted average cost of debt, excluding amortization of debt financing costs, was 9.0% at the end of the 2020 Period and 10.0% at the end of the 2019 Period. The reduction of the weighted average cost of debt is due to the 2020 Refinancing.

We recognized \$11,865,000 of debt financing and administrative costs in the 2020 Period compared to \$6,053,000 in the 2019 Period. The increase in the 2020 Period is primarily driven by expensing previously unamortized financing costs of \$9,583,000 and \$470,000 of expenses incurred as a result of the 2020 Refinancing.

Other non-operating income and expense consists of benefits associated with our pension and other postretirement plans and the fair value adjustment of our Warrants. We recorded \$2,458,000 of periodic pension and other postretirement benefits in the 2020 Period and \$2,133,000 in the 2019 Period. We recorded non-operating income of \$765,000 in 2020 Period and \$389,000 in the 2019 Period, related to the changes in the value of the Warrants.

Income Tax Expense (Benefit)

We recorded an income tax benefit of \$92,000, or 102.2% of pretax loss of \$90,000 in the 2020 Period. In the 2019 Period we recognized an income tax expense of \$6,175,000, or 29.8% of pretax income.

The Company expects to realize a tax benefit attributable to the CARES Act. The CARES Act permits the Company to defer certain employer payroll tax payments in 2020 to the end of 2021 and 2022. The Company intends to use this deferral, and is anticipating additional guidance from the Treasury and the Internal Revenue Service to determine whether additional tax benefits are available from this legislation.

Net Income and Earnings Per Share

Net income was \$2,000 and diluted loss per share was \$0.02 for the 2020 Period compared to net income of \$14,564,000 and earnings per diluted common share of \$0.24 for 2019 Period. The change reflects the various items discussed above.

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LIQUIDITY AND CAPITAL RESOURCES

Our operations have historically generated strong positive cash flow are expected to provide sufficient liquidity, together with cash on hand, to meet our requirements, primarily operating expenses, interest expense and capital expenditures. A summary of our cash flows is included in the narrative below.

Operating Activities

Cash provided by operating activities was \$38,010,000 in the 2020 Period compared to \$43,786,000 in the 2019 Period. Net income for the 2020 Period totaled \$2,000 compared to \$14,564,000 in the 2019 Period. The decrease in cash provided by operating activities in the 2020 Period is mainly attributed to the impacts of COVID-19 on our operating results and year-over-year changes in working capital, offset by cash provided by acquisitions.

Investing Activities

Cash required for investing activities totaled \$121,137,000 in the

2020 Period compared to \$7,911,000 in the 2019 Period. We spent \$130,985,000 on acquisitions, net of cash, in the 2020 Period, primarily related to the acquisition of BHMG and the Buffalo News. Capital spending totaled \$7,297,000 in the 2020 Period compared to \$3,753,000 in the 2019 Period. Cash proceeds from asset sales, mainly real estate, totaled \$17,649,000 in the 2020 Period compared to \$1,477,000 in the 2019 Period.

Financing Activities

Cash provided by financing activities totaled \$131,192,000 in the 2020 period compared to cash required for financing activities of \$27,739,000 in the 2019 Period. Proceeds from the 2020 Refinancing totaled \$576,000,000 in the 2020 Period. Debt reduction accounted for the majority of the remaining usage of funds in both the 2020 Period and the 2019 Period.

Term Loan

In March 2020, in connection with the Transactions, the Company completed a comprehensive refinancing of its debt, which consists of a 25-year term loan with BH Finance in an aggregate principal amount of \$576,000,000. The Term Loan, which matures March 16, 2045, bears interest at an annual rate of 9.0%.

Debt is summarized as follows:

<i>(Thousands of Dollars)</i>	June 28, 2020	September 29, 2019	Interest Rates (%)
Term Loan	576,000	—	9.0
Revolving Facility	—	—	—
Notes	—	363,420	9.5
2nd Lien Term Loan	—	80,207	12.0
	576,000	443,627	
Unamortized debt issue costs	—	(11,282)	
Less current maturities of long-term debt	36,710	2,954	
Total long-term debt	539,290	429,391	

Excluding payments required from the Company's future excess cash flow (as defined in the Credit Agreement), the only required principal payments include payments from net cash proceeds from asset sales (as defined in the Credit Agreement) and payments upon certain instances of change in control. There are no other scheduled mandatory principal payments required under the Credit Agreement.

Excess cash flow for the 13 weeks ended June 28, 2020 totaled \$36,710,000, which was used to repay debt in July 2020.

The Credit Agreement contains certain customary representations and warranties, certain affirmative and negative covenants and certain conditions, including restrictions on incurring additional indebtedness, creating certain liens, making certain investments or acquisitions, issuing dividends, repurchasing shares of stock of the Company and certain other capital transactions. Certain existing and future direct and indirect material domestic subsidiaries of the Company are guarantors of the Company's obligations under the Credit Agreement. There are no financial performance covenants under our Credit Agreement.

In connection with the Term Loan, the Company incurred \$470,000 of fees and expenses that were expensed in the 39 weeks ended June 28, 2020.

In connection with closing of the transactions, we no longer have access to a Revolving Facility.

Additional Information on Liquidity

We continue to evaluate the effects of the COVID-19 pandemic on our results of operations and cash flows. To combat the negative impacts, we have taken significant and immediate action to manage cash flow by implementing various initiatives including reductions in force, compensation reductions, furloughs, and reductions in capital investments. We are also working with our large vendors to evaluate the amount and timing of significant expenses.

As part of the Company's effort to preserve liquidity, we plan to defer remittance of our FICA taxes, and defer required pension contributions, as allowed by the CARES Act.

While we currently forecast sufficient near-term liquidity, the ultimate impact of the COVID-19 pandemic could have a material impact on the Company's liquidity and its ability to meet its ongoing obligations.

CHANGES IN LAWS AND REGULATIONS

Pension Plans

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

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

The CARES Act allows the Company to defer required pension contributions until December 31, 2020. The Company does not expect to make pension contributions for the remainder of fiscal year 2020.

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. Among other provisions, the CARES Act allows the Company to defer payments of the employer’s share of social security taxes which shall be paid between December 31, 2021 and December 31, 2022. The CARES Act also provides for an Employee Retention Credit of up to \$5,000 per eligible employee which can be applied to the employer’s share of payroll taxes. The Company has elected to defer the employer’s share of social security tax payments and is currently determining the applicability of the Employee Retention Credit.

INFLATION

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

INTEREST RATES ON DEBT

Our debt structure, which is entirely fixed rate, eliminates the potential impact of an increase in interest rates. At June 28, 2020, we had no floating debt outstanding. We have no interest rate hedging in place.

COMMODITIES

Newsprint prices decreased during the 2020 Quarter as a result of declining domestic and export demand.

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 shipping expenses and paper production availability.

A \$10 per tonne price increase for 27.7 pound newsprint would result in an annualized reduction in income before taxes of approximately \$520,000 annualized based on anticipated consumption in 2020, excluding consumption of TNI and MNI and the impact of LIFO accounting.

SENSITIVITY TO CHANGES IN VALUE

Our fixed rate debt consists of \$576,000,000 principal amount of the Term Loan recorded at carrying value, which approximates fair value.

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 that as of the Evaluation Date, our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

On March 16, 2020, we concluded the Transactions. The internal controls related to the acquired businesses have not been considered in our assessment over internal control over financial reporting. Other than the Transactions, there have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended June 28, 2020 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 1.A Risk Factors

Except as otherwise described herein, there have been no material changes in the risk factors previously disclosed in “Part I, Item 1A. Risk Factors” of our 2019 Form 10-K.

In addition, the Company may, from time to time, evaluate and pursue other opportunities for growth, including through strategic investments, joint ventures, and other acquisitions. These strategic initiatives involve various inherent risks, including, without limitation, general business risk, integration and synergy risk, market acceptance risk and risks associated with the potential distraction of management. Such transactions and initiatives may not ultimately create value for us or our stockholders and may harm our reputation and materially

adversely affect our business, financial condition and results of operations.

Item 6. Exhibits

Exhibits marked with an asterisk (*) are incorporated by reference to documents previously filed by us with the SEC, as indicated. Exhibits marked with a plus (+) are management contracts or compensatory plan contracts or arrangements filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K. All other documents listed are filed with this Quarterly Report on Form 10-Q.

Number	Description	
31.1	Rule 13a-14(a) Certification of Chief Executive Officer	Attache d
31.2	Rule 13a-14(a) Certification of Chief Financial Officer	Attache d
32.1	Section 1350 Certification of Chief Executive Officer	Attache d
32.2	Section 1350 Certification of Chief Financial Officer	Attache d
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)	Attache d
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Attache d
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Attache d
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Attache d
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Attache d
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Attache d
104	Cover Page Interactive Data File (formatted as Inline XBRL and embedded within the Inline XBRL document)	Attache d

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

LEE ENTERPRISES,
INCORPORATED

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

August 7, 2020