CPI INTERNATIONAL, INC.
Form 10-Q
May 15, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2006**

**or**

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

**For the transition period from to**

**Commission file number: 000-51928**

# CPI INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**75-3142681**

(I.R.S. Employer Identification No.)

**811 Hansen Way**
Palo Alto, California 94303-1110
(650) 846-2900

(Address of Principal Executive Offices and Telephone Number,
Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer ý

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding for each of the registrant s classes of Common Stock, as of the latest practicable date: 16,030,153 shares of Common Stock, $.01 par value, at May 15, 2006.

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***Cautionary Statements Regarding Forward-Looking Statements***

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to future events or our future financial performance. In some cases, readers can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Forward-looking statements are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially from the results projected, expected or implied by the forward-looking statements. These risk factors include, without limitation, competition in our end markets; our significant amount of debt; changes or reductions in the U.S. defense budget; U.S. government contracts laws and regulations; changes in technology; the impact of unexpected costs; inability to obtain raw materials and components; and currency fluctuations. All written and oral forward-looking statements made in connection with this report that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the risk factors, and other cautionary statements included herein and in the other filings with the Securities and Exchange Commission ( SEC ) made by CPI International, Inc. We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in the expectations.

The information in this report is not a complete description of our business or the risks and uncertainties associated with an investment in our securities. You should carefully consider the various risks and uncertainties that impact our business and the other information in this report and in CPI International, Inc. s other filings with the SEC before you decide to invest in our securities or to maintain or increase your investment.

**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CPI International, Inc.**
and Subsidiaries

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share and per share data unaudited)**

| | March 31, 2006 | September 30, 2005 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 7,801 | $ 26,511 |
| Restricted cash | 1,127 | 1,287 |
| Accounts receivable, net | 46,463 | 39,295 |
| Inventories | 53,101 | 50,620 |
| Deferred tax assets | 11,611 | 12,346 |
| Prepaids and other current assets | 3,470 | 3,981 |
| Total current assets | 123,573 | 134,040 |
| Property, plant and equipment, net | 85,995 | 83,624 |
| Deferred debt issue costs, net | 10,339 | 11,061 |
| Intangible assets, net | 76,716 | 77,941 |
| Goodwill | 145,462 | 145,462 |
| Other long-term assets | 3,681 | 2,416 |
| Total assets | $ 445,766 | $ 454,544 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| Current Liabilities: | | |
| Accounts payable | $ 20,879 | $ 21,421 |
| Accrued expenses | 25,588 | 27,247 |
| Product warranty | 6,418 | 6,359 |
| Income taxes payable | 2,951 | 1,546 |
| Advance payments from customers | 6,866 | 12,067 |
| Total current liabilities | 62,702 | 68,640 |
| Deferred income taxes | 33,596 | 35,556 |
| Advance payments from sale of San Carlos property | 13,450 | 13,450 |
| Long-term debt | 294,258 | 284,231 |
| Other long-term liabilities | 21 | |
| Total liabilities | 404,027 | 401,877 |
| Commitments and contingencies | | |
| Stockholders Equity: | | |
| Common stock ($0.01 par value, 90,000,000 shares authorized; 13,078,954 shares issued and outstanding) | 131 | 131 |
| Additional paid-in capital | 17,596 | 34,595 |
| Accumulated other comprehensive income | 1,132 | 1,621 |
| Retained earnings | 22,880 | 16,320 |
| Total stockholders equity | 41,739 | 52,667 |
| Total liabilities and stockholders equity | $ 445,766 | $ 454,544 |

See accompanying notes to the condensed consolidated financial statements.

**CPI International, Inc.**
and Subsidiaries

**CONDENSED CONSOLIDATED**
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
**(in thousands, except share and per share data    unaudited)**

| | Quarter Ended | |
|---|---|---|
| | March 31, 2006 | April 1, 2005 |
| Sales | $ 86,929 | $ 84,463 |
| Cost of sales | 61,185 | 55,386 |
| Gross profit | 25,744 | 29,077 |
| Operating costs and expenses: | | |
| Research and development | 1,941 | 1,858 |
| Selling and marketing | 4,680 | 4,585 |
| General and administrative | 4,676 | 5,658 |
| Amortization of acquisition-related intangible assets | 546 | 1,486 |
| Net loss on disposition of assets | 143 | 192 |
| Total operating costs and expenses | 11,986 | 13,779 |
| Operating income | 13,758 | 15,298 |
| Interest expense, net | 6,400 | 4,732 |
| Income before income taxes | 7,358 | 10,566 |
| Income tax expense | 3,013 | 4,246 |
| Net income | $ 4,345 | $ 6,320 |
| Other comprehensive income, net of tax | | |
| Net unrealized loss on cash flow hedges | (306) | (433) |
| Comprehensive income | $ 4,039 | $ 5,887 |
| | | |
| Net income per share: | | |
| Basic | $ 0.33 | $ 0.48 |
| Diluted | $ 0.29 | $ 0.46 |
| Shares used to compute net income per share: | | |
| Basic | 13,078,954 | 13,078,954 |
| Diluted | 14,784,947 | 13,849,673 |

See accompanying notes to the condensed consolidated financial statements.

**CPI International, Inc.**
and Subsidiaries

**CONDENSED CONSOLIDATED**
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
**(in thousands, except share and per share data unaudited)**

| | Six Months Ended | |
|---|---|---|
| | **March 31, 2006** | **April 1, 2005** |
| Sales | $ 169,308 | $ 158,196 |
| Cost of sales, including $351 of amortization of acquisition-related inventory write-up for the six months ended April 1, 2005 | 118,356 | 105,415 |
| Gross profit | 50,952 | 52,781 |
| Operating costs and expenses: | | |
| Research and development | 3,851 | 3,306 |
| Selling and marketing | 9,704 | 8,653 |
| General and administrative | 11,978 | 9,627 |
| Amortization of acquisition-related intangible assets | 1,094 | 6,392 |
| Net loss on disposition of assets | 208 | 248 |
| Total operating costs and expenses | 26,835 | 28,226 |
| Operating income | 24,117 | 24,555 |
| Interest expense, net | 12,464 | 8,812 |
| Income before income taxes | 11,653 | 15,743 |
| Income tax expense | 5,093 | 6,325 |
| Net income | $ 6,560 | $ 9,418 |
| Other comprehensive income, net of tax | | |
| Net unrealized (loss) gain on cash flow hedges | (489) | 383 |
| Comprehensive income | $ 6,071 | $ 9,801 |
| | | |
| Net income per share: | | |
| Basic | $ 0.50 | $ 0.72 |
| Diluted | $ 0.44 | $ 0.68 |
| Shares used to compute net income per share: | | |
| Basic | 13,078,954 | 13,078,954 |
| Diluted | 14,776,514 | 13,788,835 |

See accompanying notes to the condensed consolidated financial statements.

**CPI International, Inc.**
and Subsidiaries

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands unaudited)**

| | Six Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2006 | | April 1, 2005 | |
| **Operating Activities** | | | | |
| Net cash (used in) provided by operating activities | $ | (4,515) | $ | 4,875 |
| **Investing Activities** | | | | |
| Deferred expenses relating to sale of San Carlos property | | (4) | | (203) |
| Purchase of Econco, net of cash acquired | | | | (18,685) |
| Capital expenditures | | (5,817) | | (4,428) |
| Net cash used in investing activities | | (5,821) | | (23,316) |
| **Financing Activities** | | | | |
| Proceeds from issuance of floating rate senior notes | | | | 79,200 |
| Payments for debt issue costs | | | | (3,375) |
| Proceeds from (repayments on) senior term loan | | 10,000 | | (9,550) |
| Special cash dividends | | (17,000) | | (75,809) |
| Payment of IPO financing costs | | (1,374) | | |
| Repayments on capital leases | | | | (20) |
| Net cash used in financing activities | | (8,374) | | (9,554) |
| **Net Decrease in Cash and Cash Equivalents** | | (18,710) | | (27,995) |
| Cash and cash equivalents at beginning of period | | 26,511 | | 40,476 |
| Cash and cash equivalents at end of period | $ | 7,801 | $ | 12,481 |
| | | | | |
| **Supplemental Disclosures of Cash Flow Information** | | | | |
| Cash paid for interest | $ | 12,378 | $ | 7,066 |
| Cash paid for taxes, net of refunds | $ | 4,607 | $ | 7,699 |

See accompanying notes to the condensed consolidated financial statements.

**CPI International, Inc.**
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tabular dollar amounts in thousands except per share amounts)

(unaudited)

**1. Basis of Presentation**

Unless the context otherwise requires, (1) CPI International means CPI International, Inc. (formerly known as CPI Holdco, Inc.), (2) Predecessor means Communications & Power Industries Holding Corporation, the predecessor to CPI International, (3) CPI means Communications & Power Industries, Inc. and (4) Merger means the January 23, 2004 merger pursuant to which CPI International acquired the Predecessor. CPI is a direct subsidiary of CPI International. CPI International is a holding company with no operations of its own. The terms we, us, our and the Company refer to CPI International, or the Predecessor, as applicable, and its direct and indirect subsidiaries on a consolidated basis.

The accompanying condensed consolidated financial statements represent the consolidated results and financial position of CPI International, a Delaware corporation, which is controlled by affiliates of The Cypress Group L.L.C. ( Cypress ). CPI International, through its wholly owned subsidiary, CPI, develops, manufactures, and distributes microwave and power grid Vacuum Electron Devices ( VEDs ), microwave amplifiers, modulators and various other power supply equipment and devices. The Company has two reportable segments, VED and satcom equipment. Effective January 17, 2006, the Company changed its name from CPI Holdco, Inc. to CPI International, Inc.

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its consolidated subsidiaries. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company and its consolidated results of operations and cash flows.

The Company s fiscal year is the 52 or 53-week period ending on the Friday nearest September 30. Fiscal year 2006 comprises the 52-week period ending September 29, 2006, and fiscal year 2005 comprised the 52-week period ended September 30, 2005. All period references are to the Company s fiscal periods unless otherwise indicated. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended September 30, 2005. Certain amounts in prior years condensed consolidated financial statements have been reclassified to conform to the fiscal 2006 presentation. Net operating results have not been affected by these reclassifications.

On April 7, 2006, the Company effected a 3.059-to-1 stock split of its outstanding shares of common stock as of such date. All share and per share amounts in the accompanying condensed financial statements and accompanying notes have been retroactively restated to reflect the stock split.

As more fully described in Note 13, Subsequent Events , on April 27, 2006, the Company priced the initial public offering of its common stock. On May 3, 2006, the initial public offering of the Company s common stock was completed and we used the net proceeds from our initial public offering to repay $45.0 million of the Term Loan, as described below.

**2.** Supplemental Balance Sheet Information

**Accounts receivable:** Accounts receivable are stated net of allowances for doubtful accounts of $0.7 million at both March 31, 2006 and September 30, 2005.

**Inventories:** The following table provides details of inventories, net of reserves:

| | March 31, 2006 | September 30, 2005 |
|---|---|---|
| Raw materials and parts | $ 36,472 | $ 29,627 |
| Work in process | 11,454 | 12,540 |
| Finished goods | 5,175 | 8,453 |
| Inventories | $ 53,101 | $ 50,620 |

**Reserve for excess, slow moving and obsolete inventory:**

| | Six Months Ended | |
|---|---|---|
| | March 31, 2006 | April 1, 2005 |
| Beginning balance | $ 8,655 | $ 8,981 |
| Econco acquisition | | 729 |
| Inventory provision, charged to cost of sales | 473 | 378 |
| Inventory write-offs | (151) | (295) |
| Ending balance | $ 8,977 | $ 9,793 |

**Reserve for loss contracts and cost in excess of market inventory:**

| | Six Months Ended | |
|---|---|---|
| | March 31, 2006 | April 1, 2005 |
| Beginning balance | $ 1,430 | $ 2,845 |
| Provision for loss contracts and cost in excess of market inventory charged to cost of sales | 652 | 596 |
| Reserved inventory sold or otherwise disposed of | (629) | (1,452) |
| Ending balance | $ 1,453 | $ 1,989 |

**Intangible assets:**

| March 31, 2006 | Cost | Accumulated Amortization | Net |
|---|---|---|---|
| VED core technology | $ 30,700 | $ (1,353) | $ 29,347 |
| VED application technology | 19,800 | (1,735) | 18,065 |
| X-ray generator and satcom application technology | 8,000 | (1,171) | 6,829 |
| Customer backlog | 17,450 | (17,450) | |
| Land lease | 11,810 | (575) | 11,235 |
| Tradename | 5,800 | | 5,800 |
| Customer list and programs | 5,700 | (337) | 5,363 |
| Noncompete agreement | 110 | (33) | 77 |
| Net identifiable intangible assets | $ 99,370 | $ (22,654) | $ 76,716 |

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| September 30, 2005 | Cost | Accumulated Amortization | Net |
|---|---|---|---|
| VED core technology | $ 30,700 | $ (1,048) | $ 29,652 |
| VED application technology | 19,800 | (1,340) | 18,460 |
| X-ray generator and satcom application technology | 8,000 | (902) | 7,098 |
| Customer backlog | 17,450 | (17,450) | |
| Land lease | 11,810 | (444) | 11,366 |
| Tradename | 5,800 | | 5,800 |
| Customer list and programs | 5,700 | (224) | 5,476 |
| Noncompete agreement | 110 | (21) | 89 |
| Net identifiable intangible assets | $ 99,370 | $ (21,429) | $ 77,941 |

The estimated future amortization expense of purchased intangible assets as of March 31, 2006 was as follows:

| Fiscal Year | Amount |
|---|---|
| 2006 (remaining six months) | $ 1,226 |
| 2007 | 2,451 |
| 2008 | 2,451 |
| 2009 | 2,432 |
| 2010 | 2,429 |
| Thereafter | 59,927 |
| Total | $ 70,916 |

**Goodwill:** As of March 31, 2006 and September 30, 2005 the Company had $145.5 million of goodwill, $131.6 million of which has been allocated to the VED segment and $13.9 million of which has been allocated to the satcom equipment segment. There were no changes in the carrying amount of goodwill for the six months ended March 31, 2006.

**Product warranty:**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 31, 2006 | April 1, 2005 | March 31, 2006 | April 1, 2005 |
| Beginning accrued warranty | $ 6,190 | $ 6,064 | $ 6,359 | $ 6,074 |
| Amount acquired from Econco | | | | 112 |
| Accruals for product warranty | 1,690 | 1,337 | 2,738 | 1,956 |
| Cost of warranty claims | (1,462) | (1,735) | (2,679) | (2,476) |
| Ending balance | $ 6,418 | $ 5,666 | $ 6,418 | $ 5,666 |

**3. Long-Term Debt**

Long-term debt comprises the following:

| | March 31, 2006 | September 30, 2005 |
|---|---|---|
| Term loan, expiring 2010 | $ 90,000 | $ 80,000 |
| 8% Senior subordinated notes due 2012 | 125,000 | 125,000 |
| Floating rate senior notes due 2015, net of amortized issue discount of $742 and $769, respectively | 79,258 | 79,231 |
| | $ 294,258 | 284,231 |

**Senior credit facility and term loan of CPI:** In connection with the Merger, CPI entered into a $130.0 million credit agreement, which was amended and restated on November 29, 2004, and further amended on February 16, 2005, April 13, 2005, and December 15, 2005 (the Senior Credit Facility ). The Senior Credit Facility consists of a $40.0 million revolving commitment, with a sub-facility of $15.0 million for letters of credit and $5.0 million for swingline loans ( Revolver ), which expires on January 23, 2010, and a $90.0 million term loan ( Term Loan ), which expires on July 23, 2010. As of March 31, 2006 the Company had no outstanding borrowings under the Revolver and $90.0 million outstanding under the Term Loan. There are no scheduled principal payments due on the Term Loan during the 2006 fiscal year because of the optional Term Loan prepayments made by the Company in fiscal year 2005. Upon specified conditions, CPI may seek commitments for a new class of term loans, not to exceed $65.0 million. The Senior Credit Facility is guaranteed by CPI International and all of CPI s domestic subsidiaries and is secured by substantially all of their assets.

On December 15, 2005, CPI International and CPI entered into Amendment No. 3 (the Amendment ), to the Senior Credit Facility. The Amendment increased the commitments under the Term Loan by $10.0 million, and CPI borrowed an additional $10.0 million thereunder. In addition, among other things, the Amendment (1) permitted CPI to pay a dividend (not to exceed $20.0 million) to CPI International to fund a dividend by CPI International to its stockholders, (2) amended the definition of Excess Cash Flow in the Senior Credit Facility to decrease Excess Cash Flow for CPI s fiscal year 2006 by the excess of the amount of the dividend described in clause (1) over the gross proceeds of the $10.0 million additional borrowing, and (3) permitted CPI or CPI International to use up to $70.0 million of the proceeds of the first equity issuance by CPI International to repurchase or redeem its Floating Rate Senior Notes (the FR Notes ) or CPI s 8% Senior Subordinated Notes due 2012 (the 8% Notes ).

Any borrowings under the Revolver would currently bear interest at a rate equal to, at CPI s option, LIBOR plus 2.75% per annum, or the Alternate Base Rate ( ABR ) plus 1.75% per annum. Available borrowings under the Revolver are reduced by any amounts secured through letters of credit; at March 31, 2006, we had letters of credit commitments for $4.2 million. The Term Loan borrowings currently bear interest at a rate equal to, at CPI s option, LIBOR plus 2.25% per annum or the ABR plus 1.25% per annum, payable quarterly. The ABR is the greater of (a) the Prime Rate and (b) the Federal Funds Rate plus 0.50%. In addition to customary fronting and administrative fees under the Senior Credit Facility, CPI pays letter of credit participation fees equal to the applicable Revolver LIBOR margin per annum on the average daily amount of the letter of credit exposure, and a commitment fee of 0.50% per annum on the average daily unused amount of revolving commitment. As of March 31, 2006 (1) the Term Loan borrowing consisted of one tranche of $50.0 million and one tranche of $40.0 million with interest payable on April 18, 2006, at 7.01% per annum and (2) a Revolving commitment of $4.2 million for letter of credit exposure, with letter of credit participation fees and fronting fees payable quarterly at a combined interest rate of 3.0% per annum.

The Senior Credit Facility requires 1.0% of the original Term Loan amount to be repaid annually in quarterly installments of 0.25% beginning June 30, 2004 and continuing for five years, with the remainder due in equal quarterly installments thereafter. CPI is required to prepay its outstanding loans, subject to certain exceptions and limitations, with net cash proceeds received from certain events, including, without limitation (1) all such proceeds received from certain asset sales by CPI International, CPI or any of CPI s subsidiaries; (2) all such proceeds received from issuances of debt (other than certain specified permitted debt) or preferred stock by CPI International, CPI or any of CPI s subsidiaries, (3) all such proceeds paid to CPI International, CPI or any of CPI s subsidiaries from casualty and condemnation events in excess of amounts applied to replace, restore or reinvest in any properties for which proceeds were paid within a specified period and (4) 50% of such proceeds received from issuances of common equity by, or equity contributions to, CPI International, except in the case of the first equity issuance whereby CPI or CPI International are permitted to use up to $70.0 million of the proceeds to repurchase or redeem the 8% Notes or the FR Notes.

CPI is also required to make an annual prepayment within 90 days after the end of each fiscal year based on a calculation of Excess Cash Flow ( ECF ), as defined in the Senior Credit Facility, multiplied by a factor of 25%, 50% or 75% depending on the leverage ratio at the end of the fiscal year, less optional prepayments made during the fiscal year. On December 30, 2004, CPI made an ECF payment of $3.9 million. The ECF payment was applied pro rata, in accordance with the provisions of the Senior Credit Facility, against the remaining scheduled installments of Term Loan principal due up to, but not including, the September 30, 2009 scheduled principal installment.

CPI can make optional prepayments on the outstanding loans at any time without premium or penalty, except for customary breakage costs with respect to LIBOR loans. On March 31, 2005, CPI made an optional prepayment of $5.7 million, in addition to the quarterly scheduled Term Loan amortization payment. The optional prepayment was applied pro rata, in accordance with the provisions of the Senior Credit Facility, against the remaining scheduled installments of Term Loan principal due up to June 30, 2009, with the balance applied to the September 30, 2009 installment.

The Senior Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of CPI International, CPI and CPI s domestic subsidiaries to: sell assets; engage in mergers and acquisitions; pay dividends and distributions or repurchase their capital stock; incur additional indebtedness or issue equity interests; make investments and loans; create liens or further negative pledges on assets; engage in certain transactions with affiliates; enter into sale and leaseback transactions; amend agreements or make prepayments relating to subordinated indebtedness; and amend or waive provisions of charter documents in a manner materially adverse to the lenders. CPI and CPI s subsidiaries must comply with: a minimum interest coverage ratio; a maximum total leverage ratio; a minimum fixed charge coverage ratio; and a maximum capital expenditures limitation, each calculated on a consolidated basis for CPI and CPI s subsidiaries. CPI International must also comply with a minimum interest coverage ratio, a minimum fixed charge coverage ratio and a maximum leverage ratio, each calculated on a consolidated basis for CPI International and its subsidiaries. As of March 31, 2006, CPI and CPI International were in compliance with all Senior Credit Facility financial covenants.

Subject in certain cases to applicable notice provisions and grace periods, events of default under the Senior Credit Facility include, among other things: failure to make payments when due; breaches of representations and warranties in the documents governing the Senior Credit Facility; non-compliance by CPI International, CPI and/or CPI s subsidiaries with certain covenants; failure by CPI International, CPI and/or CPI s subsidiaries to pay certain other indebtedness or to observe any other covenants or agreements that would allow acceleration of such indebtedness, collectively in excess of $5.0 million at any time; events of bankruptcy or insolvency of CPI International, CPI and/or CPI s subsidiaries; certain uninsured and unstayed judgments of $5.0 million or more against CPI International; impairment of the security interests in the collateral or the guarantees under the Senior Credit Facility; and a change in control, as defined in the documents governing the Senior Credit Facility.

**8% Senior subordinated notes of CPI:** In connection with the Merger on January 23, 2004, CPI issued $125.0 million in aggregate principal amount of its 8% Notes. The proceeds of the 8% Notes were used to redeem the Predecessor s outstanding indebtedness and pay part of the Merger consideration. The 8% Notes have no sinking fund requirements.

The 8% Notes bear interest at the rate of 8.0% per year, payable on February 1 and August 1 of each year. The 8% Notes will mature on February 1, 2012. The 8% Notes are unsecured obligations, jointly and severally guaranteed by CPI International and each of CPI s domestic subsidiaries. The payment of all obligations relating to the 8% Notes are subordinated in right of payment to the prior payment in full in cash or cash equivalents of all senior debt (as defined in the indenture governing the 8% Notes) of CPI, including debt under the Senior Credit Facility. Each guarantee of the 8% Notes is and will be subordinated to guarantor senior debt (as defined in the indenture governing the 8% Notes) on the same basis as the 8% Notes are subordinated to CPI s senior debt.

At any time or from time to time on or after February 1, 2008, CPI, at its option, may redeem the 8% Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest thereon, if any, to the redemption date, if redeemed during the 12-month period beginning on February 1 of the years indicated below:

| Year | Optional Redemption Price |
|---|---|
| 2008 | 104% |
| 2009 | 102% |
| 2010 and thereafter | 100% |

At any time or from time to time prior to February 1, 2007, and subject to certain conditions, CPI may redeem up to 35% of the aggregate principal amount of the 8% Notes at a redemption price equal to 108% of the principal amount of the 8% Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, with the net cash proceeds of one or more qualified equity offerings. At any time on or prior to February 1, 2008, the 8% Notes may also be redeemed or purchased (by CPI or any other person) in whole but not in part, at CPI s option, upon the occurrence of a change of control (as defined in the indenture governing the 8% Notes) at a price equal to 100% of the principal amount of the 8% Notes, plus a make-whole premium (as defined in the indenture governing the 8% Notes) to the redemption price on February 1, 2008, and accrued and unpaid interest, if any, to, the date of redemption or purchase.

Upon a change of control, CPI may be required to purchase all or any part of the 8% Notes for a cash price equal to 101% of the principal amount, plus accrued and unpaid interest thereon, if any, to the date of purchase.

The indenture governing the 8% Notes contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of CPI and its restricted subsidiaries (as defined in the indenture governing the 8% Notes) to incur additional indebtedness, sell assets, consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock or subordinated indebtedness,

make certain investments, issue capital stock of their subsidiaries, incur liens and enter into certain types of transactions with their affiliates.

Events of default under the indenture governing the 8% Notes include: failure to make payments on the 8% Notes when due; failure to comply with covenants in the indenture governing the 8% Notes; a default under certain other indebtedness of CPI or any of its restricted subsidiaries that is caused by a failure to make payments on such indebtedness or that results in the acceleration of the maturity of such indebtedness; the existence of certain final judgments or orders against CPI or any of the restricted subsidiaries; and the occurrence of certain insolvency or bankruptcy events.

**Floating rate senior notes of CPI International:** On February 22, 2005, CPI International issued $80.0 million in principal amount of its FR Notes. The FR Notes were issued at a 1% discount. The proceeds from the issuance of FR Notes were used to make a distribution to stockholders of CPI International of approximately $75.8 million and to pay fees and expenses of approximately $3.5 million associated with the issuance of FR Notes. The FR Notes have no sinking fund requirements.

The FR Notes require interest payments at an annual interest rate, reset at the beginning of each semi-annual period, equal to the then six-month LIBOR plus 5.75%, payable semiannually on February 1 and August 1 of each year. The interest rate on the semi-annual interest payment due August 1, 2006 is approximately 10.56% per annum. CPI International may, at its option, elect to pay interest through the issuance of additional FR Notes for any interest payment date on or after August 1, 2006 and on or before February 1, 2010. If CPI International elects to pay interest through the issuance of additional FR Notes, the annual interest rate on the FR Notes will increase by an additional 1% step-up, with the step-up increasing by an additional 1% for each interest payment made through the issuance of additional FR Notes (up to a maximum of 4%). The FR Notes will mature on February 1, 2015.

The FR Notes are general unsecured obligations of CPI International. The FR Notes are not guaranteed by any of CPI International s subsidiaries and are structurally subordinated to all existing and future indebtedness and other liabilities of CPI International s subsidiaries. The FR Notes are senior in right of payment to CPI International s existing and future indebtedness that is expressly subordinated to the FR Notes.

Because CPI International is a holding company with no operations of its own, CPI International relies on distributions from CPI to satisfy its obligations under the FR Notes. The Senior Credit Facility and the indenture governing the 8% Notes restrict CPI s ability to make distributions to CPI International. The Senior Credit Facility prohibits CPI from making distributions to CPI International unless there is no default under the Senior Credit Facility and CPI International and CPI satisfy certain leverage ratios. The indenture governing the 8% Notes prohibits CPI from making distributions to CPI International unless, among other things, there is no default under the indenture and the amount of the proposed dividend plus all previous Restricted Payments (as defined in the indenture governing the 8% Notes) does not exceed a specified amount.

At any time or from time to time prior to February 1, 2007, CPI International, at its option, may redeem the FR Notes in whole or in part at a make whole premium, plus accrued and unpaid interest to the date of redemption. At any time or from time to time on or after February 1, 2007, CPI International, at its option, may redeem the Notes in whole or in part at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest thereon, if any, to the redemption date, if redeemed during the 12-month period beginning on February 1 of the years indicated below:

| Year | Optional Redemption |
|---|---|
| 2007 | 103% |
| 2008 | 102% |
| 2009 | 101% |
| 2010 and thereafter | 100% |

At any time or from time to time prior to February 1, 2007, and subject to certain conditions, CPI International, at its option, may redeem up to 35% of the aggregate principal amount of the FR Notes at a redemption price equal to 100% of the principal amount of the FR Notes to be redeemed, plus a premium equal to the interest rate per annum on the FR Notes applicable on the date on which the notice of redemption is given, plus accrued and unpaid interest to the date of redemption, with the net cash proceeds of one or more qualified equity offerings.

Upon a change of control, as defined in the indenture governing the FR Notes, CPI International may be required to purchase all or any part of the outstanding FR Notes for a cash price equal to 101% of the principal amount, plus accrued and unpaid interest thereon, if any, to the date of purchase.

The indenture governing the FR Notes contains certain covenants that, among other things, limit the ability of CPI International and its restricted subsidiaries (as defined in the indenture governing the FR Notes) to incur additional indebtedness, sell assets, consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock or subordinated indebtedness, make certain investments, issue capital stock of their subsidiaries, incur liens and enter into certain types of transactions with their affiliates.

Events of default under the indenture governing the FR Notes include: failure to make payments on the FR Notes when due; failure to comply with covenants in the indenture governing the FR Notes; a default under certain other indebtedness of CPI International or any of its restricted subsidiaries that is caused by a failure to make payments on such indebtedness or that results in the acceleration of the maturity of such indebtedness; the existence of certain final judgments or orders against CPI International or any of the restricted subsidiaries; and the occurrence of certain insolvency or bankruptcy events.

**Debt maturities:** As of March 31, 2006, maturities on long-term debt were as follows (in thousands):

| Fiscal Year | | Amount |
|---|---|---|
| 2006 | $ | |
| 2007 | | |
| 2008 | | |
| 2009 | | 18,825 |
| 2010 | | 71,175 |
| Thereafter | | 205,000 |
| Total | $ | 295,000 |

**4. Derivative Financial Instruments**

The Company uses forward exchange contracts to hedge the foreign currency exposure associated with forecasted manufacturing costs in Canada.

The Company s foreign currency forward contracts are designated as a cash flow hedge and are considered highly effective , as defined by Statement of Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities. The unrealized gains and losses from foreign exchange forward contracts are included in Accumulated other comprehensive income in the Condensed Consolidated Balance Sheets, and the Company anticipates recognizing the entire unrealized gain of $0.2 million in operating earnings by June 30, 2006. Realized gains and losses from foreign currency exchange contracts are recognized in Cost of sales and General and administrative in the Condensed Consolidated Statements of Operations and Comprehensive Income. Net income includes forward currency gains of $0.6 million and $0.4 million for the quarters ended March 31, 2006 and April 1, 2005, respectively, and $1.0 million and $0.6 million for the six month periods ended March 31, 2006 and April 1, 2005, respectively.

In April 2005, the Company entered into an $80.0 million interest rate swap contract ( the Swap ) to receive variable rate 6-month LIBOR interest and pay 4.15% fixed rate interest, which when combined with the 5.75% margin, results in a fixed rate of 9.9% on the FR Notes through January 31, 2008. The Swap interest payments are made semi-annually, beginning with the first payment on February 1, 2006. The Swap matures on January 31, 2008. The Swap is designated as a cash flow hedge under SFAS No. 133, and the gain or loss from changes in fair value is expected to be highly effective at offsetting the gain or loss from changes in fair value of the FR Notes attributable to changes in interest rates over the contract period. As of March 31, 2006, the Company had a collateral deposit of $0.5 million for the Swap, which is included as Other long-term assets in the accompanying Condensed Consolidated Balance Sheets. The amount of collateral fluctuates based on the fair value of the Swap. The unrealized gains and losses from the Swap are included in Accumulated other comprehensive income in the Condensed Consolidated Balance Sheets. At March 31, 2006, the fair value of the Swap was $1.5 million and the unrealized gain was approximately $0.9 million, net of related tax expense.

**5. Share-Based Compensation**

At the beginning of fiscal year 2006, the Company adopted SFAS No. 123R ( Share-Based Payments ) ( SFAS No. 123R ), and Staff Accounting Bulletin No. 107, Share-Based Payment, for its existing stock option plans under the prospective method. Previously, the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under the intrinsic value-based method, compensation expense was recorded only if the market price of the stock exceeded the stock option exercise price at the measurement date. Because the Company s stock was not publicly traded prior to the adoption of SFAS No. 123R and there was no quoted market price for its common stock, the Company computed an estimated market price of its stock based on valuation techniques for determining the fair value of closely held stock. The exercise prices of all stock options issued by the Company were at, or above, the estimated market price of the underlying stock at the date of issuance. The Company will continue to account for stock option awards outstanding at September 30, 2005 using the intrinsic value-based method of measuring equity share options.

There was no share-based compensation cost in the first six months of fiscal year 2006 since the Company has not granted any new stock option awards during this period and there was no unrecognized compensation cost relating to awards outstanding at September 30, 2005. The application of SFAS No. 123R had no impact on the Company s cash position. The Company charges stock-based compensation expense against income under the caption General and administrative in the Condensed Consolidated Statements of Operations and Comprehensive Income because the majority of holders of stock options are in administrative functions.

At March 31, 2005, the Company had two stock plans: the 2004 Stock Incentive Plan ( the 2004 Plan ) and the 2000 Stock Option Plan ( the 2000 Plan ). In April 2006, in connection with its initial public offering of common stock, the Company adopted the 2006 Equity and Performance Incentive Plan (the 2006 Plan ) and the 2006 Employee Stock Purchase Plan.

Options under the 2004 Plan vest at a rate of 20% to 25% per year and expire 10 years after the grant date. All stock option grants under the 2004 Plan were non-qualified stock options and were issued at exercise prices equal to or greater than the estimated market price of the Company s common stock at option grant date. The Company has ceased making new grants under the 2004 Plan.

The 2000 Plan was established by the Predecessor, and no further options are available for issuance thereunder. In accordance with the terms of the stock option agreements, the unvested stock options outstanding under the Predecessor s 2000 Plan became fully vested at the Merger closing date. The 2000 Plan option holders were offered the opportunity to either roll over their stock options into options to purchase common stock of CPI International ( Rollover Options ) or exercise their stock options. Management elected to rollover options to purchase 912,613 shares of common stock at prices ranging from $0.20 to $0.74 per share. The Rollover Options are otherwise subject to the terms of the 2000 Plan, and, among other things, have a ten year expiration period and are subject to transferability restrictions and continued employment.

The 2006 Plan provides for an aggregate of up to 1,400,000 shares of our common stock to be available for awards, plus the number of shares subject to awards granted under our 2004 Stock Incentive Plan and our 2000 Stock Option Plan that are forfeited, expire or are cancelled after the effective date of the 2006 Plan. All of the Company s employees (including officers), directors, and consultants are eligible for awards under the 2006 Plan. The 2006 Plan is administered by the compensation committee of the board of directors and awards may consist of options, stock appreciation rights, restricted stock, other stock unit awards, performance awards, dividend equivalents or any combination of the foregoing. The exercise price for stock options generally cannot be less than 100% of the fair market value of our shares on the date of grant. In April 2006, the compensation committee delegated authority to the Chief Executive Officer to grant options to purchase up to an aggregate 25,000 shares of common stock to employees, other than employees who are executive officers. On April 27, 2006, we issued options to purchase 297,500 shares of our common stock, at an exercise price of $18.00 per share.

The 2006 Employee Stock Purchase Plan permits eligible employees to purchase our stock at a discounted price. An aggregate of 760,000 shares of our common stock is reserved for issuance under this plan. The stock purchase plan is administered by the compensation committee of the board of directors. Employees participating in the plan may purchase stock for their accounts according to a price formula set by the Compensation Committee, as administrator, before the applicable offering period, which cannot exceed 24 months. The price per share will equal a fixed percentage (which may not be lower than 85%) of the fair market value of a share of our common stock on the last day of the purchase period in the offering, or the lower of (1) a fixed percentage (not to be less than 85%) of the fair market value of a share of our common stock on the date of commencement of participation in the offering and (2) a fixed percentage (not to be less than 85%) of the fair market value of a share of our common stock on the date of purchase.

A summary of the status of the Company s stock option activity for the six months ending March 31, 2006, is presented below:

| | Options Available for Grant | Options Outstanding | Weighted-Average Exercise Price |
|---|---|---|---|
| Outstanding at beginning of period | 188,330 | 2,895,432 | $ 3.13 |
| Granted | | | |
| Forfeited | 90 | (90) | $ 3.13 |
| Exercised | | | |
| Outstanding at end of period | 188,420 | 2,895,342 | $ 3.13 |

The following table summarizes information about stock options outstanding at March 31, 2006:

| Exercise Price | | Vested | Number of Shares Unvested | Total | Weighted-Average Remaining Contractual Life (in years) |
|---|---|---|---|---|---|
| $ | 0.20 | 704,701 | | 704,701 | 6.92 |
| $ | 0.74 | 199,740 | | 199,740 | 4.34 |
| $ | 1.08 | 8,079 | | 8,079 | 7.83 |
| $ | 4.32 | 1,373,107 | 524,647 | 1,897,754 | 7.99 |
| $ | 6.61 | 54,480 | | 54,480 | 8.50 |
| $ | 6.98 | 19,118 | 11,470 | 30,588 | 8.95 |
| | | 2,359,225 | 536,117 | 2,895,342 | 7.50 |

At March 31, 2006, the intrinsic value of vested and unvested stock options based on the estimated fair value of CPI International s common stock was $35.7 million and $7.3 million, respectively.

**6. Income Taxes**

Income tax expense for the first six months of fiscal year 2006 includes a $315,000 charge attributable to the fourth quarter of fiscal year 2005, consisting of $505,000 to correct the overstatement of tax benefits recorded in the fourth quarter of fiscal year 2005 for stock-based compensation expense that is not deductible for income tax purposes in a foreign tax jurisdiction, offset by reversal of a $190,000 tax contingency reserve. The effective tax rates were approximately 44% and 40% for the first six months of fiscal years 2006 and 2005, respectively. Without the correction to the overstatement of tax benefits, the Company s effective tax rate for the first six months of fiscal year 2006 would have been approximately 41%.

**7. Net Income per share**

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive potential common equivalent shares outstanding during the period. Potential common equivalent shares consist of common stock issuable upon exercise of stock options using the treasury stock method.

The following table is a reconciliation of the shares used to calculate basic and diluted net income per share:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **March 31, 2006** | **April 1, 2005** | **March 31, 2006** | **April 1, 2005** |
| Basic weighted average shares oustanding | 13,078,954 | 13,078,954 | 13,078,954 | 13,078,954 |
| Dilutive stock options | 1,705,993 | 770,719 | 1,697,560 | 709,881 |
| Diluted weighted average shares outstanding | 14,784,947 | 13,849,673 | 14,776,514 | 13,788,835 |

The Company excludes stock options from the computation of diluted weighted average shares outstanding if the exercise price of the option is greater than the average market price of the shares because the inclusion of these options would be antidilutive to earnings per share. Accordingly, options to purchase 58,784 shares, at a weighted average exercise price of $6.63, were excluded from the computation of diluted weighted average shares outstanding for the quarter ended April 1, 2005 and options to purchase 56,632 shares, at a weighted average exercise price of $6.62, were excluded from the computation of diluted weighted average shares outstanding for the first six months of fiscal year 2005. For the second quarter and the first six months of fiscal year 2006, all stock options are dilutive.

**8. Segments and Related Information**

In accordance with SFAS No. 131, the Company has six divisions that meet the criteria of an operating segment, and the Company has two reportable segments: VED and satcom equipment. Amounts not reported as VED or satcom equipment are reported as other. The CEO evaluates performance and allocates resources to each of these divisions based on the Company s principal performance measure, earnings before interest, income taxes, depreciation and amortization ( EBITDA ).

Summarized financial information concerning the Company s reportable segments is shown in the following table:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **March 31, 2006** | **April 1, 2005** | **March 31, 2006** | **April 1, 2005** |
| Revenues from external customers | | | | |
| VEDs | $ 69,597 | $ 68,675 | $ 132,793 | $ 130,943 |
| Satcom equipment | 17,332 | 15,788 | 36,515 | 27,253 |
| Total | $ 86,929 | $ 84,463 | $ 169,308 | $ 158,196 |
| Intersegment product transfers | | | | |
| VEDs | $ 6,476 | $ 7,032 | $ 12,684 | $ 12,784 |
| Satcom equipment | 2 | 11 | 2 | 13 |
| Total | $ 6,478 | $ 7,043 | $ 12,686 | $ 12,797 |

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **March 31, 2006** | **April 1, 2005** | **March 31, 2006** | **April 1, 2005** |
| EBITDA | | | | |
| VEDs | $ 17,396 | $ 19,345 | $ 33,461 | $ 35,887 |
| Satcom equipment | 1,961 | 2,411 | 4,852 | 3,789 |
| Other | (3,304) | (3,308) | (9,745) | (5,752) |
| Total | $ 16,053 | $ 18,448 | $ 28,568 | $ 33,924 |

The Other category for EBITDA consists primarily of corporate operating expenses and international subsidiary sales expenses. Corporate operating expenses include headquarters general and administrative expenses, stock-based compensation expenses, management bonuses, and purchase accounting charges related to the Merger and Econco acquisition and certain other non-operating expenses. Intersegment product transfers are recorded at cost. The Other category of EBITDA for the six months ended March 31, 2006 includes a $3.25 million special bonus to employees and directors, and manufacturing disruption and move related expenses of $2.5 million associated with the relocation of the San Carlos, California manufacturing division to Palo Alto, California. On December 15, 2005, CPI s Board of Directors approved a payment of $3.25 million in special bonuses to CPI employees and directors (other than directors who are employees or affiliates of Cypress), to reward them for the increase in Company value.

For the reasons listed below, we believe that GAAP-based financial information for highly leveraged businesses such as ours should be supplemented by EBITDA so that investors better understand our financial performance in connection with their analysis of our business:

EBITDA is a component of the measures used by our board of directors and management team to evaluate our operating performance;

the Senior Credit Facility contains covenants that require us to maintain certain interest expense coverage and leverage ratios that contain EBITDA as a component, and our management team uses EBITDA to monitor compliance with such covenants;

EBITDA is a component of the measures used by our management team to make day-to-day operating decisions;

EBITDA facilitates comparisons between our operating results and those of competitors with different capital structures and therefore is a component of the measures used by the management to facilitate internal comparisons to competitors results and our industry in general; and

the payment of management bonuses is contingent upon, among other things, the satisfaction by us of certain targets that contain EBITDA as a component.

Other companies may define EBITDA differently and, as a result, our measure of EBITDA may not be directly comparable to EBITDA of other companies. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. When analyzing our performance, EBITDA should be considered in addition to, and not as a substitute for, net income (loss), cash flows from operating activities or other statements of operations or statements of cash flows data prepared in accordance with GAAP. The following table reconciles net income to EBITDA:

| | Quarter ended | | Six Months Ended | |
|---|---|---|---|---|
| | **March 31, 2006** | **April 1, 2005** | **March 31, 2006** | **April 1, 2005** |
| Net income | $ 4,345 | $ 6,320 | $ 6,560 | $ 9,418 |
| Depreciation and amortization | 2,295 | 3,150 | 4,451 | 9,369 |
| Interest expense, net | 6,400 | 4,732 | 12,464 | 8,812 |
| Income tax expense | 3,013 | 4,246 | 5,093 | 6,325 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| EBITDA | $ | 16,053 | $ | 18,448 | $ | 28,568 | $ | 33,924 |

Geographic sales by customer location were as follows:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 31, 2006 | April 1, 2005 | March 31, 2006 | April 1, 2005 |
| United States | $ 57,207 | $ 55,845 | $ 108,207 | $ 106,478 |
| All foreign countries | 29,722 | 28,618 | 61,101 | 51,718 |
| Total sales | $ 86,929 | $ 84,463 | $ 169,308 | $ 158,196 |

The United States Government is the only customer that accounted for 10% or more of the Company s consolidated sales. Direct sales to the United States Government were $15.2 million, and $16.0 million of the Company s consolidated sales for the quarters ended March 31, 2006 and April 1, 2005, respectively. Sales to this customer were $27.8 million and $29.6 million for the six month periods ending March 31, 2006 and April 1, 2005, respectively.

**9. San Carlos Sale Agreement**

The Company has entered into an agreement to sell the land and close its facilities located in San Carlos, California. The purchase price is $23.8 million. Under the sale agreement, the buyer has paid the Company a $13.0 million deposit on the purchase price, which the Company used to fund the capital expenditures and costs of moving its San Carlos operations to its Palo Alto facility and to a new location in the Palo Alto area. The $13.0 million deposit is nonrefundable unless the Company breaches the sale agreement. The San Carlos facility has preexisting soil and groundwater contamination that has been the subject of some remediation and is expected to undergo additional remediation by the purchaser after the sale closes. In connection with the sale agreement, the Company entered into an agreement regarding environmental conditions at the property and was named as an additional insured on a pollution liability insurance policy obtained by the purchaser that is intended to fund the remediation of the contamination of the San Carlos property to permit hospital and other unrestricted uses under the direction of the applicable environmental regulatory agency.

The closing of the sale is subject to a number of conditions, including the requirement that the Company vacate its facilities and obtain regulatory closure of certain permitted equipment located on the property. Although there can be no assurance that the sale of the San Carlos property will occur, the Company expects to close the sale of the property in fiscal year 2007.

Pursuant to the stock sale agreement by and between Varian Associates, Inc., the predecessor of Varian Medical Systems, Inc. ( Varian ), and the Company dated June 9, 1995, as amended, the Company agreed to certain development restrictions affecting the San Carlos property. In connection with the San Carlos property sale agreement, Varian agreed to waive certain of the development restrictions on the San Carlos property in the event that the sale closes, subject to certain conditions, and further agreed to pay the Company $1.0 million, of which $0.5 million was paid in the fourth quarter of fiscal year 2004. The payments from Varian are being accounted for as part of the sale of the property, with the aggregate sales price, including the $23.8 million from the buyer, totaling $24.8 million. In addition, the Company has agreed to relieve Varian of certain of its indemnity obligations to the Company for certain environmental liabilities related to the San Carlos property relating to periods prior to August 1995 and to reimburse Varian for certain potential environmental costs related to the San Carlos property that are not covered by insurance. The Company and Varian have also agreed to certain use restrictions and environmental cost-sharing provisions related to the Company s property in Beverly, Massachusetts, and the Company has relinquished its right to redevelop that property for residential or similar use.

As of March 31, 2006, the San Carlos land and building was classified as held for use in property, plant and equipment and the advance payments from the sale of the property, aggregating $13.5 million, are classified as a long-term liability in the accompanying Condensed Consolidated Balance Sheets. As of March 31, 2006, the Company had deferred expenses of $0.7 million relating to the sale of the San Carlos property and classified these amounts as Other long-term assets in the accompanying Condensed Consolidated Balance Sheets. The San Carlos land and building had a net book value of $23.5 million as of March 31, 2006 and the building continues to be depreciated over its remaining useful life. Based on current projections of costs, the Company does not expect to recognize a loss on the sale of the San Carlos property.

**10. Econco Acquisition**

On October 8, 2004, the Company purchased all of the outstanding stock of Econco Broadcast Service, Inc. ( Econco ) of Woodland, California for cash consideration of approximately $18.3 million. The preliminary Econco purchase price estimate of $18.7 million was finalized and adjusted in our financial results in the third quarter of fiscal year 2005. Econco is a provider of remanufactured high-power microwave devices, allowing broadcasters and other users of these critical products to extend the life of their devices at a cost that is lower than buying a new device.

The Econco acquisition was accounted for using the purchase method of accounting as required by Financial Accounting Standards Board ( FASB ) Statement No. 141, Business Combinations. Accordingly, the assets and liabilities of Econco were adjusted to their fair values, and the excess of the purchase price over the fair value of the assets acquired was recorded as goodwill. The allocation of the purchase price to specific assets and liabilities was based, in part, upon internal estimates of cash flow and recoverability.

The following table summarizes the final allocation of fair value of the Econco assets acquired and liabilities assumed at October 8, 2004:

| | | |
|---|---|---|
| Net current assets | $ | 2,049 |
| Property, plant and equipment | | 3,239 |
| Identifiable intangible assets | | 7,210 |
| Goodwill | | 5,848 |
| Total | $ | 18,346 |

Net current assets include $0.4 million for the revaluation of inventory. The following table presents details of the purchased intangible assets acquired:

| | **Weighted-Average Useful Life** | | **Amount** |
|---|---|---|---|
| Non-compete agreement | 5 years | $ | 110 |
| Tradename | indefinite | | 1,400 |
| Customer list and programs | 25 years | | 5,700 |
| Total | | $ | 7,210 |

**11. Special Cash Dividends**

In December 2005, the Board of Directors declared and paid a special cash dividend to stockholders of $17 million. This dividend was paid using (a) the $10 million in net proceeds obtained from the additional borrowing under the Senior Credit Facility in connection with the December 2005 amendment thereto, and (b) available cash. The cash dividend was made on the basis of the stockholders relative ownership of CPI International s outstanding common stock.

In February 2005, the Board of Directors declared and paid a special cash distribution to stockholders of approximately $75.8 million. The special cash distribution was made on the basis of the stockholders relative ownership of CPI International s outstanding common stock and was paid using the net proceeds from the offering of $80 million aggregate principal amount of the FR Notes.

**12. Recent Accounting Pronouncements**

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 , which is the result of the FASB s project to reduce differences between U.S. and international accounting standards. SFAS No. 151 requires idle facility costs, abnormal freight, handling costs, and amounts of wasted materials (spoilage) to be treated as current-period costs. Under this concept, if the costs associated with the actual level of spoilage or production defects are greater than the costs associated with the range of normal spoilage or defects, then the difference would be charged to current-period expense, and not included in inventory costs. The Company adopted SFAS No. 151 in the beginning of fiscal year 2006 and its adoption did not have a significant impact on the Company s results of operations or financial condition.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated even though uncertainty exists about the timing and (or) method of settlement. The Company is required to adopt Interpretation No. 47 by the end of fiscal year 2006. The Company does not expect the implementation of Interpretation No. 47 to have a significant impact on its results of operations or financial condition.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statement, and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company is required to adopt SFAS No. 154 for accounting changes and error corrections in fiscal year 2007. The Company s results of operations and financial condition will only be impacted by SFAS No. 154 if it implements changes in accounting principle that are addressed by the standard or correct accounting errors in future periods.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As of March 31, 2006, the Company did not have any hybrid financial instruments subject to the fair value election under SFAS No. 155. The Company is required to adopt SFAS No. 155 at the beginning of fiscal year 2007.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment to FASB Statement No. 140. SFAS No. 156 amends FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Company is required to adopt SFAS No. 156 at the beginning of fiscal year 2007 and as of March 31, 2006, the Company did not have any servicing assets or servicing liabilities.

**13. Subsequent Events**

On April 7, 2006, the Company effected a 3.059-to-1 stock split of its outstanding shares of common stock as of such date. All share and per share amounts in the accompanying condensed financial statements and accompanying notes have been retroactively restated to reflect the stock split.

On April 27, 2006, the Company priced the initial public offering of its common stock. On May 3, 2006, the initial public offering of the Company s common stock was completed. The Company sold 2,941,200 shares and the selling stockholders sold 4,117,670 shares, at an initial public offering price to the public of $18 per share, resulting in total proceeds to the Company of approximately $47.2 million, net of estimated underwriters discounts and commissions and approximately $2.0 million to pay fees and expenses associated with this offering and related transaction costs. The underwriters for the initial public offering have the option to purchase up to an additional 1,058,831 shares of the Company s common stock (the over-allotment ), of which 441,180 shares would be offered by the Company and 617,651 shares would be offered by the selling stockholders. The underwriters have until May 27, 2006 to exercise the over-allotment, and as of May 15, 2006, the option has not been exercised by the underwriters.

We used the net proceeds from our initial public offering to repay $45.0 million of the Term Loan under the Senior Credit Facility on May 3, 2006.

**14. Supplemental Guarantors Condensed Consolidating Financial Information (Unaudited)**

On January 23, 2004, CPI issued $125.0 million of 8% Notes that are guaranteed by CPI International and all of CPI s domestic subsidiaries. Separate financial statements of the guarantors are not presented because (i) the guarantors are wholly-owned and have fully and unconditionally guaranteed the 8% Notes on a joint and several basis, and (ii) the Company s management has determined that such separate financial statements are not material to investors. Instead, presented below are the consolidating condensed financial statements of: (a) the parent, CPI International, (b) the issuer, CPI, (c) the guarantor subsidiaries, the Company s domestic subsidiaries (d) the non-guarantor subsidiaries, (e) the consolidating elimination entries, and (f) the consolidated total. The accompanying condensed consolidating financial statements should be read in connection with the condensed consolidated financial statements of the Company.

Investments in subsidiaries are accounted for on the equity method. The principal elimination entries eliminate investments in subsidiaries, intercompany balances, intercompany transactions and intercompany sales.

**CONDENSED CONSOLIDATING BALANCE SHEET**
**As of March 31, 2006**
(in thousands unaudited)

| | Parent | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 2 | 5,898 | 266 | 1,635 | | 7,801 |
| Restricted cash | | | 1,023 | 104 | | 1,127 |
| Accounts receivable, net | | 24,822 | 8,197 | 13,444 | | 46,463 |
| Inventories | | 34,972 | 1,667 | 17,373 | (911) | 53,101 |
| Deferred tax assets | | 11,569 | 7 | 35 | | 11,611 |
| Prepaid and other current assets | 722 | 1,207 | 276 | 1,265 | | 3,470 |
| Intercompany receivable | | 30,398 | | | (30,398) | |
| Total current assets | 724 | 108,866 | 11,436 | 33,856 | (31,309) | 123,573 |
| Property, plant and equipment, net | | 74,499 | 3,088 | 8,408 | | 85,995 |
| Deferred debt issue costs, net | 3,212 | 7,127 | | | | 10,339 |
| Intangible assets, net | | 60,701 | 6,840 | 9,175 | | 76,716 |
| Goodwill | | 92,041 | 5,848 | 47,573 | | 145,462 |
| Other long-term assets | 2,614 | 1,067 | | | | 3,681 |
| Intercompany notes receivable | | 1,035 | | | (1,035) | |
| Investment in subsidiaries | 146,401 | 54,303 | | | (200,704) | |
| Total assets | $ 152,951 | 399,639 | 27,212 | 99,012 | (233,048) | 445,766 |
| | | | | | | |
| **Liabilities and Stockholders Equity** | | | | | | |
| Accounts payable | $ | 12,211 | 403 | 8,265 | | 20,879 |
| Accrued expenses | 1,645 | 18,737 | 903 | 4,303 | | 25,588 |
| Product warranty | | 3,847 | 192 | 2,379 | | 6,418 |
| Income taxes payable | | 1,198 | 96 | 1,657 | | 2,951 |
| Advance payments from customers | | 3,342 | 666 | 2,858 | | 6,866 |
| Intercompany payable | 28,708 | | 492 | 1,198 | (30,398) | |
| Total current liabilities | 30,353 | 39,335 | 2,752 | 20,660 | (30,398) | 62,702 |
| Deferred income taxes | 585 | 25,924 | | 7,087 | | 33,596 |
| Intercompany notes payable | | | | 1,035 | (1,035) | |
| Advance payments from sale of San Carlos property | | 13,450 | | | | 13,450 |
| Long-term debt | 79,258 | 215,000 | | | | 294,258 |
| Other long-term liabilities | | 21 | | | | 21 |
| Total liabilities | 110,196 | 293,730 | 2,752 | 28,782 | (31,433) | 404,027 |
| Common stock | 131 | | | | | |

43,481 (12.6)

Other operating expenses 219,329 213,021 3.0

| | | | |
|---|---|---|---|
| Workforce adjustments | 1,265 | 2,680 | (52.8 ) |
| Cash costs | 501,642 | 514,013 | (2.4 ) |
| Operating cash flow | 155,055 | 160,727 | (3.5 ) |
| Depreciation | 20,920 | 21,302 | (1.8 ) |
| Amortization | 27,591 | 34,225 | (19.4 ) |
| Loss (gain) on sales of assets, net | (1,338 ) | 110 | NM |
| Impairment of intangible and other assets | 2,980 | 171,094 | (98.3 ) |
| Equity in earnings of associated companies | 8,297 | 8,685 | (4.5 ) |
| Operating income (loss) | 113,199 | (57,319 ) | NM |
| Non-operating expense, net | (99,238 ) | (81,904 ) | 21.2 |
| Income (loss) from continuing operations before income taxes | 13,961 | (139,223) | NM |
| Income tax expense (benefit) | 6,290 | (62,745 ) | NM |
| Income (loss) from continuing operations | 7,671 | (76,478 ) | NM |
| Discontinued operations, net of income taxes | — | (1,246 ) | NM |
| Net income (loss) | 7,671 | (77,724 ) | NM |
| Net income attributable to non-controlling interests | (876 ) | (593 ) | 47.7 |
| Income (loss) attributable to Lee Enterprises, Incorporated | 6,795 | (78,317 ) | NM |
| Other comprehensive income (loss), net | (17,497 ) | 21,101 | NM |
| Comprehensive loss | (10,702 ) | (57,216 ) | (81.3 ) |
| Income (loss) from continuing operations attributable to Lee Enterprises, | 6,795 | (77,071 ) | NM |

Incorporated

| | | | |
|---|---|---|---|
| Earnings (loss) per common share: | | | |
| Basic | 0.13 | (1.51 ) | NM |
| Diluted | 0.13 | (1.51 ) | NM |

Total revenue decreased approximately 2.7% in 2014 compared to the prior year on a reported basis. Excluding the impact of a subscription-related expense reclassification as a result of moving to fee-for-service delivery contracts at several of our newspapers, operating revenue decreased 3.7%. The reclassification will increase both print subscription revenue and operating expenses, with no impact on operating cash flow or operating income. Certain delivery expenses were previously reported as a reduction of revenue. A table below details the impact of the reclassification on revenue and cash costs. Unless otherwise noted, the comparisons below are presented on a reported basis.

Advertising and Marketing Services Revenue

2014 advertising and marketing services revenue decreased $18,539,000, or 4.0%, compared to 2013. Retail advertising decreased 3.4%. Retail preprint insertion revenue decreased 1.7%. Digital retail advertising on a stand alone basis increased 8.1%, partially offsetting print declines.

Classified revenue decreased 7.0% in 2014. Employment revenue decreased 1.3% while automotive advertising decreased 14.2%, real estate decreased 6.2% and other classified decreased 6.1%. Digital classified revenue on a stand-alone basis increased 7.6%, partially offsetting print declines.

National advertising increased $868,000, or 3.6% on a reported basis. Digital national advertising on a stand-alone basis increased 96.2%. Advertising in niche publications and other decreased 0.2%.

On a stand-alone basis, digital advertising and marketing services revenue increased 12.0%, to $75,179,000, in 2014, representing 17.0% of total advertising and marketing services revenue. Total digital revenue for 2014, including advertising and marketing services, subscriptions and all other digital business, totaled $90,198,000, an increase of 17.1% from a year ago. Print advertising and marketing services revenue on a stand-alone basis decreased 6.8%.

Subscription and Other Revenue

2014 subscription revenue decreased $230,000, or 0.1%, compared to 2013 on a reported basis. The decreases are primarily due to decreases in print subscribers partially offset by price increases, increases in digital subscribers and the subscription-related expense reclassification.

Our average daily newspaper circulation, including TNI, MNI and digital subscribers, totaled 1.1 million for the six months ended September 2014, as measured by the AAM. Sunday circulation totaled 1.4 million. Amounts are not comparable to the prior year period due to changes in AAM measurements.

Our mobile, tablet, desktop and app sites, including TNI and MNI, attracted 30.0 million unique visitors in the month of September 2014, an increase of 29.2% from September 2013, with 231.3 million page views. Research in our larger markets indicates we are maintaining our share of audience through the combination of digital audience growth and strong newspaper readership.

Commercial printing revenue decreased $575,000, or 4.6% in 2014. Other revenue increased $1,301,000, or 5.3%, in 2014.

Operating Expenses

Cash costs decreased $12,371,000, or 2.4%, in 2014 compared to 2013. Excluding the impact of the subscription-related expense reclassification, cash costs decreased 3.7%, exceeding our published guidance of a decrease of 3.0-3.5%.

Compensation expense decreased $11,777,000, or 4.6%, in 2014, driven by a decline in average full-time equivalent employees of 4.8%.

Newsprint and ink costs decreased $5,487,000, or 12.6%, in 2014, primarily as a result of a reduction in newsprint volume of 11.5%. See “Commodities” in Item 7A, included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, increased $6,308,000, or 3.0%, in 2014, due to the subscription-related expense reclassification.

Reductions in staffing resulted in workforce adjustment costs totaling $1,265,000 and $2,680,000 in 2014 and 2013, respectively.

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

| (Thousands of Dollars) | 2014 | 2013 | Percent Change |
|---|---|---|---|
| Subscription revenue, as reported | 176,826 | 177,056 | (0.1) |
| Adjustment for subscription-related expense reclassification | (6,707) | — | NM |
| Subscription revenue, as adjusted | 170,119 | 177,056 | (3.9) |
| | | | |
| Total operating revenue, as reported | 656,697 | 674,740 | (2.7) |
| Adjustment for subscription-related expense reclassification | (6,707) | — | NM |
| Total operating revenue, as adjusted | 649,990 | 674,740 | (3.7) |
| | | | |
| Other operating expenses, as reported | 219,329 | 213,021 | 3.0 |
| Adjustment for subscription-related expense reclassification | (6,707) | — | NM |
| Other operating expenses, as adjusted | 212,622 | 213,021 | (0.2) |
| | | | |
| Total cash costs, as reported | 501,642 | 514,013 | (2.4) |
| Adjustment for subscription-related expense reclassification | (6,707) | — | NM |
| Total cash costs, as adjusted | 494,935 | 514,013 | (3.7) |

Approximately $6,246,000, or 93.1% of the reclassification impacts revenue and cash costs of our Lee Legacy operations, and approximately $461,000, or 6.9% impacts Pulitzer. The subscription-related expense reclassification also increased both revenue and cash costs of MNI by $4,500,000 in 2014 and is not included in the table above.

Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 3.5%, to $155,055,000, in 2014 compared to $160,727,000 in 2013. Operating cash flow margin decreased to 23.6% in 2014 from 23.8% in 2013, reflecting a larger percentage decrease in operating revenue than the decrease in operating expenses and the impact of the subscription-related expense reclassification.

Depreciation expense decreased $382,000, or 1.8%, in 2014 and amortization expense decreased $6,634,000, or 19.4%, in 2014 due to full amortization of certain assets in prior years and impairment charges in the prior year.

In 2014 and 2013, due to continuing revenue declines, we recorded non-cash charges to reduce the carrying value of non-amortized intangible assets.

In 2013 we determined that the cash flows from certain amortizable intangible assets were not sufficient to recover their carrying values. As a result, we recorded a non-cash charge to reduce their carrying values of such assets to fair value. We also recorded pre-tax, non-cash charges to reduce the carrying value of property and equipment in 2014 and 2013. We recorded deferred income tax benefits related to these charges.

A summary of impairment charges is included in the table below:

| (Thousands of Dollars) | 2014 | 2013 |
|---|---|---|
| Continuing operations: | | |
| Non-amortized intangible assets | 1,936 | 1,567 |
| Amortizable intangible assets | — | 169,041 |
| Property and equipment | 1,044 | 486 |
| | 2,980 | 171,094 |

Equity in earnings in associated companies decreased $388,000 in 2014.

The factors noted above resulted in operating income of $113,199,000 in 2014, compared to an operating loss of $57,319,000 in 2013. Operating income margin increased to 17.2% from a deficit of 8.5% a year ago.

Non-operating Income and Expense

Interest expense decreased $9,723,000, or 10.9%, to $79,724,000 in 2014 due primarily to lower debt balances and the refinancing of the Pulitzer Notes in May 2013. Interest expense in 2014 also includes $2,394,000 of non-cash amortization of a present value adjustment of debt compared to $5,117,000 in 2013.

We charged $22,927,000 of debt financing costs to expense and also recorded a $2,300,000 loss related to a litigation settlement in 2014. The litigation settlement is classified as other, net in the Consolidated Statements of Operations and Comprehensive Income (Loss).

As more fully discussed in Note 5 of the Notes to Consolidated Financial Statements, included herein (and certain capitalized terms used below defined), in connection with the 2014 Refinancing, we issued Warrants, which were recorded at fair value and are included in other liabilities in our Consolidated Balance Sheets. We remeasure the related liability to fair value each reporting period. Due to the decrease in the price of our Common Stock since March 31, 2014, we recorded non-operating income of $6,122,000 related to the decrease in the value of the Warrants in 2014.

In 2013, we recognized a gain of $7,093,000 from a distribution related to the partial sale of assets in a private equity investment. This gain is classified as other, net in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Overall Results

We recognized income tax expense of 45.1% of income from continuing operations before income taxes in 2014 and income tax benefit of 45.1% of loss from continuing operations before income taxes in 2013. See Note 11 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

As a result of the factors noted above, income attributable to Lee Enterprises, Incorporated (which includes discontinued operations) totaled $6,795,000 in 2014 compared to a loss of $78,317,000 in 2013. We recorded earnings per diluted common share of $0.13 in 2014 and a loss per diluted common share of $1.51 in 2013. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were $0.41 in 2014, compared to $0.47 in 2013. Per share amounts may not add due to rounding.

| (Thousands of Dollars, Except Per Share Data) | 2014 Amount | Per Share | 2013 Amount | Per Share |
|---|---|---|---|---|
| Income (loss) attributable to Lee Enterprises, Incorporated, as reported | 6,795 | 0.13 | (78,317) | (1.51) |
| Adjustments: | | | | |
| Impairment of intangible and other assets | 2,980 | | 171,094 | |
| Gain on sales of investments, net | — | | (6,909) | |
| Debt financing and reorganization costs | 22,927 | | 646 | |
| Other, net | 891 | | 7,828 | |
| | 26,798 | | 172,659 | |
| Income tax effect of adjustments, net | (11,487) | | (70,991) | |
| | 15,311 | 0.28 | 101,668 | 1.96 |
| Unusual matters related to discontinued operations | — | — | 1,014 | 0.02 |
| Income attributable to Lee Enterprises, Incorporated, as adjusted | 22,106 | 0.41 | 24,365 | 0.47 |

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2013 vs. 2012

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

| (Thousands of Dollars and Shares, Except Per Share Data) | 2013 | 2012 | Percent Change |
|---|---|---|---|
| | 52 Weeks | 53 Weeks | |
| Operating revenue: | | | |
| Retail | 292,417 | 307,226 | (4.8 ) |
| Classified: | | | |
| Employment | 33,560 | 36,911 | (9.1 ) |
| Automotive | 34,424 | 39,054 | (11.9 ) |
| Real estate | 18,862 | 20,805 | (9.3 ) |
| All other | 47,197 | 51,837 | (9.0 ) |
| Total classified | 134,043 | 148,607 | (9.8 ) |
| National | 23,999 | 29,506 | (18.7 ) |
| Niche publications and other | 10,081 | 10,224 | (1.4 ) |
| Total advertising and marketing services revenue | 460,540 | 495,563 | (7.1 ) |
| Subscription | 177,056 | 173,971 | 1.8 |
| Commercial printing | 12,625 | 12,731 | (0.8 ) |
| Other | 24,519 | 24,656 | (0.6 ) |
| Total operating revenue | 674,740 | 706,921 | (4.6 ) |
| Compensation | 254,831 | 274,427 | (7.1 ) |
| Newsprint and ink | 43,481 | 51,635 | (15.8 ) |
| Other operating expenses | 213,021 | 213,502 | (0.2 ) |
| Workforce adjustments | 2,680 | 4,640 | (42.2 ) |
| Cash costs | 514,013 | 544,204 | (5.5 ) |
| Operating cash flow | 160,727 | 162,717 | (1.2 ) |
| Depreciation | 21,302 | 23,495 | (9.3 ) |
| Amortization | 34,225 | 41,696 | (17.9 ) |
| Loss (gain) on sales of assets, net | 110 | (52 ) | NM |
| Impairment of intangible and other assets | 171,094 | 1,388 | NM |
| Equity in earnings of associated companies | 8,685 | 7,231 | 20.1 |
| Operating income (loss) | (57,319 ) | 103,421 | NM |
| Non-operating expense, net | (81,904 ) | (88,198 ) | (7.1 ) |
| Income (loss) from continuing operations before reorganization costs and income taxes | (139,223 ) | 15,223 | NM |
| Reorganization costs | — | 37,765 | NM |
| Loss from continuing operations before income taxes | (139,223 ) | (22,542 ) | NM |
| Income tax benefit | (62,745 ) | (9,161 ) | NM |
| Loss from continuing operations | (76,478 ) | (13,381 ) | NM |
| Discontinued operations, net of income taxes | (1,246 ) | (2,918 ) | (57.3 ) |
| Net loss | (77,724 ) | (16,299 ) | NM |
| Net income attributable to non-controlling interests | (593 ) | (399 ) | 48.6 |
| Loss attributable to Lee Enterprises, Incorporated | (78,317 ) | (16,698 ) | NM |
| Other comprehensive loss, net | 21,101 | (7,348 ) | NM |
| Comprehensive loss | (57,216 ) | (24,046 ) | NM |
| Loss from continuing operations attributable to Lee Enterprises, Incorporated | (77,071 ) | (13,780 ) | NM |

| | | |
|---|---|---|
| Loss per common share: | | |
| Basic | (1.51 ) | (0.34 ) | NM |
| Diluted | (1.51 ) | (0.34 ) | NM |

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Because of period accounting, year-over-year comparisons are distorted. 2012 included an additional week of business activity, which added both revenue and operating expenses in comparison with 2013. The table below summarizes certain key 2013 financial results on a comparable basis, excluding the extra week of operations in 2012:

| (Thousands of Dollars) | 2013 | 2012 | Percent Change |
|---|---|---|---|
| | 52 Weeks | 52 Weeks | |
| Advertising and marketing services revenue | 460,540 | 487,023 | (5.4) |
| Total digital revenue | 77,027 | 72,108 | 6.8 |
| Subscription revenue | 177,056 | 170,740 | 3.7 |
| Total operating revenue | 674,740 | 694,596 | (2.9) |
| Operating expenses, excluding depreciation, amortization and unusual matters | 511,333 | 531,170 | (3.7) |
| Operating cash flow | 160,727 | 158,841 | 1.2 |
| Adjusted EBITDA | 173,766 | 170,315 | 2.0 |
| Operating income (loss) | (57,319) | 99,371 | NM |

Unless otherwise noted, the comparisons below are presented on a reported basis.

Excluding the additional week of operations in 2012, total revenue decreased approximately 2.9% in 2013 compared to the prior year. 2013 total operating revenue decreased 4.6% compared to 2012 a reported basis.

Advertising and Marketing Services Revenue

Excluding the extra week of operations in 2012, 2013 advertising and marketing services revenue decreased 5.4% compared to 2012. On a reported basis, 2013 advertising and marketing services revenue decreased $35,023,000, or 7.1%, compared to 2012. Retail advertising decreased 4.8%. Retail preprint insertion revenue decreased 0.3%. Digital retail advertising on a stand-alone basis increased 4.5%, partially offsetting print declines.

Classified revenue decreased 9.8% in 2013. Employment revenue decreased 9.1% while automotive advertising decreased 11.9%, real estate decreased 9.3% and other classified decreased 9.0%. Digital classified revenue on a stand-alone basis increased 1.4%, partially offsetting print declines.

National advertising decreased $5,507,000, or 18.7% in 2013. Digital national advertising on a stand-alone basis decreased 16.8%. Advertising in niche publications and other decreased 1.4%.

On a stand-alone basis, digital advertising and marketing services revenue increased 2.3% in 2013, representing 14.6% of total advertising and marketing services revenue. Year-over-year total digital advertising has been rising steadily since December 2009. Print advertising and marketing services revenue on a stand-alone basis decreased 8.5% in 2013.

Subscription and Other Revenue

Excluding the extra week of operations in 2012, 2013 subscription revenue increased 3.7% compared to 2012. On a reported basis, 2013 subscription revenue increased $3,085,000, or 1.8%, compared to 2012, primarily due to price increases and increases in digital subscribers, which were partially offset by decreases in print subscribers.

Our average daily newspaper circulation units, including TNI and MNI, as measured by the AAM, decreased 3.6% and Sunday circulation increased 7.3% for the six months ended September 2013 compared to the six months ended September 2012. Amounts are not comparable to the prior year period due to changes in AAM measurements.

Our mobile, tablet, desktop and app sites, including TNI and MNI, attracted 23.2 million unique visitors in the month of September 2013, an increase of 2.7% from September 2012, with 209.1 million page views.

Commercial printing revenue decreased $106,000, or 0.8%, in 2013. Other revenue decreased $137,000, or 0.6%, in 2013.

Operating Expenses

Excluding the extra week of operations in 2012, 2013 cash costs excluding unusual matters decreased 3.7% compared to 2012. On a reported basis, 2013 operating expenses excluding depreciation, amortization and unusual matters decreased $28,231,000, or 5.2%, compared to 2012.

Compensation expense decreased $19,596,000.0, or 7.1% , in 2013, driven by a decline in average full time equivalent employees of 8.3%.

Newsprint and ink costs decreased $8,154,000, or 15.8%, in 2013 as a result of a reduction in newsprint volume of 13.6%. See“Commodities” in Item 7A, included herein, for further discussion and analysis of the impact of newsprint on our business.

Other operating expenses, which are comprised of all operating costs not considered to be compensation, newsprint, depreciation, amortization, or unusual matters, decreased $481,000, or 0.2%, in 2013.

Reductions in staffing resulted in workforce adjustment costs, primarily severance, totaling $2,680,000 and $4,640,000 in 2013 and 2012, respectively.

Operating Cash Flow and Results of Operations

As a result of the factors noted above, operating cash flow decreased 1.2%, to $160,727,000, in 2013 compared to $162,717,000 in 2012. Operating cash flow margin increased to 23.8% in 2013 from 23.0% in 2012, reflecting a larger percentage decrease in operating expenses than the decrease in operating revenue.

Depreciation expense decreased $2,193,000, or 9.3%, in 2013 and amortization expense decreased $7,471,000, or 17.9%, in 2013.

In 2013, due to continuing revenue declines, we recorded non-cash charges to reduce the carrying value of non-amortized intangible assets.

In 2013 we determined that the cash flows from certain amortizable intangible assets were not sufficient to recover their carrying values. As a result, we recorded a non-cash charge to reduce the carrying values of such assets to fair value. We also recorded non-cash charges to reduce the carrying value of property and equipment in 2013 and 2012. We recorded deferred income tax benefits related to these charges.

A summary of impairment charges is included in the table below:

| (Thousands of Dollars) | 2013 | 2012 |
|---|---|---|
| Continuing operations: | | |
| Non-amortized intangible assets | 1,567 | — |
| Amortizable intangible assets | 169,041 | — |
| Property and equipment | 486 | 1,388 |
| | 171,094 | 1,388 |
| Discontinued operations | — | 3,606 |

Equity in earnings in associated companies increased $1,454,000 in 2013.

The factors noted above resulted in operating loss of $57,319,000 in 2013, compared to operating income of $103,421,000 in 2012.

Non-operating Income and Expense

Interest expense increased $6,369,000, or 7.7%, to $89,447,000 in 2013 due primarily to higher interest rates on our debt since the January 2012 refinancing, which were partially offset by lower debt balances and refinancing of the Pulitzer Notes. Our weighted average cost of debt was 9.2% at September 29, 2013, the same as a year ago. Interest expense includes $5,117,000 and $3,919,000 of non-cash amortization of a present value adjustment of debt in 2013 and 2012, respectively.

In 2013, we recognized a gain of $7,093,000 from a distribution related to the partial sale of assets in a private equity investment. This gain is classified as other, net in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Changes to our pension plans in 2011 and 2010 were the subject of litigation, or arbitration claims, under the terms of the respective collective bargaining agreements. In 2012, we settled all such claims with payments to plan participants totaling $2,802,000. These payments are classified as other, net in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Overall Results

We recognized $37,765,000 of reorganization costs in 2012. We recognized income tax benefit of 45.1% and 40.6% of loss from continuing operations before income taxes in 2013 and 2012, respectively. See Note 11 of the Notes to Consolidated Financial Statements, included herein, for a reconciliation of the expected federal income tax rate to the actual tax rates.

As a result of the factors noted above, loss attributable to Lee Enterprises, Incorporated (which includes discontinued operations) totaled $78,317,000 in 2013 compared to a loss of $16,698,000 in 2012. We recorded loss per diluted common share of $1.51 in 2013 and $0.34 in 2012. Excluding unusual matters, as detailed in the table below, diluted earnings per common share, as adjusted, were $0.47 in 2013, compared to $0.42 in 2012. Per share amounts may not add due to rounding.

| (Thousands of Dollars, Except Per Share Data) | 2013 Amount 52 Weeks | Per Share | 2012 Amount 53 Weeks | Per Share |
|---|---|---|---|---|
| Loss attributable to Lee Enterprises, Incorporated, as reported | (78,317 ) | (1.51 ) | (16,698 ) | (0.34 ) |
| Adjustments: | | | | |
| Impairment of intangible and other assets | 171,094 | | 1,388 | |
| Gain on sales of investments, net | (6,909 ) | | — | |
| Debt financing and reorganization costs | 646 | | 40,588 | |
| Other, net | 7,828 | | 12,381 | |
| | 172,659 | | 54,357 | |
| Income tax effect of adjustments, net | (70,991 ) | | (19,489 ) | |
| | 101,668 | 1.96 | 34,868 | 0.71 |
| Unusual matters related to discontinued operations | 1,014 | 0.02 | 2,694 | 0.05 |
| Income attributable to Lee Enterprises, Incorporated, as adjusted | 24,365 | 0.47 | 20,864 | 0.42 |

DISCONTINUED OPERATIONS

In March 2013, we sold The Garden Island newspaper and digital operations in Lihue, HI for $2,000,000 in cash, plus an adjustment for working capital. The transaction resulted in a loss of $2,170,000, after income taxes, and was recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in 2013. Operating results of The Garden Island have been classified as discontinued operations for all periods presented.

In October 2012, we sold the North County Times in Escondido, CA for $11,950,000 in cash, plus an adjustment for working capital. The transaction resulted in a gain of $1,168,000, after income taxes, and was recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in 2013. Operating results of the North County Times have been classified as discontinued operations for all periods presented.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities of continuing operations was $82,075,000, $90,067,000 and $80,037,000 in 2014, 2013 and 2012, respectively. We recorded net income of $7,671,000 in 2014 and a net loss of $77,724,000 and $16,299,000 in 2013 and 2012, respectively. Non-cash debt financing and reorganization costs charged to expense totaled $22,927,000, $646,000, and $40,588,000 in 2014, 2013 and 2012, respectively. Depreciation and amortization decreased as discussed more fully under "Results of Operations". We also recognized non-cash impairment of intangible and other assets totaling $2,980,000, $171,094,000 and $1,388,000 in 2014, 2013 and 2012, respectively. The loss from continuing operations in 2013 was caused primarily by non-cash charges for impairment of intangible and other assets, net of the related deferred income tax benefit. Changes in deferred income taxes, operating assets and liabilities and income taxes accounted for the bulk of the remainder of the changes in cash provided by operating activities of continuing operations in all years.

Pension liabilities, net of plan assets, totaled $50.2 million as of September 28, 2014, an increase of $19.6 million from September 30, 2013, due to a decrease in discount rates used to measure the liabilities and adoption of new mortality tables, partially offset by strong asset returns. Contributions to pension plans are expected to total $3.8 million in 2015.

Investing Activities

Cash required for investing activities of continuing operations totaled $9,284,000, $1,296,000 and $784,000 in 2014, 2013 and 2012, respectively. Capital spending totaled $13,661,000 in 2014, $9,740,000 in 2013 and $7,843,000 in 2012. Restricted cash increased $441,000 in 2014 and was reduced $4,972,000 in 2012. We received $4,485,000, $7,802,000 and $1,353,000 from insurance and sales of assets in 2014, 2013 and 2012, respectively.

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

Financing Activities

Cash required for financing activities of continued operations totaled $73,649,000 in 2014, $99,318,000 in 2013 and $93,068,000 in 2012. We paid $31,587,000, $1,071,000 and $32,408,000 of debt financing and reorganization costs in 2014, 2013 and 2012, respectively. The increase in such costs in 2014 and 2012 was due to the 2014 Refinancing and the Chapter 11 Proceedings, respectively. Debt reduction accounted for the majority of the remaining usage of funds in all years.

As discussed more fully in Note 1 and Note 5 of the Notes to Consolidated Financial Statements, included herein, in January 2012, in conjunction with the effectiveness of the Plan, we refinanced all of our debt. The Plan refinanced our then-existing credit agreement and extended the April 2012 maturity in a structure of first and second lien debt with the existing lenders. We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders. In May 2013, we refinanced the remaining balance of the Pulitzer Notes and on March 31, 2014 we completed the 2014 Refinancing.

Debt is summarized as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 | Interest Rates (%) September 28 2014 |
|---|---|---|---|
| Revolving Facility | 5,000 | — | 5.65 |
| 1st Lien Term Loan | 226,750 | — | 7.25 |
| Notes | 400,000 | — | 9.50 |
| 2nd Lien Term Loan | 150,000 | — | 12.00 |
| New Pulitzer Notes | 23,000 | 63,000 | 9.00 |
| Previous credit agreements | — | 784,500 | |
| Unamortized present value adjustment | — | (12,942) | |
| | 804,750 | 834,558 | |
| Less current maturities of long-term debt | 31,400 | 19,150 | |
| Current amount of present value adjustment | — | (4,779) | |
| Total long-term debt | 773,350 | 820,187 | |

At September 28, 2014, our weighted average cost of debt, excluding amortization of debt financing costs, is 9.3%.

Aggregate maturities of debt total $31,400,000 in 2015, $31,400,000 in 2016, $35,200,000 in 2017, $25,000,000 in 2018, $131,750,000 in 2019 and $550,000,000 thereafter.

Liquidity

At September 28, 2014, after consideration of letters of credit, we have approximately $27,605,000 available for future use under our Revolving Facility. Including cash, our liquidity at September 28, 2014 totals $44,750,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to $25,140,000.

At September 29, 2014, the principal amount of our outstanding debt totals $804,750,000. For the last twelve months ending September 28, 2014 , the principal amount of our debt, net of cash, is 4.7 times our adjusted EBITDA, compared to a ratio of 4.8 at September 29, 2013. Since the end of our fiscal year ended September 28, 2014 through December 12, 2014, we have reduced debt an additional $15,250,000.

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

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. The Notes, 1st Lien Credit Facility and 2nd Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at September 28, 2014.

In 2014, we filed a Form S-3 shelf registration statement ("Shelf") with the SEC, which has been declared effective. The Shelf gives us the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, warrants, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of $750,000,000. SEC issuer eligibility rules require us to have a public float of at least $75,000,000 in order to use the Shelf. Subject to maintenance of the minimum level of equity market float and the conditions of our existing debt agreements, the Shelf may enable us to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Under our existing debt agreements, net proceeds from the sale of any securities may be used generally to reduce debt.

Other Matters

Cash and cash equivalents decreased $858,000 in 2014, increased $3,642,000 in 2013 and decreased $9,635,000 in 2012.

SEASONALITY

Our largest source of publishing revenue, retail advertising, is seasonal and tends to fluctuate with retail sales in markets served. Historically, retail advertising is higher in the December and June quarters. Advertising and marketing services revenue is lowest in the March quarter.

Quarterly results of operations are summarized in Note 18 of the Notes to Consolidated Financial Statements, included herein.

INFLATION

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

CHANGES IN LAWS AND REGULATIONS

Energy Costs

Energy costs can be volatile, and may increase in the future as a result of carbon emissions and other regulations being developed by the United States Environmental Protection Agency.

Health Care Costs

The Affordable Care Act was enacted into law in 2010. As a result, in 2010 we wrote off $2,012,000 of deferred income tax assets due to the loss of future tax deductions for providing retiree prescription drug benefits.

We expect the Affordable Care Act will continue to evolve. More recently, certain provisions applicable to employers were delayed. We expect our future health care costs to increase based on analysis published by the United States Department of Health and Human Services, input from independent advisors and our understanding of various provisions of the Affordable Care Act that differ from our previous medical plans, such as:

- Certain preventive services provided without charge to employees;
- Automatic enrollment of new employees;
- Higher maximum age for dependent coverage;
- Elimination of lifetime benefit caps; and
- Free choice vouchers for certain lower income employees.

Administrative costs are also likely to increase as a result of new compliance reporting and mandatory fees per participant. New costs being imposed on other medical care businesses, such as health insurers, pharmaceutical companies and medical device manufacturers, may be passed on to us in the form of higher costs. We may be able to mitigate certain of these future cost increases through changes in plan design.

We do not expect the Affordable Care Act will have a significant impact on our postretirement medical benefit obligation liability.

Pension Plans

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

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

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

Income Taxes

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

CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual obligations at September 28, 2014:

| (Thousands of Dollars) | Payments (or Commitments) Due (Years) | | | | |
|---|---|---|---|---|---|
| Nature of Obligation | Total | Less Than 1 | 1-3 | 3-5 | More Than 5 |
| Debt (Principal Amount) [(1)] | 804,750 | 31,400 | 66,600 | 156,750 | 550,000 |
| Interest expense [(2)(3)] | 481,563 | 73,698 | 140,057 | 125,808 | 142,000 |
| Operating lease obligations | 11,919 | 2,592 | 4,262 | 2,863 | 2,202 |
| Capital expenditure commitments | 1,549 | 1,549 | — | — | — |
| | 1,299,781 | 109,239 | 210,919 | 285,421 | 694,202 |

(1) Maturities of long-term debt are limited to mandatory payments and, accordingly, exclude excess cash flow, asset sale and other payments under the 1st Lien Credit Facility, Notes, the 2nd Lien Term Loan and the New Pulitzer Notes as such amounts cannot be determined. See Note 5 of the Notes to Consolidated Financial Statements, included herein.

(2) Interest expense includes an estimate of interest expense for the Notes, 1st Lien Credit Facility, 2nd Lien Term Loan and New Pulitzer Notes until their maturities in March 2022, March 2019, December 2022 and April 2017, respectively. Interest expense under the Notes is estimated using the 9.5% contractual rate applied to the outstanding balance as reduced by future contractual maturities of such debt. Interest expense under the 1st Lien Term Loan is estimated based on the 30 day minimum LIBOR level of 1.0% as increased by our applicable margin of 6.25% applied to the outstanding balance, as reduced by future contractual maturities of such debt. Interest expense under the Revolving Facility is estimated based on the current 30 day LIBOR level as increased by our applicable margin of 5.5% applied to the outstanding balance, as reduced by future contractual maturities of such debt. Interest expense under the 2nd Lien Term Loan is estimated using the 12.0% contractual rate applied to the outstanding balance during each period. Interest expense under the New Pulitzer Notes is estimated using the 9.0% contractual rate applied to the outstanding balance as reduced by future contractual maturities of such debt. Changes in interest rates in excess of the minimum LIBOR level, use of borrowing rates not based on LIBOR, use of interest rate hedging instruments, and/or principal payments in excess of contractual maturities or based on other requirements of the Notes, 1st Lien Credit Facility, 2nd Lien Term Loan or New Pulitzer Notes could

significantly change this estimate. See Note 5 of the Notes to Consolidated Financial Statements, included herein.

(3) Interest expense excludes non-cash present value adjustments and amortization of debt financing costs previously paid. See Note 5 of the Notes to Consolidated Financial Statements, included herein.

The table above excludes future cash requirements for pension, postretirement and postemployment obligations. The periods in which these obligations will be settled in cash are not readily determinable and are subject to numerous future events and assumptions. We estimate cash requirements for these obligations in 2015 will total approximately $3,800,000. See Notes 6 and 7 of the Notes to Consolidated Financial Statements, included herein.

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. A substantial amount of our deferred income tax liabilities will not result in future cash payments. See Note 11 of the Notes to Consolidated Financial Statements, included herein.

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)

| (Thousands of Dollars) | Amount | 2014 Percent of Revenue | Amount | 2013 Percent of Revenue | Amount | 2012 Percent of Revenue |
|---|---|---|---|---|---|---|
| | 52 Weeks | | 52 Weeks | | 53 Weeks | |
| Advertising and marketing services | 442,001 | | 460,540 | | 495,563 | |
| Subscription | 176,826 | | 177,056 | | 173,971 | |
| Other | 37,870 | | 37,144 | | 37,387 | |
| Total operating revenue | 656,697 | | 674,740 | | 706,921 | |
| Compensation | 243,054 | | 254,831 | | 274,427 | |
| Newsprint and ink | 37,994 | | 43,481 | | 51,635 | |
| Other operating expenses | 219,329 | | 213,021 | | 213,502 | |
| Depreciation and amortization | 48,511 | | 55,527 | | 65,139 | |
| Loss (gain) on sales of assets, net | (1,338) | | 110 | | 1,388 | |
| Impairment of intangible and other assets | 2,980 | | 171,094 | | — | |
| Workforce adjustments | 1,265 | | 2,680 | | 4,640 | |
| Total operating expenses | 551,795 | | 740,744 | | 610,731 | |
| Equity in earnings of TNI and MNI | 8,297 | | 8,685 | | 7,231 | |
| Operating income (loss) | 113,199 | 17.2 | (57,319) | (8.5) | 103,421 | 14.6 |
| Adjusted to exclude: | | | | | | |
| Depreciation and amortization | 48,511 | 7.4 | 55,527 | 8.2 | 65,139 | 9.2 |
| Loss (gain) on sales of assets, net | (1,338) | (0.2) | 110 | — | 1,388 | 0.2 |
| Impairment of intangible and other assets | 2,980 | 0.5 | 171,094 | 25.4 | — | — |
| Equity in earnings of TNI and MNI | (8,297) | (1.3) | (8,685) | (1.3) | (7,231) | (1.0) |
| Operating cash flow | 155,055 | 23.6 | 160,727 | 23.8 | 162,717 | 23.0 |
| Add: | | | | | | |
| Ownership share of TNI and MNI EBITDA (50%) | 11,236 | | 11,761 | | 10,569 | |
| Adjusted to exclude: | | | | | | |
| Stock compensation | 1,481 | | 1,261 | | 1,080 | |
| Adjusted EBITDA | 167,772 | | 173,749 | | 174,366 | |
| Adjusted to exclude: | | | | | | |
| Ownership share of TNI and MNI EBITDA (50%) | (11,236) | | (11,761) | | (10,569) | |
| Add (deduct): | | | | | | |
| Distributions from TNI and MNI | 9,996 | | 11,398 | | 9,086 | |
| Capital expenditures, net of insurance proceeds | (11,824) | | (9,740) | | (7,843) | |
| Pension contributions | (1,522) | | (6,016) | | (6,807) | |
| Cash income tax refunds | 6,022 | | 9,126 | | 1,140 | |
| Unlevered free cash flow | 159,208 | | 166,756 | | 159,373 | |
| Add (deduct): | | | | | | |
| Financial income | 385 | | 300 | | 236 | |
| Interest expense to be settled in cash | (77,330) | | (84,012) | | (78,288) | |
| Debt financing costs paid | (31,587) | | (1,071) | | (32,408) | |
| Free cash flow | 50,676 | | 81,973 | | 48,913 | |

SELECTED LEE LEGACY ONLY FINANCIAL INFORMATION (UNAUDITED)

| (Thousands of Dollars) | Amount 52 Weeks | 2014 Percent of Revenue | Amount 52 Weeks | 2013 Percent of Revenue | Amount 53 Weeks | 2012 Percent of Revenue |
|---|---|---|---|---|---|---|
| Advertising and marketing services | 306,818 | | 317,161 | | 338,329 | |
| Subscription | 113,992 | | 110,335 | | 106,614 | |
| Other | 33,208 | | 31,079 | | 30,552 | |
| Total operating revenue | 454,018 | | 458,575 | | 475,495 | |
| Compensation | 180,641 | | 185,470 | | 195,162 | |
| Newsprint and ink | 27,084 | | 30,195 | | 34,335 | |
| Other operating expenses | 118,971 | | 112,768 | | 114,510 | |
| Depreciation and amortization | 33,163 | | 27,291 | | 29,377 | |
| Loss (gain) on sales of assets, net | (1,362) | | 134 | | 256 | |
| Impairment of intangible and other assets | 378 | | 523 | | — | |
| Workforce adjustments | 551 | | 1,546 | | 1,172 | |
| Total operating expenses | 359,426 | | 357,927 | | 374,812 | |
| Equity in earnings of MNI | 3,384 | | 3,509 | | 3,201 | |
| Operating income | 97,976 | 21.6 | 104,157 | 22.7 | 103,884 | 21.8 |
| Adjusted to exclude: | | | | | | |
| Depreciation and amortization | 33,163 | 7.3 | 27,291 | 6.0 | 29,377 | 6.2 |
| Loss (gain) on sales of assets, net | (1,362) | — | 134 | — | 256 | — |
| Impairment of intangible and other assets | 378 | 0.1 | 523 | 0.1 | — | — |
| Equity in earnings of MNI | (3,384) | (0.7) | (3,509) | (0.8) | (3,201) | (0.7) |
| Operating cash flow | 126,771 | 27.9 | 128,596 | 28.0 | 130,316 | 27.4 |
| Add: | | | | | | |
| Ownership share of MNI EBITDA (50%) | 5,905 | | 5,964 | | 5,816 | |
| Adjusted to exclude: | | | | | | |
| Stock compensation | 1,481 | | 1,261 | | 1,080 | |
| Adjusted EBITDA | 134,157 | | 135,821 | | 137,212 | |
| Adjusted to exclude: | | | | | | |
| Ownership share of MNI EBITDA (50%) | (5,905) | | (5,964) | | (5,816) | |
| Add (deduct): | | | | | | |
| Distributions from MNI | 4,750 | | 5,250 | | 3,900 | |
| Capital expenditures, net of insurance proceeds | (9,688) | | (7,713) | | (6,810) | |
| Pension contributions | (87) | | — | | — | |
| Cash income tax refunds (payments) | (266) | | (365) | | 72 | |
| Intercompany charges not settled in cash | (9,678) | | (8,396) | | (8,584) | |
| Other | (2,000) | | (2,000) | | (2,000) | |
| Unlevered free cash flow | 111,283 | | 116,633 | | 117,974 | |
| Add (deduct): | | | | | | |
| Financial income | 385 | | 300 | | 236 | |
| Interest expense to be settled in cash | (73,491) | | (74,641) | | (65,574) | |
| Debt financing costs paid | (31,579) | | (140) | | (26,707) | |
| Free cash flow | 6,598 | | 42,152 | | 25,929 | |

SELECTED PULITZER ONLY FINANCIAL INFORMATION
(UNAUDITED)

| (Thousands of Dollars) | Amount | 2014 Percent of Revenue | Amount | 2013 Percent of Revenue | Amount | 2012 Percent of Revenue |
|---|---|---|---|---|---|---|
| | 52 Weeks | | 52 Weeks | | 53 Weeks | |
| Advertising and marketing services | 135,183 | | 143,379 | | 157,234 | |
| Subscription | 62,834 | | 66,721 | | 67,357 | |
| Other | 4,662 | | 6,065 | | 6,835 | |
| Total operating revenue | 202,679 | | 216,165 | | 231,426 | |
| Compensation | 62,413 | | 69,361 | | 79,265 | |
| Newsprint and ink | 10,910 | | 13,286 | | 17,300 | |
| Other operating expenses | 100,358 | | 100,253 | | 98,992 | |
| Depreciation and amortization | 15,348 | | 28,236 | | 35,762 | |
| Loss (gain) on sales of assets, net | 24 | | (24) | | 1,132 | |
| Impairment of intangible and other assets | 2,602 | | 170,571 | | — | |
| Workforce adjustments | 714 | | 1,134 | | 3,468 | |
| Total operating expenses | 192,369 | | 382,817 | | 235,919 | |
| Equity in earnings of TNI | 4,913 | | 5,176 | | 4,030 | |
| Operating income (loss) | 15,223 | 7.5 | (161,476) | (74.7) | (463) | (0.2) |
| Adjusted to exclude: | | | | | | |
| Depreciation and amortization | 15,348 | 7.6 | 28,236 | 13.1 | 35,762 | 15.5 |
| Loss (gain) on sales of assets, net | 24 | — | (24) | — | 1,132 | 0.5 |
| Impairment of intangible and other assets | 2,602 | 1.3 | 170,571 | 78.9 | — | — |
| Equity in earnings of TNI | (4,913) | (2.4) | (5,176) | (2.4) | (4,030) | (1.7) |
| Operating cash flow | 28,284 | 14.0 | 32,131 | 14.9 | 32,401 | 14.0 |
| Add: | | | | | | |
| Ownership share of TNI EBITDA (50%) | 5,331 | | 5,797 | | 4,753 | |
| Adjusted EBITDA | 33,615 | | 37,928 | | 37,154 | |
| Adjusted to exclude: | | | | | | |
| Ownership share of TNI EBITDA (50%) | (5,331) | | (5,797) | | (4,753) | |
| Add (deduct): | | | | | | |
| Distributions from TNI | 5,246 | | 6,148 | | 5,186 | |
| Capital expenditures, net of insurance proceeds | (2,136) | | (2,027) | | (1,033) | |
| Pension contributions | (1,435) | | (6,016) | | (6,807) | |
| Cash income tax refunds | 6,288 | | 9,491 | | 1,068 | |
| Intercompany charges not settled in cash | 9,678 | | 8,396 | | 8,584 | |
| Other | 2,000 | | 2,000 | | 2,000 | |
| Unlevered free cash flow | 47,925 | | 50,123 | | 41,399 | |
| Deduct: | | | | | | |
| Interest expense to be settled in cash | (3,839) | | (9,371) | | (12,714) | |
| Debt financing costs paid | (8) | | (931) | | (5,701) | |
| Free cash flow | 44,078 | | 39,821 | | 22,984 | |

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

INTEREST RATES ON DEBT

Our debt structure, which is predominantly fixed rate, significantly reduces the potential impact of an increase in interest rates. At September 28, 2014, 28.8% of the principal amount of our debt is subject to floating interest rates. Our primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, if in excess of LIBOR minimums discussed more fully below, decrease or increase, respectively, income before income taxes on an annualized basis by approximately $2,317,500 based on $231,750,000 of floating rate debt outstanding at September 28, 2014.

Our debt under the 1st Lien Term Loan is subject to minimum interest rate levels of 1.0%. Based on the difference between interest rates in December 2014 and our 1.0% minimum rate, LIBOR would need to increase approximately 68 basis points for six month borrowing up to approximately 85 basis points for one month borrowing before our borrowing cost would begin to be impacted by an increase in interest rates.

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

COMMODITIES

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

Canadian paper suppliers are benefiting from a stronger U.S. dollar in 2014. However, eroding North American domestic newsprint demand, coupled with significant declines in offshore exports, put downward price pressure on newsprint prices in the second half of 2014. In 2014, North American newsprint producers reduced production capacity. Despite the capacity reduction, oversupply is still a significant producer issue as demand from U.S. publishers has declined. Additional downtime and permanent supply closures are anticipated in 2015. Long-term supply strategy has been considered in our supplier selection, while taking advantage of any current pricing opportunities.

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

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

SENSITIVITY TO CHANGES IN VALUE

At September 28, 2014, the fair value of floating rate debt, which consists primarily of our 1$^{st}$ Lien Term Loan, is \$231,895,000, based on an average of private market price quotations. Our fixed rate debt consists of \$400,000,000 principal amount of the Notes, \$150,000,000 principal amount under the 2$^{nd}$ Lien Term Loan and \$23,000,000 principal amount of New Pulitzer Notes. At September 28, 2014, based on an average of private market price quotations, the fair values were \$407,500,000 and \$161,625,000 for the Notes and 2nd Lien Term Loan, respectively. The New Pulitzer Notes are held by a single investor. We are unable, as of September 28, 2014, to determine the fair value of the New Pulitzer Notes. The value, if determined, may be more or less than the carrying amount.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is included herein under the caption “Consolidated Financial Statements”.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Information with respect to this Item is included in our Proxy Statement to be filed in January 2015, which is incorporated herein by reference, under the caption “Relationship with Independent Registered Public Accounting Firm”.

## ITEM 9A. 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 September 28, 2014, the end of the period covered by this annual report (the “Evaluation Date”). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) of the Exchange Act. Any internal control system, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we assessed the effectiveness of our internal control over financial reporting as of the Evaluation Date, using the criteria set forth in the Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that our internal control over financial reporting is effective as of the Evaluation Date.

Our independent registered public accounting firm, KPMG LLP, has issued a report on the Company's internal control over financial reporting. KPMG’s report on the audit of internal control over financial reporting appears in this Annual Report.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the 13 weeks ended September 28, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Lee Enterprises, Incorporated:
We have audited Lee Enterprises, Incorporated and subsidiaries' (the Company) internal control over financial reporting as of September 28, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lee Enterprises, Incorporated and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 28, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lee Enterprises, Incorporated and subsidiaries as of September 28, 2014 and September 29, 2013, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for the 52-week periods ended September 28, 2014 and September 29, 2013, and the 53-week period ended September 30, 2012, and our report dated December 12, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chicago, Illinois
December 12, 2014

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this Item, except for certain information related to our executive officers included under the caption “Executive Team” in Part I of this Annual Report, is included in our Proxy Statement to be filed in January 2015, which is incorporated herein by reference, under the captions “Proposal 1 - Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance”. Our executive officers are those elected officers whose names and certain information are set forth under the caption “Executive Team” in Part 1 of this Annual Report.

We have a Code of Business Conduct and Ethics ("Code") that applies to all of our employees, including our principal executive officer, and principal financial and accounting officer. The Code is monitored by the Audit Committee of our Board of Directors and is annually affirmed by our directors and executive officers. We maintain a corporate governance page on our website which includes the Code. The corporate governance page can be found at www.lee.net by clicking on “Governance” under the "About" tab. A copy of the Code will also be provided without charge to any stockholder who requests it. Any future amendment to, or waiver granted by us from, a provision of the Code will be posted on our website.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this Item is included in our Proxy Statement to be filed in January 2015, which is incorporated herein by reference, under the captions, “Compensation of Non-Employee Directors”, “Executive Compensation” and “Compensation Discussion and Analysis”; provided, however, that the subsection entitled “Executive Compensation - Executive Compensation Committee Report” shall not be deemed to be incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this Item is included in our Proxy Statement to be filed in January 2015, which is incorporated herein by reference, under the captions “Voting Securities and Principal Holders Thereof” and “Equity Compensation Plan Information”.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information with respect to this Item is included in our Proxy Statement to be filed in January 2015, which is incorporated herein by reference, under the caption “Directors' Meetings and Committees of the Board of Directors”.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to this Item is included in our Proxy Statement to be filed in January 2015, which is incorporated herein by reference, under the caption “Relationship with Independent Registered Public Accounting Firm”.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report:

### FINANCIAL STATEMENTS

Consolidated Statements of Operations and Comprehensive Income (Loss) - Years ended September 28, 2014, September 29, 2013 and September 30, 2012
Consolidated Balance Sheets - September 28, 2014 and September 29, 2013
Consolidated Statements of Stockholders' Equity (Deficit) - Years ended September 28, 2014, September 29, 2013 and September 30, 2012
Consolidated Statements of Cash Flows - Years ended September 28, 2014, September 29, 2013 and September 30, 2012
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

### FINANCIAL STATEMENT SCHEDULES

All schedules have been omitted as they are not required, not applicable, not deemed material or because the information is included in the Notes to Consolidated Financial Statements, included herein.

### EXHIBITS

See Exhibit Index, included herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on the 12th day of December 2014.

LEE ENTERPRISES, INCORPORATED

| | |
|---|---|
| /s/ Mary E. Junck | /s/ Carl G. Schmidt |
| Mary E. Junck | Carl G. Schmidt |
| Chairman, President and Chief Executive Officer | Vice President, Chief Financial Officer and Treasurer |
| (Principal Executive Officer) | (Principal Financial and Accounting Officer) |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in their respective capacities on the 12th day of December 2014.

| Signature | |
|---|---|
| /s/ Richard R. Cole<br>Richard R. Cole | Director |
| /s/ Nancy S. Donovan<br>Nancy S. Donovan | Director |
| /s/ Leonard J. Elmore<br>Leonard J. Elmore | Director |
| /s/ Mary E. Junck<br>Mary E. Junck | Chairman, President and Chief Executive Officer, and Director |
| /s/ Brent Magid<br>Brent Magid | Director |
| /s/ William E. Mayer<br>William E. Mayer | Director |
| /s/ Herbert W. Moloney III<br>Herbert W. Moloney III | Director |
| /s/ Andrew E. Newman<br>Andrew E. Newman | Director |
| /s/ Gregory P. Schermer<br>Gregory P. Schermer | Vice President - Strategy, and Director |
| /s/ Carl G. Schmidt<br>Carl G. Schmidt | Vice President, Chief Financial Officer and Treasurer |
| /s/ Mark B. Vittert<br>Mark B. Vittert | Director |

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

| (Thousands of Dollars, Except Per Common Share Data) | 2014 | 2013 | 2012 |
|---|---|---|---|
| | 52 Weeks | 52 Weeks | 53 Weeks |
| Operating revenue: | | | |
| Advertising and marketing services | 442,001 | 460,540 | 495,563 |
| Subscription | 176,826 | 177,056 | 173,971 |
| Other | 37,870 | 37,144 | 37,387 |
| Total operating revenue | 656,697 | 674,740 | 706,921 |
| Operating expenses: | | | |
| Compensation | 243,054 | 254,831 | 274,427 |
| Newsprint and ink | 37,994 | 43,481 | 51,635 |
| Other operating expenses | 219,329 | 213,021 | 213,502 |
| Depreciation | 20,920 | 21,302 | 23,495 |
| Amortization of intangible assets | 27,591 | 34,225 | 41,696 |
| Impairment of intangible and other assets | 2,980 | 171,094 | 1,388 |
| Loss (gain) on sales of assets, net | (1,338) | 110 | (52) |
| Workforce adjustments | 1,265 | 2,680 | 4,640 |
| Total operating expenses | 551,795 | 740,744 | 610,731 |
| Equity in earnings of associated companies | 8,297 | 8,685 | 7,231 |
| Operating income (loss) | 113,199 | (57,319) | 103,421 |
| Non-operating income (expense): | | | |
| Financial income | 385 | 300 | 236 |
| Interest expense | (79,724) | (89,447) | (83,078) |
| Debt financing costs | (22,927) | (646) | (2,823) |
| Other, net | 3,028 | 7,889 | (2,533) |
| Total non-operating expense, net | (99,238) | (81,904) | (88,198) |
| Income (loss) before reorganization costs and income taxes | 13,961 | (139,223) | 15,223 |
| Reorganization costs | — | — | 37,765 |
| Income (loss) before income taxes | 13,961 | (139,223) | (22,542) |
| Income tax expense (benefit) | 6,290 | (62,745) | (9,161) |
| Income (loss) from continuing operations | 7,671 | (76,478) | (13,381) |
| Discontinued operations, net of income taxes | — | (1,246) | (2,918) |
| Net income (loss) | 7,671 | (77,724) | (16,299) |
| Net income attributable to non-controlling interests | (876) | (593) | (399) |
| Income (loss) attributable to Lee Enterprises, Incorporated | 6,795 | (78,317) | (16,698) |
| Other comprehensive income (loss), net | (17,497) | 21,101 | (7,348) |
| Comprehensive loss | (10,702) | (57,216) | (24,046) |
| Income (loss) from continuing operations attributable to Lee Enterprises, Incorporated | 6,795 | (77,071) | (13,780) |
| Earnings (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | 0.13 | (1.49) | (0.28) |
| Discontinued operations | — | (0.02) | (0.06) |
| | 0.13 | (1.51) | (0.34) |
| Diluted: | | | |
| Continuing operations | 0.13 | (1.49) | (0.28) |
| Discontinued operations | — | (0.02) | (0.06) |

| | | | |
|---|---|---|---|
| | 0.13 | (1.51) | (0.34) |

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

CONSOLIDATED BALANCE SHEETS

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | 16,704 | 17,562 |
| Accounts receivable, less allowance for doubtful accounts: | | |
| 2014 $4,526; 2013 $4,501 | 62,343 | 63,215 |
| Income taxes receivable | 620 | 6,634 |
| Inventories | 6,655 | 6,409 |
| Deferred income taxes | 1,228 | 2,017 |
| Other | 8,585 | 8,488 |
| Total current assets | 96,135 | 104,325 |
| Investments: | | |
| Associated companies | 37,790 | 39,489 |
| Other | 10,661 | 10,558 |
| Total investments | 48,451 | 50,047 |
| Property and equipment: | | |
| Land and improvements | 23,645 | 23,626 |
| Buildings and improvements | 180,570 | 184,838 |
| Equipment | 292,209 | 299,828 |
| Construction in process | 4,548 | 2,868 |
| | 500,972 | 511,160 |
| Less accumulated depreciation | 343,601 | 342,247 |
| Property and equipment, net | 157,371 | 168,913 |
| Goodwill | 243,729 | 243,729 |
| Other intangible assets, net | 212,657 | 242,184 |
| Postretirement assets, net | 14,136 | 14,956 |
| Other | 38,796 | 3,551 |
| Total assets | 811,275 | 827,705 |

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

| (Thousands of Dollars and Shares, Except Per Share Data) | September 28 2014 | September 29 2013 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | 31,400 | 14,371 |
| Accounts payable | 27,245 | 22,448 |
| Compensation and other accrued liabilities | 24,348 | 28,493 |
| Accrued interest | 4,812 | 9,074 |
| Unearned revenue | 30,903 | 32,605 |
| Total current liabilities | 118,708 | 106,991 |
| Long-term debt, net of current maturities | 773,350 | 820,187 |
| Pension obligations | 50,170 | 30,583 |
| Postretirement and postemployment benefit obligations | 10,359 | 7,253 |
| Deferred income taxes | 14,766 | 21,224 |
| Income taxes payable | 5,097 | 5,257 |
| Other | 16,369 | 5,900 |
| Total liabilities | 988,819 | 997,395 |
| Equity (deficit): | | |
| Stockholders' equity (deficit): | | |
| Serial convertible preferred stock, no par value; authorized 500 shares; none issued | — | — |
| Common Stock, authorized 120,000 shares; issued and outstanding: | 537 | 524 |
| September 28, 2014; 53,747 shares; $0.01 par value | | |
| September 29, 2013; 52,434 shares; $0.01 par value | | |
| Class B Common Stock, $2 par value; authorized 30,000 shares; none issued | — | — |
| Additional paid-in capital | 245,323 | 242,537 |
| Accumulated deficit | (414,282) | (421,077) |
| Accumulated other comprehensive income (loss) | (9,831) | 7,666 |
| Total stockholders' deficit | (178,253) | (170,350) |
| Non-controlling interests | 709 | 660 |
| Total deficit | (177,544) | (169,690) |
| Total liabilities and deficit | 811,275 | 827,705 |

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

| | Amount | | | Shares | | |
|---|---|---|---|---|---|---|
| (Thousands of Dollars and Shares) | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| Common Stock: | | | | | | |
| Balance, beginning of year | 524 | 523 | 89,915 | 52,434 | 52,291 | 44,958 |
| Change in par value | — | — | (89,466) | — | — | — |
| Shares issued | 13 | 1 | 74 | 1,313 | 143 | 7,333 |
| Balance, end of year | 537 | 524 | 523 | 53,747 | 52,434 | 52,291 |
| Additional paid-in capital: | | | | | | |
| Balance, beginning of year | 242,537 | 241,039 | 140,887 | | | |
| Change in par value | — | — | 89,466 | | | |
| Stock compensation | 1,494 | 1,261 | 1,080 | | | |
| Shares issued | 1,292 | 237 | 9,606 | | | |
| Balance, end of year | 245,323 | 242,537 | 241,039 | | | |
| Accumulated deficit: | | | | | | |
| Balance, beginning of year | (421,077) | (342,760) | (326,062) | | | |
| Net income (loss) | 7,671 | (77,724) | (16,299) | | | |
| Net income attributable to non-controlling interests | (876) | (593) | (399) | | | |
| Balance, end of year | (414,282) | (421,077) | (342,760) | | | |
| Accumulated other comprehensive income (loss): | | | | | | |
| Balance, beginning of year | 7,666 | (13,435) | (6,086) | | | |
| Change in pension and postretirement benefits | (29,591) | 35,764 | (12,455) | | | |
| Deferred income taxes, net | 12,094 | (14,663) | 5,106 | | | |
| Balance, end of year | (9,831) | 7,666 | (13,435) | | | |
| Total stockholders' deficit | (178,253) | (170,350) | (114,633) | 53,747 | 52,434 | 52,291 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Thousands of Dollars) | 2014 52 Weeks | 2013 52 Weeks | 2012 53 Weeks |
|---|---|---|---|
| Cash provided by operating activities: | | | |
| Net income (loss) | 7,671 | (77,724) | (16,299) |
| Results of discontinued operations | — | (1,246) | (2,918) |
| Income (loss) from continuing operations | 7,671 | (76,478) | (13,381) |
| Adjustments to reconcile loss from continuing operations to net cash provided by operating activities of continuing operations: | | | |
| Depreciation and amortization | 47,173 | 55,637 | 65,139 |
| Impairment of intangible and other assets | 2,980 | 171,094 | 1,388 |
| Stock compensation expense | 1,481 | 1,261 | 1,080 |
| Distributions greater than earnings of MNI | 1,366 | 1,742 | 700 |
| Amortization of debt fair value adjustment | 2,394 | 5,117 | 3,919 |
| Debt financing costs | 22,927 | 594 | 2,823 |
| Reorganization costs | — | — | 37,765 |
| Gain on sales of investments | — | (7,093) | — |
| Deferred income tax expense (benefit) | 6,425 | (54,807) | (779) |
| Changes in operating assets and liabilities: | | | |
| Decrease in receivables | 872 | 4,710 | 1,085 |
| Decrease in inventories and other | 217 | 904 | 1,942 |
| Increase (decrease) in accounts payable, compensation and other accrued liabilities and unearned revenue | (5,315) | (2,280) | 358 |
| Decrease in pension, postretirement and postemployment benefit obligations | (6,078) | (9,602) | (8,898) |
| Change in income taxes receivable or payable | 5,854 | 1,117 | (9,078) |
| Other, net | (5,892) | (1,849) | (4,026) |
| Net cash provided by operating activities of continuing operations | 82,075 | 90,067 | 80,037 |
| Cash provided by (required for) investing activities of continuing operations: | | | |
| Purchases of property and equipment | (13,661) | (9,740) | (7,843) |
| Decrease (increase) in restricted cash | (441) | — | 4,972 |
| Proceeds from insurance and sales of assets | 4,485 | 7,802 | 1,353 |
| Distributions greater than earnings of TNI | 333 | 972 | 1,156 |
| Other, net | — | (330) | (422) |
| Net cash required for investing activities of continuing operations | (9,284) | (1,296) | (784) |
| Cash provided by (required for) financing activities of continuing operations: | | | |
| Proceeds from long-term debt | 805,000 | 94,000 | 1,004,795 |
| Payments on long-term debt | (847,750) | (192,350) | (1,065,455) |
| Debt financing and reorganization costs paid | (31,587) | (1,071) | (32,408) |
| Common stock transactions, net | 688 | 103 | — |
| Net cash required for financing activities of continuing operations | (73,649) | (99,318) | (93,068) |
| Net cash provided by (required for) discontinued operations: | | | |
| Operating activities | — | (552) | 661 |
| Investing activities | — | 14,741 | 3,519 |
| Net increase (decrease) in cash and cash equivalents | (858) | 3,642 | (9,635) |
| Cash and cash equivalents: | | | |
| Beginning of year | 17,562 | 13,920 | 23,555 |
| End of year | 16,704 | 17,562 | 13,920 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

References to "we", "our", "us" and the like throughout the Consolidated Financial Statements refer to Lee Enterprises, Incorporated and subsidiaries (the "Company"). References to "2014", "2013", "2012" and the like refer to the fiscal years ended the last Sunday in September.

Lee Enterprises, Incorporated is a leading provider of local news and information and a major platform for advertising, in primarily midsize markets, with 46 daily newspapers and a joint interest in four others, rapidly growing digital products and nearly 300 weekly newspapers and specialty publications in 22 states. We currently operate in a single operating segment.

On December 12, 2011, the Company and certain of its subsidiaries filed voluntary, prepackaged petitions in the U.S. Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") for relief under Chapter 11 of the U.S. Bankruptcy Code (the "U.S. Bankruptcy Code") (collectively, the "Chapter 11 Proceedings"). Our interests in TNI Partners ("TNI") and Madison Newspapers, Inc. ("MNI") were not included in the filings. During the Chapter 11 Proceedings, we, and certain of our subsidiaries, continued to operate as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the U.S. Bankruptcy Code. In general, as debtors-in-possession, we were authorized under the U.S. Bankruptcy Code to continue to operate as an ongoing business, but were not to engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On January 23, 2012, the Bankruptcy Court approved our Second Amended Joint Prepackaged Plan of Reorganization (the "Plan") under the U.S. Bankruptcy Code and on January 30, 2012 (the "Effective Date") the Company emerged from the Chapter 11 Proceedings. On the Effective Date, the Plan became effective and the transactions contemplated by the Plan were consummated. Implementation of the Plan resulted primarily in refinancing of our debt that extended the maturity to December 2015 or April 2017. The Chapter 11 Proceedings did not adversely affect the interests of employees, vendors, contractors, customers or any aspect of Company operations. Stockholders retained their interest in the Company, subject to modest dilution. As a result, “fresh start” accounting was not used.

In May 2013, we refinanced a portion of our debt, extending the maturity to April 2017. On March 31, 2014, we refinanced all of our remaining debt, extending the related maturity dates to March 2019, March 2022 or December 2022. See Notes 5 and 9.

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Fiscal Year

All of our enterprises use period accounting with the fiscal year ending on the last Sunday in September. 2014 and 2013 include 52 weeks of business operations for the Company and MNI and 2012 includes 53 weeks of business operations. TNI has 52 weeks of operations in 2014 and 2012 and a 53rd week of business operations in 2013.

Subsequent Events

We have evaluated subsequent events through December 12, 2014. No events have occurred subsequent to September 28, 2014 that require disclosure or recognition in these financial statements, except as included herein.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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. On an on-going basis, we evaluate our estimates. 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.

Principles of Consolidation

All significant intercompany transactions and balances have been eliminated.

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, and reductions in the value of, intangible assets.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less at date of acquisition to be cash equivalents.

Outstanding checks in excess of funds on deposit are included in accounts payable and are classified as financing activities in the Consolidated Statements of Cash Flows.

Accounts Receivable

We evaluate our allowance for doubtful accounts receivable based on historical credit experience, payment trends and other economic factors. Delinquency is determined based on timing of payments in relation to billing dates. Accounts considered to be uncollectible are written off.

Inventories

Newsprint inventories are priced at the lower of cost or market, with cost being determined by the first-in, first-out or last-in, first-out methods. Newsprint inventories at September 28, 2014 and September 29, 2013 are less than replacement cost by $2,761,000 and $3,087,000, respectively.

The components of newsprint inventory by cost method are as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| First-in, first-out | 2,297 | 2,219 |
| Last-in, first-out | 2,404 | 2,278 |
| | 4,701 | 4,497 |

Other inventories consisting of ink, plates and film are priced at the lower of cost or market, with cost being determined by the first-in, first-out method.

Other Investments

Other investments primarily consist of marketable securities held in trust under a deferred compensation arrangement and investments for which no established market exists. Marketable securities are classified as trading securities and carried at fair value with gains and losses reported in earnings. Non-marketable securities are carried at cost.

Property and Equipment

Property and equipment are carried at cost. Equipment, except for printing presses and preprint insertion equipment, is depreciated primarily by declining-balance methods. The straight-line method is used for all other assets. The estimated useful lives are as follows:

| | Years |
|---|---|
| Buildings and improvements | 5 - 54 |
| Printing presses and insertion equipment | 3 - 28 |
| Other | 3 - 20 |

We capitalize interest as a component of the cost of constructing major facilities. At September 28, 2014 and September 29, 2013, capitalized interest is not significant.

We recognize the fair value of a liability for a legal obligation to perform an asset retirement activity when such activity is a condition of a future event and the fair value of the liability can be estimated.

Goodwill and Other Intangible Assets

Intangible assets include covenants not to compete, consulting agreements, customer lists, newspaper subscriber lists and mastheads. Intangible assets subject to amortization are being amortized using the straight-line method as follows:

| | Years |
|---|---|
| Customer lists | 15 - 23 |
| Newspaper subscriber lists | 11 - 33 |
| Non-compete and consulting agreements | 15 |

In assessing the recoverability of goodwill and other non-amortized intangible assets, we annually assess qualitative factors affecting our business to determine if the probability of a goodwill impairment is more likely than not. Our assessment includes reviewing internal and external factors affecting our business, such as cash flow projections, stock price and other industry or market considerations. This assessment is made in the last fiscal quarter of each year.

We analyze goodwill and other non-amortized intangible assets for impairment more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate and operating or cash flow losses related to such assets.

Should we determine that a goodwill impairment is more likely than not, we make a determination of the fair value of our business. Fair value is determined using a combination of an income approach, which estimates fair value based upon future revenue, expenses and cash flows discounted to their present value, and a market approach, which estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the publishing industry. Fair value is allocated to our assets and liabilities to determine an implied goodwill fair value. A non-cash impairment charge will generally be recognized when the book value of goodwill exceeds its implied fair value.

Should we determine that a non-amortized intangible asset impairment is more likely than not, we make a determination of the individual asset's fair value. Fair value is determined using the relief from royalty method, which estimates fair value based upon appropriate royalties of future revenue discounted to their present value. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of such asset.

We review our amortizable intangible assets for impairment when indicators of impairment are present. We assess recoverability of these assets by comparing the estimated undiscounted cash flows associated with the asset or asset group with their carrying amount. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by us and represent a Level 3 fair value measurement. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

We also periodically evaluate the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact our cash flows. However, a decrease in the useful lives of such intangible assets would increase future amortization expense and decrease future reported operating results and earnings per common share.

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. See Note 4.

Minority Interest

Minority interest in earnings of TownNews is recognized in the Consolidated Financial Statements.

Revenue Recognition

Advertising revenue is recorded when advertisements are placed in the publication or on the related digital platform. Subscription revenue is recorded over the print or digital subscription term or as newspapers are individually sold. Other revenue is recognized when the related product or service has been delivered. Unearned revenue arises in the ordinary course of business from advance subscription payments for print or digital products or advance payments for advertising.

Advertising Costs

A substantial amount of our advertising and promotion expense consists of advertising placed in our own publications and digital platforms, using available space. The incremental cost of such advertising is not significant and is not measured separately by us. External advertising costs are not significant and are expensed as incurred.

Pension, Postretirement and Postemployment Benefit Plans

We evaluate our liabilities for pension, postretirement and postemployment benefit plans based upon computations made by consulting actuaries, incorporating estimates and actuarial assumptions of future plan service costs, future interest costs on projected benefit obligations, rates of compensation increases, when applicable, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets and other factors. If we used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, resulting in recognition of different amounts of expense over future periods.

We use a fiscal year end measurement date for all our pension and postretirement obligations in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 715, Retirement Plans.

Income Taxes

Deferred income taxes are provided using the asset and liability method, whereby deferred income tax assets are recognized for deductible temporary differences and loss carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. Deferred income tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Fair Value of Financial Instruments

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.

Valuation methodologies used for pension and postretirement assets measured at fair value are as follows:

Cash and cash equivalents consist of short term deposits valued based on quoted prices in active markets. Such investments are classified as Level 1.

Equity securities valued based on the closing market price in an active market are classified as Level 1. Certain investments in commingled funds are valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices. Such investments are classified as Level 2.

Hedge funds consist of a long/short equity fund and a diversified fund of funds. These funds are valued at the net asset value of units held at the end of the period based upon the value of the underlying investments, which is determined using multiple approaches including by quoted market prices and by private market quotations. Such investments are classified as Level 2 and Level 3.

Debt securities consist of corporate bonds and government securities that are valued based upon quoted market prices. Such investments are classified as Level 1. Certain investments in commingled funds are valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices. Such investments are classified as Level 2.

Treasury Inflation-Protected Securities ("TIPS") consist of low yield mutual funds and are valued by quoted market prices. Such investments are classified as Level 1.

Stock Compensation and Warrants

We have several active stock-based compensation plans. We account for grants under those plans under the fair value expense recognition provisions of FASB ASC Topic 718, Compensation-Stock Compensation. We determine the fair value of stock options using the Black-Scholes option pricing formula. Key inputs to this formula include expected term, expected volatility and the risk-free interest rate.

The expected term represents the period that our stock-based awards are expected to be outstanding, and is determined based on historical experience of similar awards, giving consideration to contractual terms of the awards, vesting schedules and expectations of future employee behavior. The volatility factor is calculated using historical market data for our Common Stock. The time frame used is equal to the expected term. We base the risk-free interest rate on the yield to maturity at the time of the stock option grant on zero-coupon U.S. government bonds having a remaining term equal to the option's expected term. When estimating forfeitures, we consider voluntary termination behavior as well as actual option forfeitures.

We amortize as compensation expense the value of stock options and restricted Common Stock using the straight-line method over the vesting or restriction period, which is generally one to three years.

We also have 6,000,000 warrants outstanding to purchase shares of our Common Stock. Warrants are recorded at fair value determined using the Black-Scholes option pricing formula. See Notes 5, 9 and 12.

Uninsured Risks

We are self-insured for health care, workers compensation and certain long-term disability costs of our employees, subject to stop loss insurance, which limits exposure to large claims. We accrue our estimated health care costs in the period in which such costs are incurred, including an estimate of incurred but not reported claims. Other risks are insured and carry deductible losses of varying amounts. Letters of credit and performance bonds totaling $5,820,000 at September 28, 2014 are outstanding in support of our insurance program.

Our accrued reserves for health care and workers compensation claims are based upon estimates of the remaining liability for retained losses made by consulting actuaries. The amount of workers compensation reserve has been determined based upon historical patterns of incurred and paid loss development factors from the insurance industry.

Discontinued Operations

In accordance with the provisions of FASB ASC Topic 360, Property, Land and Equipment, the operations and related losses on businesses sold, or identified as held for sale, have been presented as discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) for all years presented. Gains are recognized when realized.

2 DISCONTINUED OPERATIONS

In March 2013, we sold The Garden Island newspaper and digital operations in Lihue, HI for $2,000,000 in cash, plus an adjustment for working capital. The transaction resulted in a loss of $2,170,000, after income taxes, and was recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the 13 weeks ended March 31, 2013. Operating results of The Garden Island have been classified as discontinued operations for all periods presented.

In October 2012, we sold the North County Times in Escondido, CA for $11,950,000 in cash, plus an adjustment for working capital. The transaction resulted in a gain of $1,168,000, after income taxes, and was recorded in discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) in the 13 weeks ended December 30, 2012. Operating results of the North County Times have been classified as discontinued operations for all periods presented.

Results of discontinued operations consist of the following:

| (Thousands of Dollars) | 2013 | | 2012 | |
|---|---|---|---|---|
| Operating revenue | 1,321 | | 31,416 | |
| Costs and expenses | (1,697 | ) | (36,093 | ) |
| Gain on sale of the North County Times | 1,801 | | — | |
| Loss on sale of The Garden Island | (3,340 | ) | — | |
| Loss from discontinued operations, before income taxes | (1,915 | ) | (4,677 | ) |
| Income tax benefit | (669 | ) | (1,759 | ) |
| Net loss | (1,246 | ) | (2,918 | ) |

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 financial information of TNI is as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | 176 | 231 |
| Accounts receivable, net | 4,749 | 5,096 |
| Inventories | 1,582 | 735 |
| Other current assets | 125 | 125 |
| Investments and other assets | 78 | 13 |
| Total assets | 6,710 | 6,200 |
| LIABILITIES AND MEMBERS' EQUITY | | |
| Accrued expenses and other current liabilities | 2,160 | 1,800 |
| Unearned revenue | 3,036 | 3,273 |
| Total liabilities | 5,196 | 5,073 |
| Members' equity | 1,514 | 1,127 |
| Total liabilities and members' equity | 6,710 | 6,200 |

Summarized results of TNI are as follows:

| (Thousands of Dollars) | 2014 52 Weeks | 2013 53 Weeks | 2012 52 Weeks |
|---|---|---|---|
| Operating revenue: | | | |
| Advertising and marketing services | 36,957 | 40,166 | 39,267 |
| Subscription | 17,525 | 18,248 | 17,452 |
| Other | 3,410 | 3,576 | 2,324 |
| Total operating revenue | 57,892 | 61,990 | 59,043 |
| Operating expenses: | | | |
| Compensation | 18,505 | 19,799 | 20,050 |
| Newsprint and ink | 8,123 | 9,626 | 10,695 |
| Other operating expenses | 20,672 | 20,971 | 18,823 |
| Workforce adjustments | (71) | — | (31) |
| Net income | 10,663 | 11,594 | 9,506 |
| | | | |
| Company's 50% share | 5,331 | 5,797 | 4,753 |
| Less amortization of intangible assets | 418 | 621 | 723 |

| | | | |
|---|---|---|---|
| Equity in earnings of TNI | 4,913 | 5,176 | 4,030 |

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Summarized cash flows of TNI are as follows:

| (Thousands of Dollars) | 2014 52 Weeks | 2013 53 Weeks | 2012 52 Weeks |
|---|---|---|---|
| Net income | 10,663 | 11,594 | 9,506 |
| Cash provided by (required for) operating activities | (442) | 1,351 | (589) |
| Cash required for financing activities | (10,276) | (12,851) | (8,875) |
| Net increase (decrease) in cash and cash equivalents | (55) | 94 | 42 |
| Cash and cash equivalents: | | | |
| Beginning of year | 231 | 137 | 95 |
| End of year | 176 | 231 | 137 |

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses (benefit) in our Consolidated Statements of Operations and Comprehensive Income (Loss). These amounts totaled $(60,000), $(488,000),and $(522,000), in 2014, 2013 and 2012, respectively. Fees for editorial services provided to TNI by Star Publishing totaled $5,908,000, $6,041,000, and $5,994,000 in 2014, 2013 and 2012, respectively.

At September 28, 2014, the carrying value of the Company's 50% investment in TNI is $18,146,000. The difference between our carrying value and our 50% share of the members' equity of TNI relates principally to goodwill of $12,366,000 and other identified intangible assets of $5,390,000, certain of which are being amortized over their estimated useful lives through 2020. See Note 4.

Annual amortization of intangible assets is estimated to be $418,000 in 2015, 2016, 2017, 2018 and 2019.

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 sites. 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 financial information of MNI is as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | 12,245 | 12,552 |
| Accounts receivable, net | 5,794 | 6,295 |
| Other current assets | 2,656 | 2,584 |
| Current assets | 20,695 | 21,431 |
| Investments and other assets | 2,871 | 2,871 |
| Property and equipment, net | 6,758 | 7,231 |
| Goodwill and other intangible assets | 26,118 | 26,616 |
| Total assets | 56,442 | 58,149 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accrued expenses and other current liabilities | 3,502 | 3,611 |
| Unearned revenue | 5,226 | 4,887 |
| Deferred income taxes | 8,425 | 7,630 |
| Total liabilities | 17,153 | 16,128 |
| Stockholders' equity | 39,289 | 42,021 |
| Total liabilities and stockholders' equity | 56,442 | 58,149 |

Summarized results of MNI are as follows:

| (Thousands of Dollars) | 2014 52 Weeks | 2013 52 Weeks | 2012 53 Weeks |
|---|---|---|---|
| Operating revenue: | | | |
| Advertising and marketing services | 44,357 | 46,373 | 51.019 |
| Subscription | 21,578 | 17,421 | 17,173 |
| Other | 1,543 | 1,674 | 1,966 |
| Total operating revenue | 67,478 | 65,468 | 70,158 |
| Operating expenses: | | | |
| Compensation | 21,750 | 23,282 | 25,486 |
| Newsprint and ink | 5,166 | 5,871 | 6,927 |
| Other operating expenses | 28,477 | 24,046 | 25,568 |
| Workforce adjustments | 244 | 308 | 546 |
| Depreciation and amortization | 1,626 | 1,530 | 1,689 |
| Total operating expenses | 57,263 | 55,037 | 60,216 |
| Operating income | 10,215 | 10,431 | 9,942 |
| Non-operating income, net | 408 | 415 | 312 |
| Income before income taxes | 10,623 | 10,846 | 10,254 |
| Income tax expense | 3,855 | 3,895 | 3,785 |
| Net income | 6,768 | 6,951 | 6,469 |
| Equity in earnings of MNI | 3,384 | 3,509 | 3,201 |

Summarized cash flows of MNI are as follows:

| (Thousands of Dollars) | 2014 52 Weeks | 2013 52 Weeks | 2012 53 Weeks |
|---|---|---|---|
| Net income | 6,768 | 6,951 | 6,469 |
| Cash provided by operating activities | 9,448 | 8,643 | 10,641 |
| Cash required for investing activities | (255) | (155) | (379) |
| Cash required for financing activities | (9,500) | (11,500) | (6,800) |
| Net increase (decrease) in cash and cash equivalents | (307) | (3,012) | 3,462 |
| Cash and cash equivalents: | | | |
| Beginning of year | 12,552 | 15,564 | 12,102 |
| End of year | 12,245 | 12,552 | 15,564 |

Fees for editorial services provided to MNI by us are included in other revenue in the Consolidated Statements of Operations and Comprehensive Income (Loss) and totaled $7,050,000, $7,346,000 and $8,098,000, in 2014, 2013 and 2012, respectively.

At September 28, 2014, the carrying value of the Company's 50% investment in MNI is $19,644,000.

## 4 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill related to continuing operations are as follows:

| (Thousands of Dollars) | 2014 | 2013 |
|---|---|---|
| Goodwill, gross amount | 1,532,458 | 1,532,458 |
| Accumulated impairment losses | (1,288,729) | (1,288,729) |
| Goodwill, end of year | 243,729 | 243,729 |

Identified intangible assets related to continuing operations consist of the following:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Non-amortized intangible assets: | | |
| Mastheads | 25,102 | 27,038 |
| Amortizable intangible assets: | | |
| Customer and newspaper subscriber lists | 686,732 | 686,732 |
| Less accumulated amortization | 499,178 | 471,589 |
| | 187,554 | 215,143 |
| Non-compete and consulting agreements | 28,524 | 28,524 |
| Less accumulated amortization | 28,523 | 28,521 |
| | 1 | 3 |
| | 212,657 | 242,184 |

In 2014 and 2012, we performed a qualitative analysis to test our goodwill for impairment and concluded that the likelihood of an impairment was less than 50%. In 2013, we performed additional quantitative analysis of the carrying value of our goodwill and concluded the implied fair value of goodwill was in excess of its carrying value. As a result no goodwill impairment was recorded.

In 2014 and 2013, due to continuing revenue declines, we recorded non-cash charges to reduce the carrying value of non-amortized intangible assets. In 2013 we determined that the cash flows from amortizable intangible assets were not sufficient to recover their carrying values. As a result, we recorded non-cash charges to reduce the carrying values of such assets to fair value. We also recorded pretax, non-cash charges to reduce the carrying value of property and equipment in 2014, 2013 and 2012. We recorded deferred income tax benefits related to these charges.

A summary of impairment charges is included in the table below:

| (Thousands of Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Continuing operations: | | | |
| Non-amortized intangible assets | 1,936 | 1,567 | — |
| Amortizable intangible assets | — | 169,041 | — |
| Property and equipment | 1,044 | 486 | 1,388 |
| | 2,980 | 171,094 | 1,388 |
| Discontinued operations | — | — | 3,606 |

Annual amortization of intangible assets for the years ending September 2015 to September 2019 is estimated to be $27,185,000, $26,059,000, $25,030,000, $16,653,000, and $15,972,000, respectively.

5 DEBT

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

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

On March 31, 2014, we completed a comprehensive refinancing of our remaining debt, exclusive of the New Pulitzer Notes (the “2014 Refinancing”), which includes the following:

- $400,000,000 aggregate principal amount of 9.5% Senior Secured Notes (the “Notes”), pursuant to an Indenture dated as of March 31, 2014 (the “Indenture”) among the Company, certain subsidiaries party thereto from time to time (the “Subsidiary Guarantors”), U.S. Bank National Association, as Trustee (the "Notes Trustee"), and Deutsche Bank Trust Company Americas, as Collateral Agent;

- $250,000,000 first lien term loan (the "1st Lien Term Loan") and $40,000,000 revolving facility (the "Revolving Facility") under a First Lien Credit Agreement dated as of March 31, 2014 (together, the “1st Lien Credit Facility”) among the Company, the lenders party thereto from time to time (the “1st Lien Lenders”), and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent; and

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

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

Notes

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

Interest

The Notes require payment of interest semiannually on March 15 and September 15 of each year, at a fixed annual rate of 9.5%. Interest on the Notes accrues from March 31, 2014.

Redemption

We may redeem some, or all, of the principal amount of the Notes at any time on or after March 15, 2018 as follows:

| Period Beginning | Percentage of Principal Amount |
|---|---|
| March 15, 2018 | 104.75 |
| March 15, 2019 | 102.375 |
| March 15, 2020 | 100 |

We may also redeem up to 35% of the Notes prior to March 15, 2017 at 109.5% of the principal amount using the proceeds of certain future equity offerings.

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

Security

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

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

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

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

Also, the Notes are secured, subject to certain exceptions, priorities and limitations in the various agreements, by first priority security interests in the capital stock of, and other equity interests owned by the Notes Assignors pursuant to the Notes Security Agreement.

Prior to the Pulitzer Debt Satisfaction Date, none of the property and assets of Pulitzer and the Pulitzer Subsidiaries (collectively, the "Pulitzer Collateral") will be pledged to secure the Notes or the subsidiary guarantees. The Pulitzer Collateral includes the 50% interest in TNI owned by Star Publishing, but excludes any tangible and intangible assets owned by Star Publishing that are used by TNI in the conduct of its business. After the Pulitzer Debt Satisfaction Date, the Notes and the subsidiary guarantees will be secured, subject to permitted liens, by a lien on the Pulitzer Collateral owned by each of the Pulitzer Subsidiaries that become subsidiary guarantors on a second-priority basis, equally and ratably with all of the Company's and the subsidiary guarantors' existing and future obligations under the 1st Lien Credit Facility and certain other indebtedness for borrowed money incurred by the Company or any subsidiary guarantor.

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

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

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

Covenants and Other Matters

The Indenture contains certain of the restrictive covenants in the 1st Lien Credit Facility, as discussed more fully below, and limitations on our use of the Pulitzer Subsidiaries' cash flows. However, many of these covenants will cease to apply if the Notes are rated investment grade by either Moody's Investors Service, Inc. or Standard & Poor's Ratings Group and there is no default or event of default under the Indenture.

1st Lien Credit Facility

The 1st Lien Credit Facility consists of the $250,000,000 1st Lien Term Loan that matures in March 2019 and the $40,000,000 Revolving Facility that matures in December 2018. The 1st Lien Credit Facility documents the primary terms of the 1st Lien Term Loan and the Revolving Facility. The Revolving Facility may be used for working capital and general corporate purposes (including letters of credit). At September 28, 2014, after consideration of letters of credit, we have approximately $27,605,000 available for future use under the Revolving Facility.

Interest

Interest on the 1st Lien Term Loan, which has a principal balance of $226,750,000 at September 28, 2014, accrues at either (at our option) LIBOR plus 6.25% (with a LIBOR floor of 1.0%) or at a base rate equal to highest of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0%, plus 5.25% (with a base rate floor of 2.0%), and is payable quarterly, beginning in June 2014.

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

Interest on the Revolving Facility, which has a principal balance of $5,000,000 at September 28, 2014, accrues at either (at our option) LIBOR plus 5.5%, or at a base rate equal to highest of (i) the prime rate at the time, (ii) the federal funds rate plus 0.5%, or (iii) one month LIBOR plus 1.0%, plus 4.5%.

Principal Payments

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

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

| | 13 Weeks Ended |
|---|---|
| (Thousands of Dollars) | |

| | December 29 2013 | March 30 2014 | June 29 2014 | September 28 2014 |
|---|---|---|---|---|
| Mandatory | 3,000 | 3,000 | 6,250 | 6,250 |
| Voluntary | 3,350 | 5,500 | 10,750 | — |
| Asset sales | 150 | 1,500 | — | — |
| Excess cash flow | — | — | — | — |
| | 6,500 | 10,000 | 17,000 | 6,250 |

2013 payments made under the previous 1st lien agreement are summarized as follows:

| (Thousands of Dollars) | 13 Weeks Ended December 30 2012 | March 31 2013 | June 30 2013 | September 29 2013 |
|---|---|---|---|---|
| Mandatory | 2,500 | 2,500 | 3,000 | 3,000 |
| Voluntary | 9,750 | 15,350 | 2,260 | 6,000 |
| Asset sales | 7,750 | — | 240 | — |
| Excess cash flow | — | — | — | — |
| | 20,000 | 17,850 | 5,500 | 9,000 |

Security

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

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

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

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

- The Pari Passu Intercreditor Agreement;

- The Junior Intercreditor Agreement; and

- An Intercompany Subordination Agreement dated as of March 31, 2014 (the "1st Lien Intercompany Subordination Agreement") among the Company, Subsidiary Guarantors, Pulitzer, Pulitzer Subsidiaries and JPMorgan Chase Bank, N.A.

Covenants and Other Matters

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

The 1st Lien Credit Facility restricts us from paying dividends on our Common Stock and generally restricts us from repurchasing Common Stock, unless in each case no default shall have occurred and we have satisfied certain financial measurements. Further, the 1st Lien Credit Facility restricts or limits, among other things, subject to certain exceptions, the ability of the Company and its subsidiaries to: (i) incur indebtedness, (ii) enter into mergers, acquisitions and asset sales, (iii) incur or create liens and (iv) enter into transactions with certain affiliates. The 1st Lien Credit Facility contains various representations and warranties and may be terminated upon occurrence of certain events of default. The 1st Lien Credit Facility also contains cross-default provisions tied to the terms of each of the Indenture, 2nd Lien Term Loan and New Pulitzer Notes.

2nd Lien Term Loan

The 2nd Lien Term Loan, which has a balance of $150,000,000 at September 28, 2014, bears interest at a fixed annual rate of 12.0%, payable quarterly, and matures in December 2022.

Principal Payments

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

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

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

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

Voluntary payments under the 2nd Lien Term Loan are otherwise subject to call premiums as follows:

| Period Beginning | Percentage of Principal Amount |
|---|---|
| March 31, 2014 | 112 |
| March 31, 2017 | 106 |
| March 31, 2018 | 103 |
| March 31, 2019 | 100 |

Security

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

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

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

Pulitzer Debt Satisfaction Date.

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

- The Junior Intercreditor Agreement;

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

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

Covenants and Other Matters

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

In connection with the 2nd Lien Term Loan, we entered into a Warrant Agreement dated as of March 31, 2014 (the "Warrant Agreement") between the Company and Wells Fargo Bank, National Association. Under the Warrant Agreement, certain affiliates or designees of the 2nd Lien Lenders received on March 31, 2014 their pro rata share of warrants to purchase, in cash, an initial aggregate of 6,000,000 shares of Common Stock, subject to adjustment pursuant to anti-dilution provisions (the "Warrants"). The Warrants represent, when fully exercised, approximately 10.1% of shares of Common Stock outstanding at March 30, 2014 on a fully diluted basis. The exercise price of the Warrants is $4.19 per share.

The Warrant Agreement contains a cash settlement provision in the event of a change of control prior to March 31, 2018 as well as other provisions requiring the Warrants be measured at fair value and are included in other liabilities in our Consolidated Balance Sheets. We will remeasure the liability to fair value each reporting period, with changes reported in other non-operating income (expense). The initial fair value of the Warrants was $16,930,000. At September 28, 2014, the fair value of the Warrants is $10,807,800.

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

New Pulitzer Notes

In conjunction with its formation in 2000, St. Louis Post-Dispatch LLC ("PD LLC") borrowed $306,000,000 (the "Pulitzer Notes") from a group of institutional lenders (the "Noteholders"). The Pulitzer Notes were guaranteed by Pulitzer pursuant to a Guaranty Agreement with the Noteholders. The aggregate principal amount of the Pulitzer Notes was payable in April 2009.

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

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

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

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

Principal Payments

At September 28, 2014, the balance of the New Pulitzer Notes is $23,000,000. We may voluntarily prepay principal amounts outstanding under the New Pulitzer Notes at any time, in whole or in part, without premium or penalty (except as noted below), upon proper notice, and subject to certain limitations as to minimum amounts of prepayments. The New Pulitzer Notes provide for mandatory scheduled prepayments totaling $6,400,000 annually, beginning in 2014.

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

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

2014 payments made under the New Pulitzer Notes are summarized below.

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

2013 payments made under the New Pulitzer Notes or Pulitzer Notes are summarized as follows:

| | | | | 13 Weeks Ended |
|---|---|---|---|---|
| (Thousands of Dollars) | December 30 2012 | March 31 2013 | June 30 2013 | September 29 2013 |
| Mandatory | 3,800 | 2,600 | — | — |
| Voluntary | — | 1,500 | 14,000 | 17,000 |
| Asset sales | 5,200 | 1,900 | — | — |
| Excess cash flow | — | — | — | — |
| | 9,000 | 6,000 | 14,000 | 17,000 |

Security

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

Covenants and Other Matters

The New Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of minimum trailing 12 month EBITDA (minimum of $24,500,000 beginning September 28, 2014), as defined in the New Pulitzer Notes agreement, and limitations on capital expenditures and the incurrence of other debt. Our actual trailing 12 month EBITDA at September 28, 2014 is $42,884,000.

Further, the New Pulitzer Notes have limitations or restrictions on distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants require that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the New Pulitzer Notes, interest due under the 2nd Lien Agreement, or accumulation of cash collateral, and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

Other

Cash payments to the Lenders, Noteholders and legal and professional fees related to the Plan totaled $38,628,000, of which $6,273,000 was paid in 2011, and the remainder of which was paid in 2012. In addition, previously capitalized financing costs of $4,514,000 at September 25, 2011 were charged to expense in 2012 as debt financing costs prior to consummation of the Plan, with the remainder classified as reorganization costs in the Consolidated Statements of Operations and Comprehensive Income (Loss) upon consummation of the Plan.

Debt under the Plan was considered compromised. As a result, the previous 1st lien agreement, previous 2nd lien agreement and Pulitzer Notes were recorded at their respective present values, which resulted in a discount to the stated principal amount totaling $23,709,000. We used the effective rates of the respective debt agreements to discount the debt to its present value. In determining the effective rates, we considered all cash outflows of the respective debt agreements including: mandatory principal payments, interest payments, fees paid to lenders in connection with the refinancing as well as, in the case of the previous 2nd lien agreement, Common Stock issued. The present value was being amortized as a non-cash component of interest expense over the terms of the related debt.

As a result of the Plan, we recognized $37,765,000 of reorganization costs in the 2012 Consolidated Statements of Operations and Comprehensive Income (Loss). The components of reorganization costs are summarized as follows:
(Thousands of Dollars)

| | | |
|---|---|---|
| Unamortized loan fees from previous credit agreements | 1,740 | |
| Fees paid in cash to lenders, attorneys and others | 38,628 | |
| Non-cash fees paid in the form of additional debt | 12,250 | |
| Fair value of stock granted to 2nd Lien Lenders | 9,576 | |
| Present value adjustment | (23,709 | ) |
| | 38,485 | |
| Charged to expense in 2012 | 37,765 | |
| Charged to expense in 2011 as other non-operating expense | 720 | |

The refinancing of the Pulitzer Notes with the New Pulitzer Notes resulted in the acceleration of $1,565,000 of the present value adjustment discussed above, which was partially offset by eliminating deferred interest expense of $1,189,000, and the net amount of which was recognized in the 13 weeks ended June 30, 2013. Expenses related to the issuance of the New Pulitzer Notes are capitalized as debt issuance costs and will be amortized until the Pulitzer Debt Satisfaction Date.

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

(Thousands of Dollars)

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

Amortization of debt financing costs totaled $2,145,000 in 2014. Amortization of such costs is estimated to total $4,218,000 in 2015, $4,426,000 in 2016, $4,455,000 in 2017, $4,537,000 in 2018 and $4,210,000 in 2019. At September 28, 2014 we have $36,486,000 of unamortized debt financing costs included in other assets in our Consolidated Balance Sheets.

Debt is summarized as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 | Interest Rates (%) September 28 2014 |
|---|---|---|---|
| Revolving Facility | 5,000 | — | 5.65 |
| 1st Lien Term Loan | 226,750 | — | 7.25 |
| Notes | 400,000 | — | 9.50 |
| 2nd Lien Term Loan | 150,000 | — | 12.00 |
| New Pulitzer Notes | 23,000 | 63,000 | 9.00 |
| Previous credit agreements | — | 784,500 | |
| Unamortized present value adjustment | — | (12,942) | |
| | 804,750 | 834,558 | |
| Less current maturities of long-term debt | 31,400 | 19,150 | |
| Current amount of present value adjustment | — | (4,779) | |
| Total long-term debt | 773,350 | 820,187 | |

At September 28, 2014, our weighted average cost of debt, excluding amortization of debt financing costs, is 9.3%.

Aggregate maturities of debt total $31,400,000 in 2015, $31,400,000 in 2016, $35,200,000 in 2017, $25,000,000 in 2018, $131,750,000 in 2019 and $550,000,000 thereafter.

Liquidity

At September 28, 2014, after consideration of letters of credit, we have approximately $27,605,000 available for future use under our Revolving Facility. Including cash, our liquidity at September 28, 2014 totals $44,750,000. This liquidity amount excludes any future cash flows. We expect all interest and principal payments due in the next twelve months will be satisfied by our cash flows, which will allow us to maintain an adequate level of liquidity. The Warrants, if and when exercised, would provide additional liquidity in an amount up to $25,140,000.

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

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

Our ability to operate as a going concern is dependent on our ability to remain in compliance with debt covenants and to refinance or amend our debt agreements as they become due, or earlier if available liquidity is consumed. The Notes, 1st Lien Credit Facility and 2nd Lien Term Loan have only limited affirmative covenants with which we are required to maintain compliance. We are in compliance with our debt covenants at September 28, 2014.

## 6 PENSION PLANS

We have several non-contributory defined benefit pension plans that together cover selected employees. Benefits under the plans were generally based on salary and years of service. Effective in 2012, substantially all benefits are frozen and no additional benefits are being accrued. Our liability and related expense for benefits under the plans are recorded over the service period of active 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.

The net periodic cost (benefit) components of our pension plans are as follows:

| (Thousands of Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Service cost for benefits earned during the year | 156 | 216 | 30 |
| Interest cost on projected benefit obligation | 7,996 | 7,529 | 7,975 |
| Expected return on plan assets | (9,932) | (9,838) | (8,891) |
| Amortization of net loss | 423 | 2,287 | 2,370 |
| Amortization of prior service benefit | (136) | (136) | (136) |
| Net periodic pension cost (benefit) | (1,493) | 58 | 1,348 |

Net periodic pension benefit of $56,000 is allocated to TNI in 2014, 2013 and 2012.

Changes in benefit obligations and plan assets are as follows:

| (Thousands of Dollars) | 2014 | 2013 |
|---|---|---|
| Benefit obligation, beginning of year | 175,771 | 201,219 |
| Service cost | 156 | 216 |
| Interest cost | 7,996 | 7,529 |
| Actuarial loss (gain) | 26,526 | (22,155) |
| Benefits paid | (11,252) | (11,038) |
| Benefit obligation, end of year | 199,197 | 175,771 |
| Fair value of plan assets, beginning of year: | 147,265 | 134,900 |
| Actual return on plan assets | 15,074 | 19,364 |
| Benefits paid | (11,252) | (11,038) |
| Administrative expenses paid | (1,509) | (1,977) |

| | | |
|---|---|---|
| Employer contributions | 1,435 | 6,016 |
| Fair value of plan assets, end of year | 151,013 | 147,265 |
| Funded status - benefit obligation in excess of plan assets | 48,184 | 28,506 |

Disaggregated amounts recognized in the Consolidated Balance Sheets are as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Pension obligations | 48,184 | 28,506 |
| Accumulated other comprehensive loss (before income taxes) | (41,695) | (19,091) |

Amounts recognized in accumulated other comprehensive income (loss) are as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Unrecognized net actuarial loss | (42,348) | (19,880) |
| Unrecognized prior service benefit | 653 | 789 |
| | (41,695) | (19,091) |

We expect to recognize $1,765,000 and $137,000 of unrecognized net actuarial loss and unrecognized prior service benefit, respectively, in net periodic pension cost in 2015.

The accumulated benefit obligation for the plans total $199,197,000 at September 28, 2014 and $175,771,000 at September 29, 2013. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are $199,197,000, $199,197,000 and $151,013,000, respectively, at September 28, 2014.

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

| (Percent) | September 28 2014 | September 29 2013 |
|---|---|---|
| Discount rate | 4.2 | 4.7 |

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

| (Percent) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Discount rate | 4.7 | 3.85 | 4.4 |
| Expected long-term return on plan assets | 7.0 | 7.5 | 7.9 |

For 2015, the expected long-term return on plan assets is 6.75%. The assumptions related to the expected long-term return on plan assets are developed through an analysis of historical market returns, current market conditions and composition of plan assets.

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

Plan Assets

The primary objective of our investment strategy is to satisfy our pension obligations at a reasonable cost. Assets are actively invested to balance real growth of capital through appreciation and reinvestment of dividend and interest income and safety of invested funds.

Our investment policy outlines the governance structure for decision making, sets investment objectives and restrictions and establishes criteria for selecting and evaluating investment managers. The use of derivatives is strictly prohibited, except on a case-by-case basis where the manager has a proven capability, and only to hedge quantifiable risks such as exposure to foreign currencies. An investment committee, consisting of certain of our executives and supported by independent consultants, is responsible for monitoring compliance with the investment policy. Assets are periodically redistributed to maintain the appropriate policy allocation.

The weighted-average asset allocation of our pension assets is as follows:

| (Percent) | Policy Allocation | Actual Allocation | |
|---|---|---|---|
| Asset Class | September 28 2014 | September 28 2014 | September 29 2013 |
| Equity securities | 50 | 48 | 60 |
| Debt securities | 35 | 20 | 30 |
| TIPS | 5 | 4 | 4 |
| Hedge fund investments | 10 | 10 | 4 |
| Cash and cash equivalents | — | 18 | 2 |

Plan assets include no Company securities. Assets include cash and cash equivalents and receivables from time to time due to the need to reallocate assets within policy guidelines. At September 28, 2014 and September 29, 2013, certain plan assets were in process of reallocation. In October 2014 and 2013, plan assets were within the policy allocation. In 2013, the policy allocation was amended to allow hedge fund investments.

Fair Value Measurements

The fair value hierarchy of pension assets at September 28, 2014 is as follows:

| (Thousands of Dollars) | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Cash and cash equivalents | 27,213 | — | — |
| Domestic equity securities | 58,754 | — | — |
| International equity securities | 7,007 | 7,562 | — |
| TIPS | 6,498 | — | — |
| Debt securities | 11,690 | 17,769 | — |
| Hedge fund investments | — | 8,030 | 8,351 |

In 2014, in connection with the allocation to hedge funds and debt securities, certain of our plan assets were classified as Level 3. Following is a rollfoward of Level 3 plan assets in 2014:

| (Thousands of Dollars) | Level 3 |
|---|---|
| Balance, beginning of year | — |
| Purchases, issuances, sales, settlements | 7,300 |
| Unrealized gains | 1,051 |
| Balance, end of year | 8,351 |

There were no purchases, sales or transfers of assets classified as Level 3 in 2013 or 2012.

Cash Flows

Based on our forecast at September 28, 2014, we expect to make contributions totaling $3,800,000 to our pension trust in 2015.

We anticipate future benefit payments to be paid from the pension trust as follows:
(Thousands of Dollars)

| | |
|---|---|
| 2015 | 11,581 |
| 2016 | 11,380 |
| 2017 | 11,436 |
| 2018 | 11,451 |
| 2019 | 11,466 |
| 2020-2024 | 56,934 |

Other Plans

We are obligated under an unfunded plan to provide fixed retirement payments to certain former employees. The plan is frozen and no additional benefits are being accrued. The accrued liability under the plan is $2,264,000 and $2,354,000 at September 28, 2014 and September 29, 2013, respectively, of which $279,000 is included in compensation and other accrued liabilities in the Consolidated Balance Sheet at September 28, 2014.

7 POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

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, PD 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. Plan assets may also be used to fund medical costs of certain active employees.

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

| (Thousands of Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Service cost for benefits earned during the year | 596 | 728 | 728 |
| Interest cost on projected benefit obligation | 911 | 1,125 | 1,109 |
| Expected return on plan assets | (1,483) | (1,474) | (2,129) |
| Amortization of net actuarial gain | (1,819) | (1,324) | (2,451) |
| Amortization of prior service benefit | (1,459) | (1,459) | (1,459) |
| Net periodic postretirement benefit | (3,254) | (2,404) | (4,202) |

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Changes in benefit obligations and plan assets are as follows:

| (Thousands of Dollars) | 2014 | 2013 |
|---|---|---|
| Benefit obligation, beginning of year | 23,432 | 30,728 |
| Service cost | 596 | 728 |
| Interest cost | 911 | 1,125 |
| Actuarial loss (gain) | 2,298 | (7,338) |
| Benefits paid, net of premiums received | (1,905) | (2,102) |
| Medicare Part D subsidies | 174 | 291 |
| Benefit obligation, end of year | 25,506 | 23,432 |
| Fair value of plan assets, beginning of year | 33,920 | 34,263 |
| Actual return on plan assets | 1,167 | 1,495 |
| Employer contributions | 597 | 679 |
| Benefits paid, net of premiums and Medicare Part D subsidies received | (1,731) | (1,811) |
| Benefits paid for active employees | (1,072) | (706) |
| Fair value of plan assets at measurement date | 32,881 | 33,920 |
| Funded status - benefit obligation less than plan assets | (7,375) | (10,488) |

The accumulated benefit obligation for plans with benefit obligations in excess of plan assets was $6,761,000 at September 28, 2014. These plans are unfunded.

Disaggregated amounts recognized in the Consolidated Balance Sheets are as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Non-current assets | 14,136 | 14,956 |
| Postretirement benefit obligations | 6,761 | 4,468 |
| Accumulated other comprehensive income (before income tax benefit) | 27,250 | 34,214 |

Amounts recognized in accumulated other comprehensive income are as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Unrecognized net actuarial gain | 16,394 | 21,899 |
| Unrecognized prior service benefit | 10,856 | 12,315 |
| | 27,250 | 34,214 |

We expect to recognize $1,443,000 and $1,459,000 of unrecognized net actuarial gain and unrecognized prior service benefit, respectively, in net periodic postretirement benefit in 2015.

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

| (Percent) | September 28 2014 | September 29 2013 |
|---|---|---|
| Discount rate | 3.7 | 4.0 |
| Expected long-term return on plan assets | 4.5 | 4.5 |

The assumptions related to the expected long-term return on plan assets are developed through an analysis of historical market returns, current market conditions and composition of plan assets.

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

| (Percent) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Discount rate | 4.0 | 3.85 | 4.4 |
| Expected long-term return on plan assets | 4.5 | 4.5 | 5.75 |

Assumed health care cost trend rates are as follows:

| (Percent) | September 28 2014 | September 29 2013 |
|---|---|---|
| Health care cost trend rates | 7.5 | 7.5 |
| Rate to which the cost trend rate is assumed to decline (the “Ultimate Trend Rate”) | 5.0 | 5.0 |
| Year in which the rate reaches the Ultimate Trend Rate | 2018 | 2018 |

Administrative costs related to indemnity plans are assumed to increase at the health care cost trend rates noted above.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. A one percentage point change in assumed health care cost trend rates would have the following annualized effects on reported amounts for 2014:

| | One Percentage Point | |
|---|---|---|
| (Thousands of Dollars) | Increase | Decrease |
| Effect on net periodic postretirement benefit | 36 | (32) |
| Effect on postretirement benefit obligation | 742 | (673) |

Plan Assets

The primary objective of our investment strategy is to satisfy our postretirement obligations at a reasonable cost. Assets are actively invested to balance real growth of capital through appreciation and reinvestment of dividend and interest income and safety of invested funds.

Our investment policy outlines the governance structure for decision making, sets investment objectives and restrictions, and establishes criteria for selecting and evaluating investment managers. The use of derivatives is strictly prohibited, except on a case-by-case basis where the manager has a proven capability, and only to hedge quantifiable risks such as exposure to foreign currencies. An investment committee, consisting of certain of our executives and supported by independent consultants, is responsible for monitoring compliance with the investment policy. Assets are periodically redistributed to maintain the appropriate policy allocation.

The weighted-average asset allocation of our postretirement assets is as follows:

| (Percent) | Policy Allocation | Actual Allocation | |
|---|---|---|---|
| Asset Class | September 28 2014 | September 28 2014 | September 29 2013 |
| Equity securities | 20 | 22 | 22 |
| Debt securities | 80 | 74 | 75 |
| Cash and cash equivalents | — | 4 | 4 |

Plan assets include no Company securities. Assets include cash and cash equivalents and receivables from time to time due to the need to reallocate assets within policy guidelines.

Fair Value Measurements

The fair value hierarchy of postretirement assets at September 28, 2014 is as follows:

| (Thousands of Dollars) | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Cash and cash equivalents | 1,294 | — | — |
| Domestic equity securities | 4,112 | 1,676 | — |
| International equity securities | 719 | 879 | — |
| Debt securities | — | 24,200 | — |

There were no purchases, sales or transfers of assets classified as Level 3 in 2014, 2013 or 2012.

Cash Flows

Based on our forecast at September 28, 2014, we do not expect to contribute to our postretirement plans in 2015.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Modernization Act”) introduced a prescription drug benefit under Medicare (“Medicare Part D”) and a federal subsidy to sponsors of retiree health care benefit plans (“Subsidy”) that provide a benefit at least actuarially equivalent (as that term is defined in the Modernization Act) to Medicare Part D. We concluded we qualify for the Subsidy under the Modernization Act since the prescription drug benefits provided under our postretirement health care plans generally require lower premiums from covered retirees and have lower deductibles than the benefits provided in Medicare Part D and, accordingly, are actuarially equivalent to or better than, the benefits provided under the Modernization Act.

We anticipate future benefit payments to be paid either with future contributions to the plan or directly from plan assets, as follows:

| (Thousands of Dollars) | Gross Payments | Less Medicare Part D Subsidy | Net Payments |
|---|---|---|---|
| 2015 | 3,070 | (220) | 2,850 |
| 2016 | 2,130 | (220) | 1,910 |
| 2017 | 2,090 | (210) | 1,880 |
| 2018 | 2,010 | (200) | 1,810 |
| 2019 | 2,000 | (210) | 1,790 |
| 2020-2024 | 9,010 | (860) | 8,150 |

Litigation

Several plan changes implemented prior to 2012 were the subject of litigation, or arbitration claims, under the terms of the respective collective bargaining agreements. In 2012, we settled all such claims with payments to plan participants totaling $2,802,000. These payments are classified as other, net in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Postemployment Plan

Our postemployment benefit obligation, representing certain disability benefits, is $3,597,000 at September 28, 2014 and $2,785,000 at September 29, 2013.

8 OTHER RETIREMENT PLANS

Substantially all of our employees are eligible to participate in a qualified defined contribution retirement plan. We also have a non-qualified plan for employees whose incomes exceed qualified plan limits.

Retirement and compensation plan costs, including interest on deferred compensation costs, charged to continuing operations are $3,883,000 in 2014, $3,729,000 in 2013 and $3,533,000 in 2012.

Multiemployer Pension Plans

We contribute to three multiemployer defined benefit pension plans under the terms of collective-bargaining agreements ("CBAs") that cover certain of our union-represented employees. The risks of participating in these multiemployer plans are different from our company-sponsored plans in the following aspects:

- We play no part in the management of the plan investments or any other aspect of plan administration;
- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- If we choose to stop participating in one or more multiemployer plans, we may be required to pay those plans an amount based on the unfunded status of the plan, referred to as "withdrawal liability".

Information related to these plans is outlined in the table below:

| (Thousands of Dollars) | Zone Status September 30 | | Funding Improvement Plan/Rehabilitation Plan Status | Contributions | | | | |
|---|---|---|---|---|---|---|---|---|
| Pension Plan | 2014 | 2013 | Status | 2014 | 2013 | 2012 | Surcharge Imposed | Expiration Dates of CBAs |
| GCIU- Employer Retirement Fund 91-6024903/001 | Red | Red | Implemented | 257 | 238 | 234 | No | 10/31/2015<br>7/1/2017 |
| CWA/ITU Negotiated Pension Plan 13-6212879/001 | Red | Red | Implemented | 113 | 121 | 132 | No | 5/13/2014<br>12/31/2014<br>4/1/2015<br>8/31/2015 |
| District No. 9, International Association of Machinists and Aerospace Workers Pension Trust 43-0736847/001 | Green | Green | N/A | 37 | 40 | 39 | N/A | 2/28/2015 |

Multiemployer plans in red zone status are generally less well funded than plans in green zone status.

9 COMMON STOCK, CLASS B COMMON STOCK AND PREFERRED SHARE PURCHASE RIGHTS

Common Stock

Under the Plan, the par value of our Common Stock was changed from $2.00 per share to $0.01 per share effective January 30, 2012. Holders of our previous 2nd lien agreement shared in the issuance of 6,743,640 shares of our Common Stock, an amount equal to 13% of outstanding shares on a pro forma basis as of January 30, 2012.

In connection with the 2nd Lien Term Loan, we entered into 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, 6,000,000 shares of Common Stock, subject to adjustment pursuant to anti-dilution provisions. The Warrants represent, when fully exercised, approximately 10.1% of shares of Common Stock outstanding at March 30, 2014 on a fully diluted basis. The exercise price of the Warrants is $4.19 per share.

The Warrant Agreement contains a cash settlement provision in the event of a change of control prior to March 31, 2018, as well as other provisions requiring the Warrants be measured at fair value and classified as other liabilities in our Consolidated Balance Sheets. We remeasure the liability to fair value each reporting period, with changes reported in other non-operating income (expense). The initial fair value of the Warrants was $16,930,000. At September 28, 2014, the fair value of the Warrants is $10,807,800.

In connection with the issuance of the Warrants, we entered into the Registration Rights Agreement. The Registration Rights Agreement requires, among other matters, that we use our commercially reasonable efforts to file and maintain the effectiveness for certain specified periods of a shelf registration statement covering the shares of Common Stock upon exercise of the Warrants.

Under the New York Stock Exchange ("NYSE") listing standards, if our Common Stock fails to maintain an adequate per share price and total market capitalization of less than $50,000,000, our Common Stock could be removed from the NYSE and traded in the over-the-counter market. In July 2011, the NYSE notified us that our Common Stock did not meet the NYSE continued listing standards due to the failure to maintain an adequate share price. Under the NYSE rules, our Common Stock was allowed to continue to be listed during a cure period. In February 2012, the NYSE notified us that we were again in compliance with the minimum closing price standard. In January 2013, the NYSE notified us that we had returned to full compliance with all continued listing standards.

Class B Common Stock

In 1986, one share of Class B Common Stock was issued as a dividend for each share of Common Stock held by stockholders of record at the time. The transfer of Class B Common Stock was restricted. As originally anticipated, the number of outstanding Class B shares decreased over time through trading and reached the sunset level of 5,600,000 shares in March 2011. In March 2011, in accordance with the sunset provisions established in 1986, we effected conversion of all outstanding shares of Class B Common Stock to Common Stock. As a result, all stockholders have one vote per share on all future matters. Class B shares formerly had ten votes per share.

Preferred Share Purchase Rights

In 1998, the Board of Directors adopted a Shareholder Rights Plan (the “Rights Plan”). Under the Rights Plan, the Board of Directors declared a dividend of one Preferred Share Purchase Right (“Right”) for each outstanding share of our Common Stock and Class B Common Stock (collectively “Common Shares”). Rights are attached to, and automatically trade with, our Common Shares. In 2008, the Board of Directors approved an amendment to the Rights Plan. The amendment increased the beneficial ownership threshold to 25% from 20% for stockholders purchasing Common Stock for passive investment only and decreased the threshold to 15% for all other investors. In addition, the amendment extended the expiration of the Rights Plan to May 31, 2018 from May 31, 2008.

Rights become exercisable only in the event that any person or group of affiliated persons other than a passive investor becomes a holder of 15% or more of our outstanding Common Shares, or commences a tender or exchange offer which, if consummated, would result in that person or group of affiliated persons owning at least 15% of our outstanding Common Shares. Once the Rights become exercisable, they entitle all other stockholders to purchase, by payment of a $150 exercise price, one one-thousandth of a share of Series A Participating Preferred Stock, subject to adjustment, with a value of twice the exercise price. In addition, at any time after a 15% position is acquired and prior to the acquisition of a 50% position, the Board of Directors may require, in whole or in part, each outstanding Right (other than Rights held by the acquiring person or group of affiliated persons) to be exchanged for one share of Common Stock or one one-thousandth of a share of Series A Preferred Stock. The Rights may be redeemed at a price of $0.001 per Right at any time prior to their expiration.

## 10 STOCK OWNERSHIP PLANS

Total non-cash stock compensation expense is $1,481,000, $1,261,000 and 1,080,000, in 2014, 2013 and 2012, respectively.

At September 28, 2014, we have reserved 3,344,109 shares of Common Stock for issuance to employees under an incentive and nonstatutory stock option and restricted stock plan approved by stockholders. At September 28, 2014, 1,011,254 shares are available for granting of non-qualified stock options or issuance of restricted Common Stock.

### Stock Options

Options are granted at a price equal to the fair market value on the date of the grant and are exercisable, upon vesting, over a ten-year period.

A summary of stock option activity is as follows:

| (Thousands of Shares) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Under option, beginning of year | 2,769 | 3,102 | 1,812 |
| Granted | 15 | 51 | 1,520 |
| Exercised | (342) | (62) | — |
| Canceled | (109) | (322) | (230) |
| Under option, end of year | 2,333 | 2,769 | 3,102 |
| Exercisable, end of year | 1,786 | 1,791 | 1,298 |

Weighted average prices of stock options are as follows:

| (Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Granted | 2.99 | 1.20 | 1.16 |
| Exercised | 2.01 | 1.65 | — |
| Cancelled | 10.98 | 5.18 | — |
| Under option, end of year | 2.70 | 2.94 | 3.18 |

The following assumptions were used to estimate the fair value of 2014, 2013 and 2012 option awards:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Volatility (Percent) | 91 | 121 | 122 |
| Risk-free interest rate (Percent) | 1.24 | 0.68 | 0.76 |
| Expected term (Years) | 4.5 | 4.7 | 4.7 |
| Estimated fair value (Dollars) | 2.02 | 0.98 | 0.95 |

A summary of stock options outstanding at September 28, 2014 is as follows:

| (Dollars) | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding (Thousands) | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable (Thousands) | Weighted Average Exercise Price |
| 1 - 5 | 2,264 | 6.8 | 1.75 | 1,717 | 1.91 |
| 25 - 50 | 69 | 1.6 | 33.99 | 69 | 33.99 |
| | 2,333 | 6.6 | 2.70 | 1,786 | 3.15 |

Total unrecognized compensation expense for unvested stock options at September 28, 2014 is $324,000, which will be recognized over a weighted average period of 0.7 years.

The aggregate intrinsic value of stock options outstanding at September 28, 2014 is $3,697,000.

Restricted Common Stock

A summary of restricted Common Stock activity follows:

| (Thousands of Shares) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Outstanding, beginning of year | 500 | 500 | — |
| Granted | 817 | — | 500 |
| Forfeited | (26) | — | — |
| Outstanding, end of year | 1,291 | 500 | 500 |

Weighted average grant date fair values of restricted Common Stock are as follows:

| (Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Outstanding, beginning of year | 1.31 | 1.31 | — |
| Granted | 3.61 | — | 1.31 |
| Forfeited | 3.61 | — | — |
| Outstanding, end of year | 2.72 | 1.31 | 1.31 |

Total unrecognized compensation expense for unvested restricted Common Stock at September 28, 2014 is $2,249,000, which will be recognized over a weighted average period of 1.7 years.

In December 2014, we issued 727,000 shares of restricted Common Stock to employees. The grant date fair value was $3.65 per share. All restrictions lapse in December 2017.

Stock Purchase Plans

We have 270,000 shares of Common Stock available for issuance pursuant to our Employee Stock Purchase Plan. We also have 8,700 shares of Common Stock available for issuance under our Supplemental Employee Stock Purchase Plan. There has been no activity under these plans in 2014, 2013 or 2012.

11 INCOME TAXES

Income tax expense (benefit) consists of the following:

| (Thousands of Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Federal | 451 | (7,915) | (8,244) |
| State | (571) | (693) | (2,210) |
| Deferred | 6,410 | (54,806) | (466) |
| | 6,290 | (63,414) | (10,920) |
| Continuing operations | 6,290 | (62,745) | (9,161) |
| Discontinued operations | — | (669) | (1,759) |
| | 6,290 | (63,414) | (10,920) |

Income tax expense (benefit) related to continuing operations differs from the amounts computed by applying the U.S. federal income tax rate to income (loss) before income taxes. The reasons for these differences are as follows:

| (Percent of Income (Loss) Before Income Taxes) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Computed “expected” income tax expense (benefit) | 35.0 | (35.0) | (35.0) |
| State income tax expense (benefit), net of federal tax impact | 11.0 | (2.6) | (1.9) |
| Net income of associated companies taxed at dividend rates | (9.3) | (0.8) | (6.4) |
| Domestic production deduction | — | 0.4 | 2.1 |
| Resolution of tax matters | 3.6 | 0.1 | (3.9) |
| Non-deductible expenses | 7.9 | 0.4 | 2.6 |
| Valuation allowance | (4.5) | (2.1) | 1.8 |
| Warrant valuation | (15.1) | — | — |
| Non-deductible costs of Chapter 11 Proceedings | — | — | 9.5 |
| CODI tax attribute reduction | 18.3 | (4.8) | (5.7) |
| Other | (1.8) | (0.7) | (3.7) |
| | 45.1 | (45.1) | (40.6) |

Net deferred income tax liabilities consist of the following components:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Deferred income tax liabilities: | | |
| Property and equipment | (40,549) | (46,242) |
| Identified intangible assets | (54,819) | (53,461) |
| Long-term debt | (13,440) | — |
| | (108,808) | (99,703) |
| Deferred income tax assets: | | |
| Investments | 20,765 | 21,558 |
| Long-term debt | — | 45,945 |
| Accrued compensation | 5,182 | 5,056 |
| Allowance for doubtful accounts and losses on loans | 1,258 | 1,224 |
| Pension and postretirement benefits | 5,210 | 2,106 |
| Net operating loss carryforwards | 87,867 | 28,660 |
| Accrued expenses | 809 | 1,903 |
| Other | 618 | 468 |
| | 121,709 | 106,920 |
| Valuation allowance | (26,439) | (26,424) |
| Net deferred income tax liabilities | (13,538) | (19,207) |

Net deferred income tax liabilities are classified as follows:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Current assets | 1,228 | 2,017 |
| Non-current liabilities | (14,766) | (21,224) |
| Net deferred income tax liabilities | (13,538) | (19,207) |

A reconciliation of 2014 and 2013 changes in gross unrecognized tax benefits is as follows:

| (Thousands of Dollars) | 2014 | 2013 |
|---|---|---|
| Balance, beginning of year | 12,671 | 11,980 |
| Decreases in tax positions for prior years | (1,592) | (159) |
| Increases in tax positions for the current year | 3,580 | 1,948 |
| Lapse in statute of limitations | (1,139) | (1,098) |
| Balance, end of year | 13,520 | 12,671 |

Approximately $9,045,000 and $8,275,000 of the gross unrecognized tax benefit balances for 2014 and 2013, respectively, relate to state net operating loss ("NOL") carryforwards which are netted against deferred taxes on our Consolidated Balance Sheets. The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $8,951,000 at September 28, 2014. We recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. The amount of accrued interest related to unrecognized tax benefits was, net of tax, $385,000 at September 28, 2014 and $534,000 at September 29, 2013. There were no amounts provided for penalties at September 28, 2014 or September 29, 2013.

At September 28, 2014, we had approximately $1,008,948,000 of NOL carryforwards for state income tax purposes that expire between 2015 and 2034. Such NOL carryforwards result in a deferred income tax asset of $30,796,000 at September 28, 2014, substantially all of which is offset by a valuation allowance. The valuation allowance not related to NOL carryforwards is $1,337,000 at September 28, 2014 and $2,131,000 at September 29, 2013.

2012 Federal NOL was carried back to 2010, resulting in a cash refund of $9,500,000, which was received in 2013. A Federal NOL based on 2013 results was carried back to 2011, resulting in a refund of $6,244,000. The refund was received in 2014.

In connection with the refinancing of debt under the Chapter 11 Proceedings, we realized substantial cancellation of debt income (“CODI”) for income tax purposes. This income was not immediately taxable for Federal income tax purposes because the CODI resulted from our reorganization under the U.S. Bankruptcy Code. For Federal income tax reporting purposes, we were required to reduce certain tax attributes, including any net operating loss carryforwards, capital losses, certain tax credit carryforwards, and the tax basis in certain assets and liabilities, including debt, in a total amount equal to the tax gain on the extinguishment of debt. The reduction in the basis of certain assets also resulted in reduced depreciation and amortization expense for income tax purposes beginning in 2013.

As a result of the reduction in the tax basis of debt noted above, we have been recognizing additional interest expense for income tax purposes, beginning in 2012. This additional interest expense was scheduled to be recognized through the maturity dates of the debt ending in 2017. The 2014 Refinancing resulted in all additional interest expense related to the CODI basis adjustment being deductible for income tax purposes in 2014. We expect to report a Federal NOL of approximately $163,000,000 for 2014, a substantial amount of which is due to this additional interest expense. This NOL results in a deferred income tax asset of $57,071,000, which is not offset by a valuation allowance because sufficient tax planning strategies are available to us before the expiration of the NOL in 2034.

12 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 $8,774,000, including our 17% ownership of the non-voting common stock of TCT, are carried at cost.

The fair value of floating rate debt, which consists of our 1st Lien Term Loan, is $231,895,000, based on an average of private market price quotations. Our fixed rate debt consists of $400,000,000 principal amount of the Notes, $150,000,000 principal amount under the 2nd Lien Term Loan and $23,000,000 principal amount of New Pulitzer Notes. At September 28, 2014, based on an average of private market price quotations, the fair values were $407,500,000 and $161,625,000 for the Notes and 2nd Lien Term Loan, respectively. The New Pulitzer Notes are held by a single investor, Berkshire. We are unable, as of September 28, 2014, to determine the fair value of the New Pulitzer Notes. The value, if determined, may be more or less than the carrying amount.

As discussed more fully in Notes 5 and 9, we recorded a liability for the Warrants issued in connection with the Warrant Agreement. The liability was initially measured at its fair value. We will remeasure the liability to fair value each reporting period, with changes reported in other non-operating income (expense). The initial fair value of the Warrants was $16,930,000. At September 28, 2014, the fair value of the Warrants is $10,807,800.

In 2014, 2013 and 2012, we reduced the carrying value of equipment no longer in use by $1,044,000, $486,000 and $1,388,000, respectively, based on estimates of the related fair value in the current market. Based on age, condition and marketability we estimated the equipment had no value.

13 EARNINGS (LOSS) PER COMMON SHARE

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

| (Thousands of Dollars and Shares, Except Per Common Share Data) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Income (loss) attributable to Lee Enterprises, Incorporated: | | | |
| Continuing operations | 6,795 | (77,071) | (13,780) |
| Discontinued operations | — | (1,246) | (2,918) |
| | 6,795 | (78,317) | (16,698) |
| Weighted average Common Stock | 53,438 | 52,333 | 49,357 |
| Less non-vested restricted Common Stock | (1,165) | (500) | (96) |
| Basic average Common Stock | 52,273 | 51,833 | 49,261 |
| Dilutive stock options and restricted Common Stock | 1,463 | — | — |
| Diluted average Common Stock | 53,736 | 51,833 | 49,261 |
| Earnings (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | 0.13 | (1.49) | (0.28) |
| Discontinued operations | — | (0.02) | (0.06) |
| | 0.13 | (1.51) | (0.34) |
| Diluted: | | | |
| Continuing operations | 0.13 | (1.49) | (0.28) |
| Discontinued operations | — | (0.02) | (0.06) |
| | 0.13 | (1.51) | (0.34) |

For 2014, 2013 and 2012, we had 3,121,000, 1,700,000 and 2,334,000 weighted average shares, respectively, not considered in the computation of diluted earnings (loss) 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. No stock options were considered in the computation of loss per common share in 2013 or 2012.

14 ALLOWANCE FOR DOUBTFUL ACCOUNTS

Valuation and qualifying account information related to the allowance for doubtful accounts receivable related to continuing operations is as follows:

| (Thousands of Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Balance, beginning of year | 4,501 | 4,872 | 5,359 |
| Additions charged to expense | 1,754 | 1,481 | 1,441 |
| Deductions from reserves | (1,729) | (1,852) | (1,928) |
| Balance, end of year | 4,526 | 4,501 | 4,872 |

15 OTHER INFORMATION

Compensation and other accrued liabilities consist of the following:

| (Thousands of Dollars) | September 28 2014 | September 29 2013 |
|---|---|---|
| Compensation | 11,187 | 12,606 |
| Retirement plans | 3,952 | 4,357 |
| Other | 9,209 | 11,530 |
| | 24,348 | 28,493 |

Cash payments are as follows:

| (Thousands of Dollars) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest | 81,363 | 84,479 | 72,131 |
| Debt financing and reorganization costs | 31,587 | 1,071 | 32,408 |
| Income tax refunds, net of payments | 6,022 | 9,126 | 1,140 |

Accumulated other comprehensive income (loss), net of deferred income taxes at September 28, 2014 and September 29, 2013, is related to pension and postretirement benefits.

16 COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases

We have operating lease commitments for certain of our office, production and distribution facilities. Management expects that in the normal course of business, existing leases will be renewed or replaced. Minimum lease payments during the five years ending September 2019 and thereafter are $2,592,000, $2,252,000, $2,010,000, $1,945,000, $918,000 and $2,202,000, respectively. Total operating lease expense is $3,276,000, $3,581,000 and $3,731,000, in 2014, 2013 and 2012, respectively.

Capital Expenditures

At September 28, 2014, we had construction and equipment purchase commitments totaling approximately $1,549,000.

Redemption of PD LLC Minority Interest

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

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

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

Income Taxes

Commitments exclude unrecognized tax benefits to be recorded in accordance with FASB ASC Topic 740, Income Taxes. We are unable to reasonably estimate the ultimate amount or timing of cash settlements with the respective taxing authorities for such matters. See Note 11.

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

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

Legal Proceedings

In 2008, a group of newspaper carriers filed suit against us in the United States District Court for the Southern District of California, claiming to be our employees and not independent contractors. The plaintiffs sought relief related to alleged violations of various employment-based statutes, and requested punitive damages and attorneys' fees. In 2010, the trial court granted the plaintiffs' petition for class certification. We filed an interlocutory appeal which was denied. After concluding discovery, a motion to decertify the class was filed, which was granted as to plaintiffs' minimum wage, overtime, unreimbursed meal, and unreimbursed rest period claims. In July 2014 we reached a settlement with the plaintiffs, which remains subject to court approval, and recorded a liability of $2,300,000 in 2014.

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

17 IMPACT OF RECENTLY ADOPTED ACCOUNTING STANDARDS

In 2013, FASB issued an amendment to an existing accounting standard, which requires an entity to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. This guidance does not change the current requirements for reporting net income or other comprehensive income in the financial statements and is effective beginning in 2014. The adoption of this standard did not have a material impact on our Consolidated Financial Statements.

18 QUARTERLY FINANCIAL DATA (UNAUDITED)

| (Thousands of Dollars, Except Per Common Share Data) | Quarter Ended<br>December | March | June | September |
|---|---|---|---|---|
| 2014 | | | | |
| Operating revenue | 177,385 | 154,093 | 163,125 | 162,094 |
| Income (loss) from continuing operations | 12,102 | 1,705 | (9,511) | 3,375 |
| Discontinued operations, net of income taxes | — | — | — | — |
| Net income (loss) | 12,102 | 1,705 | (9,511) | 3,375 |
| Income (loss) attributable to Lee Enterprises, Incorporated | 11,892 | 1,486 | (9,746) | 3,162 |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Continuing operations | 0.23 | 0.03 | (0.19) | 0.06 |
| Discontinued operations | — | — | — | — |
| | 0.23 | 0.03 | (0.19) | 0.06 |
| Diluted: | | | | |
| Continuing operations | 0.22 | 0.03 | (0.19) | 0.06 |
| Discontinued operations | — | — | — | — |
| | 0.22 | 0.03 | (0.19) | 0.06 |
| 2013 | | | | |
| Operating revenue | 184,656 | 160,603 | 167,019 | 162,462 |
| Income (loss) from continuing operations | 13,652 | (3,562) | 1,968 | (88,536) |
| Discontinued operations, net of income taxes | 1,046 | (2,293) | — | 1 |
| Net income (loss) | 14,698 | (5,855) | 1,968 | (88,535) |
| Income (loss) attributable to Lee Enterprises, Incorporated | 14,580 | (5,995) | 1,795 | (88,697) |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Continuing operations | 0.26 | (0.07) | 0.03 | (1.71) |
| Discontinued operations | 0.02 | (0.04) | — | — |
| | 0.28 | (0.12) | 0.03 | (1.71) |
| Diluted: | | | | |
| Continuing operations | 0.26 | (0.07) | 0.03 | (1.71) |
| Discontinued operations | 0.02 | (0.04) | — | — |
| | 0.28 | (0.12) | 0.03 | (1.71) |

Results of operations for the September quarter of 2014 and 2013 include non-cash impairment charges of $2,644,000 and $171,094,000, respectively.

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Lee Enterprises, Incorporated:

We have audited the accompanying consolidated balance sheets of Lee Enterprises, Incorporated and subsidiaries (the Company) as of September 28, 2014 and September 29, 2013, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for the 52-week periods ended September 28, 2014 and September 29, 2013, and the 53-week period ended September 30, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated balance sheets of Madison Newspapers, Inc., and Subsidiary (MNI), a 50% owned investee company, as of September 28, 2014 and September 29, 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. The Company's investment in MNI at September 28, 2014 and September 29, 2013 was $19,644,000 and $21,011,000, respectively, and its equity in earnings of MNI was $3,384,000 and $3,509,000 for the 52-week periods ended September 28, 2014 and September 29, 2013, respectively. The consolidated financial statements of MNI for the years ended September 28, 2014 and September 29, 2013 were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MNI for the 52-week periods ended September 28, 2014 and September 29, 2013, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lee Enterprises, Incorporated and subsidiaries as of September 28, 2014 and September 29, 2013, and the results of their operations and their cash flows for the 52-week periods ended September 28, 2014 and September 29, 2013, and the 53-week period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lee Enterprises, Incorporated and subsidiaries' internal control over financial reporting as of September 28, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 12, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois
December 12, 2014

EXHIBIT INDEX

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 Annual Report on Form 10-K.

| Number | Description |
|---|---|
| 3.1 * | Amended and Restated Certificate of Incorporation of Lee Enterprises, Incorporated effective as of January 30, 2012 (Exhibit 3.1 to Form 8-K filed on February 3, 2012) |
| 3.2 * | Amended and Restated By-Laws of Lee Enterprises, Incorporated effective as of May 2, 2013 (Exhibit 3.1 to Form 8-K filed May 7, 2013) |
| 4.1 * | The description of the Company's preferred stock purchase rights contained in its report on Form 8-K, filed on May 7, 1998, and related Rights Agreement, dated as of May 7, 1998 (“Rights Agreement”), between the Company and The First Chicago Trust Company of New York (“First Chicago”), as amended by Amendment No. 1 to the Rights Agreement dated January 1, 2008 between the Company and Wells Fargo Bank, N.A. (as successor rights agent to First Chicago) contained in the Company's report on Form 8-K filed on January 11, 2008 as Exhibit 4.2, and the related form of Certificate of Designation of the Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights as Exhibit C, included as Exhibit 1.1 to the Company's registration statement on Form 8-A filed on May 26, 1998 (File No. 1-6227), as supplemented by Form 8-A/A, Amendment No. 1, filed on January 11, 2008. |
| 4.2 * | Indenture dated as of March 31, 2014 among Lee Enterprises, Incorporated, certain subsidiaries from time to time parties thereto, U.S. Bank National Association, as Trustee, and Deutsche Bank Trust Company Americas, as Collateral Agent (Exhibit 4.1 to Form 8-K filed on April 4, 2014) |
| 4.3 * | Warrant Agreement dated as of March 31, 2014 between Lee Enterprises, Incorporated and Wells Fargo Bank, National Association (Exhibit 4.2 to Form 8-K filed on April 4, 2014) |
| 4.4 * | Registration Rights Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, Mudrick Capital Management, LP, Hawkeye Capital Management, LLC, Cohanzick Management, LLC, Aristeia Capital, L.L.C., CVC Credit Partners, LLC, Franklin Mutual Advisors, LLC and Wingspan Master Fund, LP (Exhibit 4.3 to Form 8-K filed on April 4, 2014) |
| 10.1 * | Purchase Agreement dated March 21, 2014 among Lee Enterprises, Incorporated, certain subsidiaries party thereto from time to time, U.S. Bank National Association, as Trustee, and Deutsche Bank Trust Company Americas, as Collateral Agent, involving a $400,000,000 aggregate principal amount of 9.5% Senior Secured Notes, pursuant to an Indenture dated as of March 31, 2014 (Exhibit 10.1 to Form 8-K filed on March 27, 2014) |
| 10.2 * | First Lien Credit Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and JPMorgan Securities LLC and Deutsche Bank Securities Inc., as Joint Lead Arrangers and as Joint Bookrunners (Exhibit 10.1 to Form 8-K filed on April 4, 2014) |
| 10.3 * | Second Lien Loan Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Lenders from time to time parties thereto, Wilmington Trust, National Association, as Administrative Agent and Collateral Agent, and JPMorgan Securities LLC and Deutsche Bank Securities Inc., as Joint |

| | |
|---|---|
| | Lead Arrangers and as Joint Bookrunners (Exhibit 10.2 to Form 8-K filed on April 4, 2014) |
| 10.4 * | Security Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Subsidiary Guarantors and Deutsche Bank Trust Company Americas, as Collateral Agent (Exhibit 10.3 to Form 8-K filed on April 4, 2014) |
| 10.5 * | Pari Passu Intercreditor Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the other Grantors from time to time parties thereto, JPMorgan Chase Bank, N.A., U.S. Bank National Association and Deutsche Bank Trust Company Americas (Exhibit 10.4 to Form 8-K filed on April 4, 2014) |
| 10.6 * | Junior Intercreditor Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the other Grantors from time to time parties thereto, JPMorgan Chase Bank, N.A., U.S. Bank National Association, Deutsche Bank Trust Company Americas and Wilmington Trust, National Association (Exhibit 10.5 to Form 8-K filed on April 4, 2014) |

| Number | Description |
|---|---|
| 10.7 * | First Lien Guarantee and Collateral Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Subsidiary Guarantors and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (Exhibit 10.6 to Form 8-K filed on April 4, 2014) |
| 10.8 * | Intercompany Subordination Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Subsidiary Guarantors, Pulitzer, Pulitzer Subsidiaries and JPMorgan Chase Bank, N.A. (Exhibit 10.7 to Form 8-K filed on April 4, 2014) |
| 10.9* | Second Lien Guarantee and Collateral Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Subsidiary Guarantors, Pulitzer, Pulitzer Subsidiaries and Wilmington Trust, National Association, as Administrative Agent and Collateral Agent (Exhibit 10.8 to Form 8-K filed on April 4, 2014) |
| 10.10 * | Second Amendment to Intercreditor Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, The Bank of New York Mellon Trust Company, N.A., Wilmington Trust, National Association, Pulitzer and the Pulitzer Subsidiaries (Exhibit 10.9 to Form 8-K filed on April 4, 2014) |
| 10.11 * | Intercompany Subordination Agreement dated as of March 31, 2014 among Lee Enterprises, Incorporated, the Subsidiary Guarantors, Pulitzer, Pulitzer Subsidiaries and Wilmington Trust, National Association (Exhibit 10.10 to Form 8-K filed on April 4, 2014) |
| 10.12 * | Note Agreement dated as of May 1, 2013 by and among St. Louis Post-Dispatch LLC, Pulitzer Inc. and BH Finance LLC (Exhibit 10.1 to Form 8-K filed on May 7, 2013) |
| 10.13 * | Subsidiary Guaranty Agreement dated as of May 1, 2013 by and among certain Subsidiaries of Pulitzer Inc. in favor of BH Finance LLC (Exhibit 10.2 to Form 8-K filed on May 7, 2013) |
| 10.14 * | Operating Agreement of St. Louis Post-Dispatch LLC, dated as of May 1, 2000, as amended by Amendment No. 1 to Operating Agreement of St. Louis Post-Dispatch LLC, dated as of June 1, 2001 (Exhibit 10.5 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.15* | Amendment Number Two to Operating Agreement of St. Louis Post-Dispatch LLC, effective February 18, 2009, between Pulitzer Inc. and Pulitzer Technologies, Inc. (Exhibit 10.13 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.16* | Amended and Restated Joint Operating Agreement, dated December 22, 1988, between Star Publishing Company and Citizen Publishing Company (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.17* | Amended and Restated Partnership Agreement, dated as of November 30, 2009, between Star Publishing Company and Citizen Publishing Company (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended December 27, 2009) |
| 10.18* | Amended and Restated Management Agreement, dated as of November 30, 2009, between Star Publishing Company and Citizen Publishing Company (Exhibit 10.1 to Form 10-Q for the Fiscal Quarter Ended December 27, 2009) |
| 10.19* | |

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|---|---|
| | License Agreement (Star), as amended and restated November 30, 2009, between Star Publishing Company and TNI Partners (Exhibit 10.3 to Form 10-Q for the Fiscal Quarter Ended December 27, 2009) |
| 10.20* | License Agreement (Citizen), as amended and restated November 30, 2009, between Citizen Publishing Company and TNI Partners (Exhibit 10.4 to Form 10-Q for the Fiscal Quarter Ended December 27, 2009) |
| 10.21 * | Lease Agreement between Ryan Companies US, Inc. and Lee Enterprises, Incorporated dated May 2003 (Exhibit 10.7 to Form 10-K for the Fiscal Year Ended September 30, 2003) |
| 10.22 * | License Agreement, dated as of May 1, 2000, by and between Pulitzer Inc. and St. Louis Post-Dispatch LLC (Exhibit 10.7 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.23* | Non-Confidentiality Agreement, dated as of May 1, 2000 (Exhibit 10.10 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.24 +* | Form of Director Compensation Agreement of Lee Enterprises, Incorporated for non-employee director deferred compensation (Exhibit 10.7 to Form 10-K for the Fiscal Year Ended September 30, 2004) |
| 10.25.1 +* | Amended and Restated Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (effective October 1, 1999, as amended effective January 6, 2010) (Exhibit B to Schedule 14A Definitive Proxy Statement for 2010) |

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| Number | Description |
| --- | --- |
| 10.25.2 * | Forms of related Incentive Stock Option Agreement, Non-Qualified Stock Option Agreement and Restricted Stock Agreement related to Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (Effective October 1, 1999, as amended effective January 6, 2010) (Exhibit 10.33.2 to Annual Report on Form 10-K for the fiscal year period ended September 29, 2013) |
| 10.26 * | Amended and Restated Lee Enterprises, Incorporated 1996 Stock Plan for Non-Employee Directors Effective February 17, 2010 (Appendix A to Schedule 14A Definitive Proxy Statement for 2014) |
| 10.27 +* | Lee Enterprises, Incorporated Supplementary Benefit Plan, Amended and Restated as of January 1, 2008 (Exhibit 10.25 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.28 +* | Lee Enterprises, Incorporated Outside Directors Deferral Plan, Amended and Restated as of January 1, 2008 (Exhibit 10.26 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.29 +* | Form of Amended and Restated Employment Agreement for certain Lee Enterprises, Incorporated Executive Officers Group (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended March 30, 2008) |
| 10.30 +* | Form of Indemnification Agreement for Lee Enterprises, Incorporated Directors and Executive Officers Group (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended March 30, 2008) |
| 10.31 +* | Lee Enterprises, Incorporated Amended and Restated Incentive Compensation Program (Appendix B to Schedule 14A Definitive Proxy Statement for 2014) |
| 21 | Subsidiaries and associated companies |
| 23.1 | Consent of KPMG LLP, Independent Registered Public Accounting Firm |
| 23.2 | Consent of Baker Tilly Virchow Krause LLP, Independent Registered Public Accounting Firm |
| 23.3 | Report of Baker Tilly Virchow Krause LLP, Independent Registered Public Accounting Firm |
| 24 | Power of Attorney |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |