LEE ENTERPRISES, INC
Form 10-Q
August 09, 2013

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

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

For The Quarterly Period Ended June 30, 2013

OR

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

Commission File Number 1-6227
LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its Charter)

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

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[X]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]   No [X]

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [X]   No [ ]

As of July 31, 2013, 52,419,241 shares of Common Stock of the Registrant were outstanding.

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References to “we”, “our”, “us” and the like throughout this document refer to Lee Enterprises, Incorporated (the "Company"). References to "2013", "2012" and the like refer to the fiscal years ended the last Sunday in September.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This report contains information that may be deemed forward-looking that is based largely on our current expectations, and is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those anticipated. Among such risks, trends and other uncertainties, which in some instances are beyond our control, are our ability to generate cash flows and maintain liquidity sufficient to service our debt, comply with or obtain amendments or waivers of the financial covenants contained in our credit facilities, if necessary, and to refinance our debt as it comes due.

Other risks and uncertainties include the impact and duration of continuing adverse conditions in certain aspects of the economy affecting our business, changes in advertising demand, potential changes in newsprint and other commodity prices, energy costs, interest rates, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, maintaining our listing status on the NYSE, competition and other risks detailed from time to time in our publicly filed documents.

Any statements that are not statements of historical fact (including statements containing the words “may”, “will”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “project”, “consider” and similar expressions) generally should be considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this release. We do not undertake to publicly update or revise our forward-looking statements.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands of Dollars)	June 30 2013	September 30 2012
ASSETS		
Current assets:		
Cash and cash equivalents	11,630	13,920
Accounts receivable, net	63,881	67,925
Income taxes receivable	—	7,887
Inventories	6,277	7,271
Deferred income taxes	789	789
Other	6,219	6,241
Assets of discontinued operations	—	18,305
Total current assets	88,796	122,338
Investments:		
Associated companies	40,693	42,201
Other	10,405	10,033
Total investments	51,098	52,234
Property and equipment:		
Land and improvements	24,558	24,519
Buildings and improvements	188,091	188,048
Equipment	296,623	298,300
Construction in process	4,541	2,369
	513,813	513,236
Less accumulated depreciation	339,131	328,866
Property and equipment, net	174,682	184,370
Goodwill	243,729	243,729
Other intangible assets, net	418,382	447,017
Postretirement assets, net	8,516	7,551
Other	3,827	3,897
Total assets	989,030	1,061,136

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

(Thousands of Dollars and Shares, Except Per Share Data)	June 30 2013	September 30 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	11,988	11,982
Accounts payable	18,499	22,434
Compensation and other accrued liabilities	35,647	38,509
Income taxes payable	689	—
Unearned revenue	33,848	34,850
Liabilities of discontinued operations	—	2,536
Total current liabilities	100,671	110,311
Long-term debt, net of current maturities	847,385	914,244
Pension obligations	61,122	68,636
Postretirement and postemployment benefit obligations	7,803	7,160
Deferred income taxes	61,968	60,140
Income taxes payable	6,240	6,062
Other	6,470	8,639
Total liabilities	1,091,659	1,175,192
Equity (deficit):		
Stockholders' equity (deficit):		
Serial convertible preferred stock, no par value; authorized 500 shares; none issued	—	—
Common Stock, $0.01 par value; authorized 120,000 shares; issued and outstanding:	524	523
June 30, 2013; 52,389 shares;		
September 30, 2012; 52,291 shares		
Class B Common Stock, $2 par value; authorized 30,000 shares; none issued	—	—
Additional paid-in capital	242,303	241,039
Accumulated deficit	(332,388)	(342,760)
Accumulated other comprehensive loss	(13,715)	(13,435)
Total stockholders' deficit	(103,276)	(114,633)
Non-controlling interests	647	577
Total deficit	(102,629)	(114,056)
Total liabilities and deficit	989,030	1,061,136

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

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

(Thousands of Dollars, Except Per Common Share Data)	13 Weeks Ended June 30 2013	13 Weeks Ended June 24 2012	39 Weeks Ended June 30 2013	39 Weeks Ended June 24 2012
Operating revenue:				
Advertising and marketing services	113,636	120,546	349,345	370,263
Subscription	43,583	42,098	133,609	128,909
Other	9,800	9,101	29,323	28,305
Total operating revenue	167,019	171,745	512,277	527,477
Operating expenses:				
Compensation	62,340	67,975	192,505	205,738
Newsprint and ink	10,471	12,366	33,357	38,600
Other operating expenses	53,461	51,317	160,929	157,138
Depreciation	5,215	5,811	16,146	17,755
Amortization of intangible assets	9,542	10,438	28,635	31,982
Workforce adjustments	945	2,404	2,260	3,171
Total operating expenses	141,974	150,311	433,832	454,384
Equity in earnings of associated companies	1,893	1,762	6,671	6,003
Operating income	26,938	23,196	85,116	79,096
Non-operating income (expense):				
Financial income	134	3	219	113
Interest expense	(21,991)	(24,468)	(68,390)	(57,533)
Debt financing costs	(468)	(42)	(557)	(2,780)
Other, net	520	—	7,466	—
Total non-operating expense, net	(21,805)	(24,507)	(61,262)	(60,200)
Income (loss) before reorganization costs and income taxes	5,133	(1,311)	23,854	18,896
Reorganization costs	—	(250)	—	37,617
Income (loss) before income taxes	5,133	(1,061)	23,854	(18,721)
Income tax expense (benefit)	3,165	(119)	11,805	(6,002)
Income (loss) from continuing operations	1,968	(942)	12,049	(12,719)
Discontinued operations, net of income taxes	—	(412)	(1,247)	(553)
Net income (loss)	1,968	(1,354)	10,802	(13,272)
Net income attributable to non-controlling interests	(173)	(119)	(430)	(272)
Income (loss) attributable to Lee Enterprises, Incorporated	1,795	(1,473)	10,372	(13,544)
Other comprehensive income (loss), net of income taxes	(93)	152	(280)	456
Comprehensive income (loss) attributable to Lee Enterprises, Incorporated	1,702	(1,321)	10,092	(13,088)
Income (loss) from continuing operations attributable to Lee Enterprises, Incorporated	1,795	(1,061)	11,619	(12,991)
Earnings (loss) per common share:				
Basic:				
Continuing operations	0.03	(0.02)	0.22	(0.27)
Discontinued operations	—	(0.01)	(0.02)	(0.01)
	0.03	(0.03)	0.20	(0.28)

Diluted:				
Continuing operations	0.03	(0.02)	0.22	(0.27)
Discontinued operations	—	(0.01)	(0.02)	(0.01)
	0.03	(0.03)	0.20	(0.28)

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

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

(Thousands of Dollars)	39 Weeks Ended June 30 2013	June 24 2012
Cash provided by operating activities:		
Net income (loss)	10,802	(13,272)
Results of discontinued operations	(1,247)	(553)
Income (loss) from continuing operations	12,049	(12,719)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	44,781	49,737
Amortization of debt present value adjustment	3,932	2,557
Stock compensation expense	1,109	802
Distributions greater than earnings of MNI	1,342	347
Deferred income tax expense (benefit)	2,022	(16,092)
Debt financing costs	527	2,805
Reorganization costs	—	37,617
Gain on sale of investments	(7,093)	—
Changes in operating assets and liabilities:		
Decrease in receivables	4,044	1,964
Decrease in inventories and other	409	644
Increase (decrease) in accounts payable, compensation and other accrued liabilities and unearned revenue	(6,946)	1,444
Decrease in pension, postretirement and postemployment benefit obligations	(8,310)	(5,164)
Change in income taxes receivable or payable	9,423	9,930
Other, net	(1,237)	(2,006)
Net cash provided by operating activities of continuing operations	56,052	71,866
Cash provided by (required for) investing activities of continuing operations:		
Purchases of property and equipment	(6,835)	(4,612)
Decrease in restricted cash	—	4,972
Proceeds from sales of assets	7,615	1,546
Distributions greater than earnings of TNI	166	910
Other, net	(330)	(500)
Net cash provided by investing activities of continuing operations	616	2,316
Cash provided by (required for) financing activities of continuing operations:		
Proceeds from long-term debt	94,000	1,004,795
Payments on long-term debt	(166,350)	(1,055,305)
Debt financing and reorganization costs paid	(766)	(31,334)
Common stock transactions, net	21	—
Net cash required for financing activities of continuing operations	(73,095)	(81,844)
Net cash provided by (required for) discontinued operations		
Operating activities	(552)	27
Investing activities	14,689	3,256
Net decrease in cash and cash equivalents	(2,290)	(4,379)
Cash and cash equivalents:		
Beginning of period	13,920	23,555
End of period	11,630	19,176

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

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

1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the “Company”) as of June 30, 2013 and their results of operations and cash flows for the periods presented. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2012 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the 13 weeks and 39 weeks ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

Certain amounts as previously reported have been reclassified to conform with the current period presentation. See Notes 2 and 4.

References to “we”, “our”, “us” and the like throughout the Consolidated Financial Statements refer to the Company. References to “2013”, “2012” and the like refer to the fiscal years ended the last Sunday in September.

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

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 and 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 a comprehensive refinancing of our debt. The Chapter 11 Proceedings did not adversely affect employees, vendors, contractors, customers or any aspect of Company operations. Stockholders retained their interest in the Company, subject to modest dilution. See Notes 5 and 12.

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.

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Assets and liabilities of the The Garden Island at February 28, 2013 are summarized as follows:

(Thousands of Dollars)	February 28 2013
Current assets	433
Property and equipment, net	770
Goodwill	500
Other intangible assets, net	4,025
Current liabilities	(271)
Assets, net	5,457

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 $1,167,000, 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.

Assets and liabilities of the North County Times at September 30, 2012 are summarized as follows:

(Thousands of Dollars)	September 30 2012
Current assets	2,093
Property and equipment, net	5,158
Goodwill	3,042
Other intangible assets, net	1,920
Current liabilities	(1,714)
Assets, net	10,499

Results of discontinued operations consist of the following:

	13 Weeks Ended	39 Weeks Ended	
(Thousands of Dollars)	June 24 2012	June 30 2013	June 24 2012
Operating revenue	7,563	1,321	23,650
Costs and expenses	(8,197)	(1,697)	(24,501)
Gain on sale of the North County Times	—	1,800	—
Loss on sale of The Garden Island	—	(3,340)	—
Loss from discontinued operations, before income taxes	(634)	(1,916)	(851)
Income tax benefit	(222)	(669)	(298)
Net loss	(412)	(1,247)	(553)

3INVESTMENTS 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 circulation 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 newspapers and other media.

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

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Summarized results of TNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		40 Weeks Ended	39 Weeks Ended
	June 30 2013	June 24 2012	June 30 2013	June 24 2012
Operating revenue	14,644	14,155	48,110	45,878
Operating expenses, excluding workforce adjustments, depreciation and amortization	12,300	11,986	39,051	37,926
Workforce adjustments	—	33	—	(31)
Operating income	2,344	2,136	9,059	7,983
Company's 50% share of operating income	1,172	1,068	4,530	3,992
Less amortization of intangible assets	155	181	517	542
Equity in earnings of TNI	1,017	887	4,013	3,450

Certain assets utilized by TNI are owned by Star Publishing and Citizen. Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses (income) 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 $(173,000) and $(128,000) in the 13 weeks ended June 30, 2013 and June 24, 2012, respectively, $(449,000) in the 40 weeks ended June 30, 2013 and $(440,000) in the 39 weeks ended June 24, 2012.

Annual amortization of intangible assets is estimated to be $418,000 in each of the 52 week periods ending June 2014, June 2015, June 2016, June 2017 and June 2018.

Madison Newspapers, Inc.

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

Summarized results of MNI are as follows:

(Thousands of Dollars)	13 Weeks Ended		39 Weeks Ended	
	June 30 2013	June 24 2012	June 30 2013	June 24 2012
Operating revenue	16,046	17,215	50,084	52,845
Operating expenses, excluding workforce adjustments, depreciation and amortization	12,773	13,993	40,450	43,440
Workforce adjustments	74	(6)	63	22
Depreciation and amortization	383	424	1,147	1,271
Operating income	2,816	2,804	8,424	8,112
Net income	1,754	1,748	5,249	5,106
Equity in earnings of MNI	876	874	2,658	2,553

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4 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Thousands of Dollars)	39 Weeks Ended June 30 2013	
Goodwill, gross amount	1,536,000	
Accumulated impairment losses	(1,288,729	)
Goodwill, beginning of period, as previously reported	247,271	
Goodwill allocated to discontinued operations	(3,542	)
Goodwill, beginning of period, as reclassified	243,729	
Goodwill, end of period	243,729	

Identified intangible assets consist of the following:

(Thousands of Dollars)	June 30 2013	September 30 2012
Nonamortized intangible assets:		
Mastheads	28,605	28,605
Amortizable intangible assets:		
Customer and newspaper subscriber lists	855,773	855,773
Less accumulated amortization	466,000	437,366
	389,773	418,407
Noncompete and consulting agreements	28,524	28,524
Less accumulated amortization	28,520	28,519
	4	5
	418,382	447,017

In assessing the recoverability of goodwill and other nonamortized 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 nonamortized 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. A non-cash impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.

Should we determine that a nonamortized 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.

The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by us. 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 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.

We also periodically evaluate our determination of 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.

Annual amortization of intangible assets for the 52 week periods ending June 2014, June 2015, June 2016, June 2017 and June 2018 is estimated to be $38,000,000, $37,804,000, $36,674,000, $35,434,000 and $35,048,000, respectively.

5 DEBT

As discussed more fully below (and certain capitalized terms used below defined), 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 ("Lenders"). We also amended the Pulitzer Notes, and extended the April 2012 maturity with the existing Noteholders. In May 2013, we again refinanced the remaining balance of the Pulitzer Notes.

1st Lien Agreement

In January 2012, we entered into a credit agreement (the “1st Lien Agreement”) with a syndicate of lenders (the “1st Lien Lenders”). The 1st Lien Agreement consists of a term loan of $689,510,000, and a new $40,000,000 revolving credit facility under which we have not drawn. The revolving credit facility also supports issuance of letters of credit.

Interest Payments

Debt under the 1st Lien Agreement bears interest, at our option, at either a base rate or an adjusted Eurodollar rate (“LIBOR”), plus an applicable margin. The base rate for the facility is the greater of (a) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (b) 0.5% in excess of the overnight federal funds rate at such time; or (c) 30 day LIBOR plus 1.0%. LIBOR loans are subject to a minimum rate of 1.25%. The applicable margin for term loan base rate loans is 5.25%, and 6.25% for LIBOR loans. The applicable margin for revolving credit facility base rate loans is 4.5%, and is 5.5% for LIBOR loans. At June 30, 2013, all borrowing under the 1st Lien Agreement is based on LIBOR at a total rate of 7.5%.

Principal Payments

At June 30, 2013, the balance outstanding under the term loan is $618,500,000. We may voluntarily prepay principal amounts outstanding or reduce commitments under the 1st Lien Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments.

We are required to repay principal amounts, on a quarterly basis until maturity, under the 1st Lien Agreement. Principal payments are required quarterly beginning in June 2012, and total $11,000,000 in 2013, $12,750,000 in 2014, $13,500,000 in 2015 and $3,375,000 in 2016, prior to the final maturity.

In addition to the scheduled payments, we are required to make mandatory prepayments under the 1st Lien Agreement under certain other conditions, such as from the net proceeds from asset sales. The 1st Lien Agreement also requires 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 1st Lien Agreement payments prior to the December 2015 maturity.

2013 payments made under the 1st Lien Agreement, and required to be made for the remainder of the year, are summarized as follows:

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

2012 payments made under the 1st Lien Agreement are summarized as follows:

(Thousands of Dollars)	13 Weeks Ended March 25 2012	June 24 2012	14 Weeks Ended September 30 2012
Mandatory	—	2,500	2,500
Voluntary	12,600	3,850	3,000
Asset sales	2,410	150	650
Excess cash flow	—	—	—
	15,010	6,500	6,150

There were no net principal payments made in 2012 under the previous credit agreement.

Security

The 1st Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by all of our existing and future, direct and indirect subsidiaries in which we hold a direct or indirect interest of more than 50% (the "Credit Parties"); provided however, that our wholly-owned subsidiary Pulitzer Inc. ("Pulitzer") and its subsidiaries are not Credit Parties. The 1st Lien Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

The Credit Parties have also granted a first priority security interest on substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the 1st Lien Agreement. Assets of Pulitzer and its subsidiaries, TNI and our ownership interest in, and assets of, MNI are excluded.

The revolving credit facility has a super-priority security interest over all of the collateral securing the term loan under the 1st Lien Agreement, superior to that of the term loan lenders.

Covenants and Other Matters

The 1st Lien Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is designed to assess the leverage of the Company, excluding Pulitzer, and does not reflect our overall leverage position due to the lower leverage of Pulitzer. It is based primarily on the sum of the principal amount of debt under the 1st Lien Agreement, plus debt under the 2nd Lien Agreement, as discussed more fully below, which totals $793,500,000 at June 30, 2013, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes distributions from MNI and other elements, but excludes the operating results of Pulitzer.

Our actual total leverage ratio at June 30, 2013 under the 1st Lien Agreement was 6.26:1 Our maximum total leverage ratio covenant will decrease, in stages, from 10.0:1 at June 30, 2013 to 9.1:1 in December 2015. On a consolidated basis, using the definitions in the 1st Lien Agreement, our leverage ratio is 5.25:1 at June 30, 2013. This consolidated measure is not the subject of a covenant in any of our debt agreements.

The 1st Lien Agreement also includes a minimum interest expense coverage ratio, as defined, which is based on the sum of interest expense, as defined, incurred under the 1st Lien Agreement and 2nd Lien Agreement, divided by the same measure of trailing 12 month operating results discussed above. The interest expense coverage ratio is similarly designed to assess the interest coverage of the Company, excluding Pulitzer, and does not reflect our overall interest coverage position. Our actual interest expense coverage ratio at June 30, 2013 was 1.66:1. Our minimum interest expense coverage ratio covenant is 1.08:1 at June 30, 2013.

The 1st Lien Agreement requires us to suspend stockholder dividends and share repurchases through December 2015. The 1st Lien Agreement also limits capital expenditures to $20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 1st Lien Agreement restricts our ability to make additional investments, acquisitions, dispositions and mergers without the consent of the 1st Lien Lenders and limits our ability to incur additional debt. Such covenants require that substantially all of our future cash flows are required to be directed toward debt reduction or accumulation of cash collateral and that the cash flows of the Credit Parties are largely segregated from those of Pulitzer.

2nd Lien Agreement

In January 2012, we entered into a second lien term loan (the “2nd Lien Agreement”) with a syndicate of lenders (the “2nd Lien Lenders”). The 2nd Lien Agreement consists of a term loan of $175,000,000.

The 2nd Lien Agreement bears interest at 15.0%, payable quarterly.

Principal Payments and Redemption

The 2nd Lien Agreement requires no principal amortization, except in March 2017 if required for income tax purposes.

From January 30, 2013 until January 30, 2014, the 2nd Lien Agreement may be redeemed at 102% of the principal amount, at 101% thereafter until January 30, 2015 and at 100% thereafter until the April 2017 final maturity. Terms of the 1st Lien Agreement also restrict principal payments under the 2nd Lien Agreement.

Security

The 2nd Lien Agreement is fully and unconditionally guaranteed on a joint and several basis by the Credit Parties and by Pulitzer and its subsidiaries, other than TNI (collectively, the "2nd Lien Credit Parties"). The 2nd Lien Agreement is secured by second priority security interests in the stock and other equity interests owned by the 2nd Lien Credit Parties.

The 2nd Lien Credit Parties have also granted a second priority security interest on substantially all of their tangible and intangible assets, and 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 Agreement. Assets of TNI and our ownership interest in, and assets of, MNI are excluded. However, assets of Pulitzer and its subsidiaries, excluding TNI, become subject to a first priority security interest of the 2nd Lien Lenders upon repayment in full of the Pulitzer Notes and any successor debt.

The 2nd Lien Lenders were granted a second priority security interest in our ownership interest in TNI under the New Pulitzer Notes, as discussed more fully below.

Covenants and Other Matters

The 2nd Lien Agreement has no affirmative financial covenants. Restrictions on capital expenditures, permitted investments, indebtedness and other provisions are similar to, but generally less restrictive than, those provisions under the 1st Lien Agreement.

2nd Lien Lenders shared in the issuance of 6,743,640 shares of our Common Stock valued at $9,576,000 based on the closing stock price of $1.42 on the date of issuance, an amount equal to 13% of outstanding shares on a pro forma basis as of January 30, 2012. 2nd Lien Lenders also received $8,750,000 in the form of non-cash fees, which were added to and included in the principal amount of the second lien term loan.

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.

The Pulitzer Notes carried an interest rate at 10.55%, which increased 0.75% to 11.3% in January 2013 and was to increase in January of each year thereafter. Due to the increasing interest rate, interest on the Pulitzer Notes was charged to expense using a calculated effective interest rate during the period.

In May 2013, we refinanced the $94,000,000 remaining balance of the Pulitzer Notes (the “New Pulitzer Notes”) with a subsidiary of Berkshire Hathaway Inc. (“Berkshire”). The New Pulitzer Notes bear interest at a fixed rate of 9.0%, payable quarterly. Pulitzer is a co-borrower under the the New Pulitzer Notes, which eliminates the former Guaranty Agreement made by Pulitzer under the Pulitzer Notes.

Principal Payments

At June 30, 2013, the balance of the New Pulitzer Notes is $80,000,000. 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.

2013 payments made under the New Pulitzer Notes and Pulitzer Notes are summarized below. No payments are required to be made for the remainder of the year under the New Pulitzer Notes.

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

2012 payments made under the Pulitzer Notes are summarized as follows:

(Thousands of Dollars)	December 25 2011	13 Weeks Ended March 25 2012	June 24 2012	14 Weeks Ended September 30 2012
Prior to 2012 refinancing	500	—	—	—
Pursuant to the Plan, net	10,145	1,500	—	—
Mandatory	—	1,400	—	—
Voluntary	—	8,955	3,000	4,000
Asset sales	—	—	—	—
Excess cash flow	—	—	—	—
	10,645	11,855	3,000	4,000

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.