

LEE ENTERPRISES, INC  
Form 10-K  
December 31, 2008  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**FORM 10-K**

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

**For the Fiscal Year Ended September 28, 2008**

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  
(State of incorporation)

42-0823980  
(I.R.S. Employer Identification No.)

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201 N. Harrison Street, Suite 600, Davenport, Iowa 52801

(Address of principal executive offices)

(563) 383-2100

Registrant's telephone number, including area code

| Title of Each Class   | Name of Each Exchange On Which Registered |
|---|---|
| Securities registered pursuant to Section 12(b) of the Act: |   |
| Common Stock - \$2 par value                                | New York Stock Exchange                   |
| Preferred Share Purchase Rights                             | New York Stock Exchange                   |
| Securities registered pursuant to Section 12(g) of the Act: |   |
| Class B Common Stock - \$2 par value                        |   |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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:

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter. Based on the closing price of the Registrant's Common Stock

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on the New York Stock Exchange on March 30, 2008: approximately \$445,331,000. For purposes of the foregoing calculation only, as required, the Registrant has included in the shares owned by affiliates the beneficial ownership of Common Stock and Class B Common Stock of officers and directors of the Registrant and members of their families, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 30, 2008. Common Stock, \$2 par value, 39,142,452 shares and Class B Common Stock, \$2 par value, 5,931,150 shares.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Lee Enterprises, Incorporated Definitive Proxy Statement to be filed in January 2009 are incorporated by reference in Part III of this Form 10-K.

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**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 the Company's (as defined below) 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 its control, are the Company's ability to generate cash flows and maintain liquidity sufficient to service its debt, and comply with or obtain amendments or waivers of the financial covenants contained in its credit facilities, if necessary. Other risks and uncertainties include the impact of continuing adverse economic conditions, potential changes in advertising demand, newsprint and other commodity prices, energy costs, interest rates and the availability of credit due to instability in the credit markets, labor costs, legislative and regulatory rulings and other results of operations or financial conditions, difficulties in maintaining employee and customer relationships, increased capital and other costs, competition and other risks detailed from time to time in the Company's publicly filed documents.

The words "may," "will," "would," "could," "believes," "expects," "anticipates," "intends," "plans," "projects," "considers" and similar generally identify forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. The Company does not undertake to publicly update or revise its forward-looking statements.

**PART I**

The Company experienced significant net losses in 2008, due to impairment of goodwill and other assets, and its financial position and liquidity have deteriorated. The information included herein should be evaluated in that context. See Item 1A, "Risk Factors," and Notes 6 and 7 of the Notes to Consolidated Financial Statements, included herein, for additional information.

References to 2008, 2007, 2006 and the like mean the fiscal years ended in September.

**ITEM 1. BUSINESS**

Lee Enterprises, Incorporated (Company), is a premier provider of local news, information and advertising in primarily midsize markets, with 49 daily newspapers and a joint interest in four others, rapidly growing online sites and more than 300 weekly newspapers and specialty publications in 23 states.

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The Company is consistently focused on six key strategic priorities. They are to:

- Grow revenue creatively and rapidly;
- Deliver strong local news and information;
- Maximize its local online strength;
- Continue expanding its print and online audiences;
- Nurture employee development and achievement; and
- Exercise careful cost control.

Certain aspects of these priorities are discussed below.

The Company was founded in 1890, incorporated in 1950, and listed on the New York Stock Exchange (NYSE) in 1978. Before 2001, the Company also operated a number of network-affiliated and satellite television stations. The Company has acquired and divested a number of businesses since 2001. The most significant of these transactions is discussed below.

### **PULITZER ACQUISITION**

In 2005, the Company acquired Pulitzer Inc. (Pulitzer). Pulitzer published 14 daily newspapers and more than 100 weekly newspapers and specialty publications. Pulitzer also owned a 50% interest in TNI Partners, as described more fully below. The acquisition of Pulitzer increased the Company's paid circulation by more than 50% to more than 1.6 million daily and 1.9 million Sunday, and revenue by more than 60% at that time.

Pulitzer newspaper operations include St. Louis, Missouri, where its subsidiary, St. Louis Post-Dispatch LLC (PD LLC), publishes the *St. Louis Post-Dispatch*, the only major daily newspaper serving the greater

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St. Louis metropolitan area, and a variety of specialty publications, and operates its related websites. St. Louis newspaper operations also include the Suburban Journals of Greater St. Louis, a group of 30 weekly newspapers and nine niche publications that focus on separate communities within the metropolitan area. In 2008, the Suburban Journals had average unduplicated circulation of approximately 0.6 million, resulting in the delivery of approximately 1.0 million copies per week.

Pulitzer holds a 95% interest in the results of operations of PD LLC, and The Herald Publishing Company, LLC (Herald) holds a 5% interest.

Pulitzer's wholly-owned subsidiary, Pulitzer Newspapers, Inc. (PNI), and its subsidiaries currently publish ten daily newspapers and operate the related websites as well as publish more than 75 weekly newspapers, shoppers and niche publications that serve markets in the Midwest, Southwest and West. In 2006, the Company sold the assets of *The Daily News* in Rhinelander, Wisconsin, the smallest of these newspapers. In 2008, the Company sold the assets of *The Daily Chronicle* in DeKalb, Illinois.

**TNI Partners**

As a result of the acquisition of Pulitzer, the Company owns a 50% interest in TNI Partners (TNI), the Tucson, Arizona, newspaper partnership. TNI, acting as agent for the Company's subsidiary, Star Publishing Company (Star Publishing), and the owner of the remaining 50%, Citizen Publishing Company (Citizen), a subsidiary of Gannett Co., Inc., is responsible for printing, delivery, advertising and circulation of the *Arizona Daily Star* and the *Tucson Citizen* as well as their related online operations 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. Each newspaper is solely responsible for its own news and editorial content. Under the amended and restated joint operating agreement between Star Publishing and Citizen (the Agency Agreement), the *Arizona Daily Star* remains the separate property of Star Publishing. Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen. Results of TNI are accounted for using the equity method.

The Newspaper Preservation Act of 1970 permits joint operating agreements between newspapers under certain circumstances without violation of the Federal antitrust laws. Agency agreements generally allow newspapers operating in the same market to share certain printing and other facilities and to pool certain revenue and expenses in order to decrease aggregate expenses and thereby allow the continuing operation of multiple newspapers in the same market. Newspapers in several cities operate under joint operating or agency agreements.

The Agency Agreement has governed the joint operations of the *Arizona Daily Star* and *Tucson Citizen* since 1940. The Board of Directors of TNI consists of three directors chosen by Star Publishing and three chosen by Citizen. Budgetary, key personnel and other non-news and editorial policy matters, such as advertising and circulation policies and rates or prices, are determined by the Board of Directors of TNI. Both the Company and Citizen incur certain administrative costs and capital expenditures that are reported by their individual companies. The *Arizona Daily Star* and the *Tucson Citizen* benefit from increases, and can be adversely affected by decreases, in each other's circulation. The Agency Agreement expires in 2015, but contains an option, which may be exercised by either party, to renew the agreement for successive periods of 25 years each.



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Due to the agency relationship existing in Tucson, the *Arizona Daily Star* and *Tucson Citizen* cannot be viewed as competitors for advertising or circulation revenue. The *Arizona Daily Star* and *Tucson Citizen* compete primarily against other media, suburban, neighborhood and national newspapers, and other publications.

### **MADISON NEWSPAPERS**

The Company owns 50% of the capital stock of Madison Newspapers, Inc. (MNI) and 17% of the nonvoting common stock of The Capital Times Company (TCT). TCT owns the remaining 50% of the capital stock of MNI. MNI publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, as well as their related online operations. MNI conducts business under the trade name Capital Newspapers. The Company has a contract to furnish the editorial

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and news content for the *Wisconsin State Journal*, which is published by MNI, and periodically provides other services to MNI. The *Wisconsin State Journal* is classified as one of the Lee group of newspapers in the newspaper business and in the rating services. Results of MNI are accounted for using the equity method. Net income or loss of MNI (after income taxes) is allocated equally to the Company and TCT. In 2006, MNI sold the assets of its Shawano, Wisconsin, daily newspaper. In 2008, one of MNI's daily newspapers in Madison, *The Capital Times*, decreased print publication from six days per week to one day.

**ADVERTISING**

More than 76% of the Company's 2008 revenue was derived from advertising. The Company's strategies are to increase its share of local advertising through increased sales activities in its existing markets and, over time, to increase its print and online audiences through internal expansion into existing and contiguous markets and enhancement of online offerings. The Company's advertising results consistently outperform national averages, as compiled by the Newspaper Association of America (NAA).

Several of the Company's businesses operate in geographic groups of publications, or clusters which provide operational efficiencies and extend sales penetration. Operational efficiencies are obtained through consolidation of sales forces, back office operations such as finance or human resources, management or production of the publications. Sales penetration can improve if the sales effort is successful in cross-selling advertising into multiple publications and online. A table under the caption "Daily Newspapers and Markets" in Item 1 identifies those groups of the Company's newspapers operating in clusters.

The Company's newspapers and classified and specialty publications compete with newspapers having national or regional circulation, magazines, radio, network and cable television, other advertising media such as billboards, other classified and specialty publications, direct mail, yellow pages directories, as well as other information content providers such as online sites. Competition for advertising is based on audience size and composition, circulation levels, readership demographics, distribution and display mechanisms, price and advertiser results. In addition, several of the Company's daily and Sunday newspapers compete with other local daily or weekly newspapers. The Company estimates that it captures a substantial share of the total advertising dollars spent in all of its markets.

The number of competitors in any given market varies, and cannot be estimated with any degree of certainty. However, all of the forms of competition noted above exist to some degree in the Company's markets, including those listed in the table under the caption "Daily Newspapers and Markets" in Item 1.

The following broadly define major categories of advertising revenue, in descending order of importance:

*Retail* advertising is revenue earned from sales of display advertising space in the publication, or for preprinted advertising inserted in the publication, to local accounts or regional and national businesses with local retail operations.

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*Classified* advertising, which includes employment, automotive, real estate for sale or rent, and other categories, is revenue earned from sales of advertising space in the classified section of the publication or from publications consisting primarily of such advertising. Classified publications are periodic advertising publications available in racks or delivered free, by carriers or third-class mail, to all, or selected, households in a particular geographic area. Classified publications offer advertisers a cost-effective local advertising vehicle and are particularly effective in larger markets with high media fragmentation.

*Online* advertising consists of display, banner, rich media, directories, classified or other advertising on websites associated and integrated with the Company's print publications and on third party affiliated websites, such as Yahoo! Inc. (Yahoo!).

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*National* advertising is revenue earned from display advertising space, or for preprinted advertising inserted in the publication, to national accounts, if there is no local retailer representing the account in the market.

*Niche publications* are specialty publications, such as lifestyle, business, health or home improvement publications that contain significant amounts of advertising.

The Company's many geographic markets have differences in their advertising rate structures, some of which are highly complex. A single operation often has scores of rate alternatives.

The advertising environment is influenced by the state of the overall economy, including unemployment rates, inflation, energy prices and consumer interest rates. The Company's enterprises are generally located in midsize and smaller markets. Generally these markets have been more stable than major metropolitan markets during the current downturn in advertising spending but may not experience increases in such spending as significant as those in major metropolitan markets in periods of economic improvement.

**ONLINE ADVERTISING AND SERVICES**

The Company's online activities include websites supporting each of its daily newspapers and certain of its other publications. Internet activities of the newspapers, except for TNI and MNI, are reported and managed as a part of the Company's publishing operations.

In 2007, the Company, in conjunction with several other major publishing organizations, announced a strategic alliance with Yahoo!, in which the publishing consortium offers its classified employment advertising customer base the opportunity to also post job listings on Yahoo!'s HotJobs national platform. In addition, the consortium and Yahoo! have worked together to provide new search, content and local applications across the newspapers' online sites, further enhancing the value of these sites as a destination for online users. The Yahoo! consortium currently includes more than 30 companies and approximately 800 daily newspapers across the United States.

The Company also owns 82.5% of an Internet service company, INN Partners, L.C. (doing business as TownNews.com), which provides online infrastructure and online publishing services for more than 1,500 daily and weekly newspapers and shoppers, including those of the Company.

Until 2008, online businesses of the Company experienced rapid growth. Online advertising represented 7.0% of total advertising revenue in 2008, compared to 6.5% in 2007. Online page views increased 26% between September 2007 and September 2008.



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**AUDIENCES**

Based on independent research, the Company estimates that, in an average week, its newspapers and online sites reach approximately 71% of adults in its larger markets, up significantly from 65.7% a year ago. In the St. Louis market, Scarborough Research estimates the *St. Louis Post Dispatch* and STLToday.com reach 63% of adults, ranking second for combined reach in the 25 most populated U.S. markets. The Company's extensive array of suburban newspapers and other publications further increases reach in St. Louis. Readership by young adults is also significant in the Company's larger markets, and is also growing, as summarized in the table below. The Company is reaching an increasingly larger share of the market through modest growth in newspaper readership and rapid online audience growth, as illustrated in the table below, as well as through additional specialty and niche publications.

**PRINT PLUS ONLINE REACH PAST SEVEN DAYS**

|                  | All Adults |       | Age 18-29 |       |
|------------------|------------|-------|-----------|-------|
|                  | 2008       | 2007  | 2008      | 2007  |
| Print only       | 48.5%      | 47.8% | 37.5%     | 34.7% |
| Print and online | 16.4       | 13.4  | 17.6      | 12.9  |
| Online only      | 6.1        | 4.5   | 9.4       | 5.9   |
| Total reach      | 71.0%      | 65.7% | 64.5%     | 53.5% |

Source: Lee Enterprises Audience Report, Wilkerson & Associates. January - June 2008 and 2007.

Markets: St. Louis, MO, Madison, WI, Oceanside/Escondido, CA, Northwest Indiana, Lincoln, NE, Davenport, IA, Billings, MT, Bloomington, IL, Sioux City, IA, Waterloo, IA

After advertising, print circulation is the Company's largest source of revenue. According to Editor and Publisher International Yearbook data, nationwide daily newspaper circulation unit sales have decreased 20% cumulatively through 2007 since their peak in 1984 and Sunday circulation unit sales have decreased 18% since their peak in 1990. The number of daily newspapers declined 16% from 1984 to 2007. For the six months ended September 2008, the Company's daily circulation, which includes TNI and MNI, as measured by the Audit Bureau of Circulations (ABC) declined 3.7%, and Sunday circulation declined 1.5%, outperforming the industry as a whole, which experienced 4.5% declines both daily and Sunday. Since September 2001, the Company's daily and Sunday circulation have declined cumulatively by 8.1% and 5.1%, respectively. These changes represent average annual declines of 1.2% and 0.7%, respectively. Such results are, in substantially all reporting periods, better than industry averages.

Growth in print and online audiences can, over time, also positively impact advertising revenue. The Company's strategies to improve audiences include continuous improvement of content and promotional efforts. Content can include focus on local news, features, scope of coverage, headline accuracy, presentation, writing style, tone, type style and reduction of factual errors. Promotional efforts include advertising, contests and other initiatives to increase awareness of the products. Customer service can also influence print circulation.

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The Company's enterprises are also focused on increasing the number of subscribers who pay for their subscriptions via automated payment mechanisms, such as credit cards or bank account withdrawals. Customers using these payment methods have historically higher retention. Other initiatives vary from location to location and are determined principally by management at the local level in collaboration with senior management of the Company. Competition for print circulation is generally based on the content, journalistic quality and price of the publication.

Audience competition exists in all markets, even from unpaid products, but is most significant in markets with competing local daily newspapers. These markets tend to be near major metropolitan areas, where the size of the population is sufficient to support more than one daily newspaper.

The Company's circulation sales channels continue to evolve through an emphasis on targeted direct mail and email to acquire new subscribers and retain current subscribers.

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The Company, TNI and MNI publish the following daily newspapers and maintain the following primary online sites:

| Newspaper                                | Primary Website      | Location   | Paid Circulation <sup>(1)</sup> |         |
|--|----------------------|--|---------------------------------|---------|
|  |                      |  | Daily                           | Sunday  |
| <i>St. Louis Post-Dispatch</i>           | stltoday.com         | St. Louis, MO                                      | 240,796                         | 423,588 |
| Capital Newspapers <sup>(2)</sup>        |                      |  |                                 |         |
| <i>Wisconsin State Journal</i>           | madison.com          | Madison, WI  | 99,197                          | 137,609 |
| <i>Daily Citizen</i>                     | wiscnews.com/bdc     | Beaver Dam, WI                                     | 9,759                           | -       |
| <i>Portage Daily Register</i>            | wiscnews.com/pdr     | Portage, WI  | 4,839                           | -       |
| <i>Baraboo News Republic</i>             | wiscnews.com/bnr     | Baraboo, WI  | 4,251                           | -       |
| <i>Arizona Daily Star</i> <sup>(3)</sup> | azstarnet.com        | Tucson, AZ   | 94,055                          | 147,558 |
| <i>North County Times</i>                | nctimes.com          | Oceanside<br>and Escondido, CA                     | 85,970                          | 85,156  |
| <i>The Times</i>                         | nwitimes.com         | Munster,<br><br>Valparaiso, and<br>Crown Point, IN | 83,516                          | 91,763  |
| Lincoln Group                            |                      |  |                                 |         |
| <i>Lincoln Journal Star</i>              | journalstar.com      | Lincoln, NE  | 77,120                          | 82,719  |
| <i>Columbus Telegram</i>                 | columbustelegram.com | Columbus, NE                                       | 8,694                           | 9,549   |
| <i>Fremont Tribune</i>                   | fremonttribune.com   | Fremont, NE  | 7,940                           | -       |
| <i>Beatrice Daily Sun</i>                | beatricedailysun.com | Beatrice, NE                                       | 7,126                           | -       |
| Quad-Cities Group                        |                      |  |                                 |         |
| <i>Quad-City Times</i>                   | qctimes.com          | Davenport, IA                                      | 50,820                          | 67,929  |
| <i>Muscatine Journal</i>                 | muscatinejournal.com | Muscatine, IA                                      | 6,831                           | -       |
| <i>The Pantagraph</i>                    | pantagraph.com       | Bloomington, IL                                    | 45,287                          | 48,241  |
| <i>Billings Gazette</i>                  | billingsgazette.com  | Billings, MT                                       | 43,860                          | 50,326  |
| <i>The Courier</i>                       | wfcourier.com        | Waterloo and Cedar<br>Falls, IA                    | 39,819                          | 50,432  |
| <i>Sioux City Journal</i>                | siouxcityjournal.com | Sioux City, IA                                     | 39,517                          | 40,978  |
| Central Illinois Newspaper Group         |                      |  |                                 |         |
| <i>Herald &amp; Review</i>               | herald-review.com    | Decatur, IL  | 31,457                          | 47,341  |
| <i>Journal Gazette</i>                   | jg-tc.com            | Mattoon, IL  | 9,477                           | -       |
| <i>Times-Courier</i>                     | jg-tc.com            | Charleston, IL                                     | 6,026                           | -       |
| <i>The Post-Star</i>                     | poststar.com         | Glens Falls, NY                                    | 31,418                          | 34,174  |
| River Valley Newspaper Group             |                      |  |                                 |         |
| <i>La Crosse Tribune</i>                 | lacrossetribune.com  | La Crosse, WI                                      | 31,114                          | 40,707  |
| <i>Winona Daily News</i>                 | winonadailynews.com  | Winona, MN   | 11,009                          | 12,207  |
| <i>The Daily Herald</i>                  | heraldextra.com      | Provo, UT  | 30,489                          | 38,987  |
| Missoula Group                           |                      |  |                                 |         |
| <i>Missoulian</i>                        | missoulian.com       | Missoula, MT                                       | 28,313                          | 32,274  |
| <i>Ravalli Republic</i>                  | ravallinews.com      | Hamilton, MT                                       | 5,188 <sup>(4)</sup>            | -       |
| <i>The Journal Times</i>                 | journaltimes.com     | Racine, WI   | 28,039                          | 29,947  |
| <i>Casper Star-Tribune</i>               | trib.com             | Casper, WY   | 27,989                          | 30,088  |
| <i>Rapid City Journal</i>                | rapidcityjournal.com | Rapid City, SD                                     | 27,827                          | 32,638  |
| <i>The Bismarck Tribune</i>              | bismarcktribune.com  | Bismarck, ND                                       | 26,861                          | 30,730  |



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|                                |                     |                 |                      |        |
|--------------------------------|---------------------|-----------------|----------------------|--------|
| <i>The Southern Illinoisan</i> | thesouthern.com     | Carbondale, IL  | 26,256               | 36,743 |
| <i>The Daily News</i>          | tdn.com             | Longview, WA    | 20,634               | 21,733 |
| Magic Valley Group             |                     |                 |                      |        |
| <i>The Times-News</i>          | magicvalley.com     | Twin Falls, ID  | 19,110               | 22,824 |
| <i>Elko Daily Free Press</i>   | elkodaily.com       | Elko, NV        | 5,803 <sup>(4)</sup> | -      |
| Central Coast Newspapers       |                     |                 |                      |        |
| <i>Santa Maria Times</i>       | santamariatimes.com | Santa Maria, CA | 18,823               | 17,555 |
| <i>The Lompoc Record</i>       | lompocrecord.com    | Lompoc, CA      | 5,331                | 5,248  |

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| Newspaper                      | Primary Website        | Location           | Paid Circulation <sup>(1)</sup> |           |
|--------------------------------|------------------------|--------------------|---------------------------------|-----------|
|                                |                        |                    | Daily                           | Sunday    |
| <i>Globe Gazette</i>           | globegazette.com       | Mason City, IA     | 17,435                          | 22,049    |
| Mid-Valley News Group          |                        |                    |                                 |           |
| <i>Albany Democrat-Herald</i>  | democratherald.com     | Albany, OR         | 16,638                          | 17,586    |
| <i>Corvallis Gazette-Times</i> | gazettetimes.com       | Corvallis, OR      | 11,559                          | 11,788    |
| <i>Napa Valley Register</i>    | napavalleyregister.com | Napa, CA           | 15,236                          | 15,452    |
| <i>The Times and Democrat</i>  | thetandd.com           | Orangeburg, SC     | 14,905                          | 15,661    |
| <i>The Montana Standard</i>    | mtstandard.com         | Butte, MT          | 14,367                          | 14,625    |
| <i>Independent Record</i>      | helenair.com           | Helena, MT         | 14,252                          | 15,210    |
| <i>The Sentinel</i>            | cumberlink.com         | Carlisle, PA       | 13,872                          | 15,334    |
| <i>The Sentinel</i>            | hanfordsentinel.com    | Hanford, CA        | 11,799                          | 10,499    |
| <i>The World</i>               | theworldlink.com       | Coos Bay, OR       | 11,502                          | -         |
| <i>Arizona Daily Sun</i>       | azdailysun.com         | Flagstaff, AZ      | 11,292                          | 12,047    |
| <i>The Citizen</i>             | auburnpub.com          | Auburn, NY         | 10,594                          | 12,618    |
| <i>The Garden Island</i>       | kauaiworld.com         | Lihue, HI          | 10,075                          | 9,474     |
| <i>The Ledger Independent</i>  | maysville-online.com   | Maysville, KY      | 8,422                           | -         |
| <i>Daily Journal</i>           | dailyjournalonline.com | Park Hills, MO     | 8,023                           | 8,294     |
| <i>The Chippewa Herald</i>     | chippewa.com           | Chippewa Falls, WI | 6,310                           | 6,466     |
|                                |                        |                    | 1,536,842                       | 1,856,147 |

(1) Source: ABC: Six months ended September 2008, unless otherwise noted.

(2) Owned by MNI.

(3) Owned by Star Publishing but published through TNI.

(4) Source: Company statistics.

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**COMMERCIAL PRINTING**

The Company offers commercial printing services through the following entities:

|   | Location           |
|---|--------------------|
| Selma Enterprises                         | Selma, CA          |
| William Street Press                      | Decatur, IL        |
| Hawkeye Printing and Trico Communications | Davenport, IA      |
| Platen Press                              | Butte, MT          |
| Farcountry Press                          | Helena, MT         |
| Journal Star Commercial Printing          | Lincoln, NE        |
| Plaindealer Publishing                    | Tekamah, NE        |
| Triangle Press                            | Chippewa Falls, WI |
| Wingra Printing <sup>(1)</sup>            | Madison, WI        |

(1) Owned by MNI, which is 50% owned by the Company.

Certain of the Company's newspapers also directly provide commercial printing services. Commercial printing business is highly competitive and generally has lower operating margins than newspapers.

**NEWSPRINT**

The basic raw material of newspapers, and classified and specialty publications, is newsprint. The Company and its subsidiaries purchase newsprint from U.S. and Canadian producers. The Company believes it will continue to receive a supply of newsprint adequate for its needs and considers its relationships with newsprint producers to be good. Newsprint prices are volatile and fluctuate based upon factors that include foreign currency exchange rates and both foreign and domestic production capacity and consumption. Between September 2007 and September 2008, the FOEX 30-pound newsprint price index increased 31%. Price fluctuations can have a significant effect on the results of operations. The Company has not entered into derivative contracts for newsprint. For the quantitative impacts of these fluctuations, see Quantitative And Qualitative Disclosures About Market Risk under Item 7A, included herein.

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The following table lists executive team members of the Company as of November 30, 2008:

| Name                | Age | Service<br>with the<br>Company | Named<br>to Current<br>Position | Current Position   |
|---------------------|-----|--------------------------------|---------------------------------|--|
| Mary E. Junck       | 61  | June 1999                      | January 2002                    | Chairman, President and Chief<br>Executive Officer         |
| Joyce L. Dehli      | 50  | August 1987                    | February 2006                   | Vice President News  |
| Paul M. Farrell     | 52  | May 2007                       | May 2007                        | Vice President Sales &<br>Marketing                        |
| Suzanna M. Frank    | 38  | December 2003                  | March 2008                      | Vice President Audience                                    |
| Karen J. Guest      | 55  | July 2006                      | July 2006                       | Vice President Law and Chief<br>Legal Officer              |
| Michael R. Gullede  | 48  | October 1982                   | May 2005                        | Vice President Publishing                                  |
| Daniel K. Hayes     | 63  | September 1969                 | September 2005                  | Vice President Corporate<br>Communications                 |
| Brian E. Kardell    | 45  | January 1991                   | August 2003                     | Vice President Production and<br>Chief Information Officer |
| Vytenis P. Kuraitis | 60  | August 1994                    | January 1997                    | Vice President Human<br>Resources                          |
| Kevin D. Mowbray    | 46  | September 1986                 | November 2004                   | Vice President Publishing                                  |
| Gregory P. Schermer | 54  | February 1989                  | November 1997                   | Vice President Interactive<br>Media                        |
| Carl G. Schmidt     | 52  | May 2001                       | May 2001                        | Vice President, Chief Financial<br>Officer and Treasurer   |
| Greg R. Veon        | 56  | April 1976                     | November 1999                   | Vice President Publishing                                  |

*Mary E. Junck* was elected Chairman, President and Chief Executive Officer in 2002. From 2001 to 2002 she served as President and Chief Executive Officer. From 2000 to 2001 she served as President and Chief Operating Officer. From 1999 to 2000 she served as Executive Vice President and Chief Operating Officer.

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*Joyce L. Dehli* was appointed Vice President News in February 2006. From April 2005 to February 2006, she served as Director of Editorial Development. From October 2004 to April 2005 she served as Editorial Training Manager. From August 2003 to October 2004 she served as Managing Editor of the *Wisconsin State Journal*. From 2001 to August 2003 she served as Assistant Managing Editor of the *Wisconsin State Journal*.

*Paul M. Farrell* was appointed Vice President Sales & Marketing in May 2007. From July 2004 to May 2007 he served as Senior Vice President of The Providence Journal Co., a subsidiary of Belo Corp. From 1999 to July 2004 he served as Advertising Director of *The Boston Globe*, a division of the New York Times Company.

*Suzanna M. Frank* was appointed Vice President Audience in March 2008. From December 2003 to March 2008 she served as Director of Research and Marketing. From October 2001 to December 2003 she served as Market Research Manager for the *San Diego Union-Tribune*.

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*Karen J. Guest* was appointed Vice President Law and Chief Legal Officer in July 2006. From April 2003 until July 2006, she served as General Counsel to PAJ, Inc. Prior to April 2003, she served as Vice-President/General Counsel for United Advertising Publications, Inc.

*Michael R. Gulledge* was elected a Vice President Publishing in May 2005 and named Publisher of the *Billings Gazette* in 2000. From 2002 to May 2005 he served as a Group Publisher.

*Daniel K. Hayes* was appointed Vice President Corporate Communications in September 2005. From 1998 to September 2005 he served as Director of Communications.

*Brian E. Kardell* was appointed Vice President Production and Chief Information Officer in August 2003. From 2001 to August 2003, he served as Vice President Information Systems and Chief Information Officer.

*Vytenis P. Kuraitis* was elected Vice President Human Resources in 1997.

*Kevin D. Mowbray* was elected a Vice President Publishing in November 2004 and named Publisher of the *St. Louis Post-Dispatch* in May 2006. From November 2004 to May 2006 he served as Publisher of *The Times*. From 2002 to November 2004 he served as Vice President Sales & Marketing.

*Gregory P. Schermer* was elected Vice President Interactive Media in 1997. He was elected to the Board of Directors of the Company in 1999. From 1989 to July 2006, he also served as Corporate Counsel of the Company.

*Carl G. Schmidt* was elected Vice President, Chief Financial Officer and Treasurer in 2001.

*Greg R. Veon* was elected a Vice President Publishing in 1999.

**EMPLOYEES**

At September 28, 2008, the Company had approximately 8,200 employees, including approximately 2,000 part-time employees, exclusive of MNI and TNI. Full-time equivalent employees at September 28, 2008, totaled approximately 7,500. The Company considers its relationships with its employees to be good.

Bargaining unit employees represent approximately 740, or 71%, of the total employees of the *St. Louis Post-Dispatch*. The *St. Louis Post-Dispatch* has contracts with substantially all bargaining unit employees with expiration dates through January 2011. New contracts were reached with various units in the last several years: the Graphic Communications International Union (GCIU) Local No 6-505 M (1 employee) was signed in May 2007 and expires in 2010; the International Association of Machinists & Aerospace Workers, District No. 9 (12 machinists), was signed in March 2008 and expires in 2011; and the International Association of Machinists & Aerospace Workers, District No. 9 (11 electricians), was signed in October 2008 and expires in 2011. Additionally, the union representing the paperhandlers, GCIU Local 38N, disclaimed interest in the unit (30 part time employees). Two contracts expire in 2009: the St. Louis Newspaper Guild, Local 36047, representing 355 employees and the St. Louis Typographical Union No. 8/CWA 14616, representing 11 employees. All *St. Louis Post-Dispatch* labor contracts contain no-strike clauses.

Approximately 95 employees in six additional locations are represented by collective bargaining units. Contracts at four of these locations have expired and negotiations are ongoing.

In December 2008, employees of selected departments of *The Pantagraph*, in an election conducted by the National Labor Relations Board, overwhelmingly rejected an organization attempt by the St. Louis Newspaper Guild.

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**CORPORATE GOVERNANCE AND PUBLIC INFORMATION**

The Company has a long, substantial history of progressive corporate governance practices. The Board of Directors has a lead independent director, and has had one for many years. Currently, eight of ten members of the Board of Directors are independent, as are all members of the Board's Audit, Executive Compensation and Nominating and Corporate Governance committees. The Audit Committee approves all services to be provided by the Company's independent registered public accounting firm and its affiliates.

At [www.lee.net](http://www.lee.net), one may access a wide variety of information, including news releases, Securities and Exchange Commission filings, financial statistics, annual reports, investor presentations, governance documents, newspaper profiles and online links. The Company makes available via its website all filings made by the Company under the Securities Exchange Act of 1934, including Forms 10-K, 10-Q and 8-K, and related amendments, as soon as reasonably practicable after they are filed with, or furnished to, the SEC. All such filings are available free of charge. The content of any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

**OTHER MATTERS**

In the opinion of management, compliance with present statutory and regulatory requirements respecting environmental quality will not necessitate significant capital outlays, materially affect the earnings of the Company, or cause material changes in the Company's business, whether present or intended.

**ITEM 1A. RISK FACTORS**

Risk exists that the Company's past results may not be indicative of future results. A discussion of certain of the most significant of these risks follows. See also, "Forward-Looking Statements", included herein. In addition, a number of other factors (those identified elsewhere in this document and others, both known and unknown) may cause actual results to differ materially from expectations.

**DEBT AND LIQUIDITY**

The Company has a substantial amount of debt, as more fully discussed (and capitalized terms used below defined) under Item 7, "Liquidity and Capital Resources" and Note 7 of the Notes to Consolidated Financial Statements, included herein. In 2009, the Company amended the terms of its Credit Agreement, which, among other changes, increases the Company's future borrowing costs in relation to LIBOR, and reduces the amount available under the Company's revolving credit facility. In December 2008, certain covenant violations related to the Credit Agreement and Pulitzer Notes were waived until March 30, 2009 and January 16, 2009, respectively.



The Company's ability to operate as a going concern is dependent on its ability to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed.

The Company's indebtedness could adversely affect its financial health in any or all of the following ways:

- Substantially all of the cash flows of the Company are required to be applied to payment of debt interest and principal, reducing funds available for investment, capital expenditures and other purposes;
- The Company reported significant net losses in 2008, due to impairment of goodwill and other assets resulting from the continuing and increasing difference between its stock price and the per share carrying value of its net assets. Reduced expectations of future cash flows were also an important factor in the determination of such impairment charges;
- The Company's flexibility to react to changes in economic and industry conditions may be more limited;
- Increasing leverage could make the Company more vulnerable in the event of additional deterioration of general economic conditions or other adverse events; and
- There could be a material impact on the Company's business if it is unable to meet the conditions of its debt agreements or obtain replacement financing.

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The Company generated cash flows in 2008 sufficient to reduce net debt by \$102,225,000, pay dividends totaling \$32,573,000 and acquire shares of its Common Stock in the amount of \$19,483,000. The Company does not have sufficient cash flows to meet both its requirements for 2009 operations and repayment of the Pulitzer Notes.

2009 principal payments required under the Credit Agreement totaling \$142,500,000 are expected to exceed the Company's cash flows available for such payments. As a result, the Company expects to utilize a portion of its capacity under its revolving credit facility to fund a portion of the 2009 principal payments required. At September 28, 2008, the Company had \$207,000,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments, letters of credit and other commitments, has approximately \$162,000,000 available for future use.

Principal payments under the Credit Agreement totaling \$166,250,000 are due in 2010. The Company expects to utilize the remainder of its capacity under its revolving credit facility to fund a portion of the 2010 principal payments required.

The Pulitzer Notes mature in April 2009. The Company is actively engaged in discussions with the Noteholders, and to the extent their approval may also be required, the Lenders under the Credit Agreement, to extend or refinance the Pulitzer Notes. The Company has also initiated discussions with the Lenders related to changes to the Credit Agreement to maintain sufficient long-term liquidity. However, the timing and ultimate outcome of such discussions cannot be determined at this time due, in part, to the abnormal condition of the domestic credit markets and the overall recessionary operating environment in which the Company, Pulitzer, and other publishing companies are currently operating. Continuing instability or further disruptions of these markets could prohibit or make it more difficult for the Company to access new capital, increase the cost of capital or limit its ability to refinance existing indebtedness.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default, including expiration of existing waivers, occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents, any of which would impair the ability of the Company to operate its business as a going concern.

See Item 7, "Liquidity and Capital Resources" included herein, for additional information on the risks associated with the Company's financing arrangements.

Approximately one half of the Company's debt is subject to changes in market interest rates. See Item 7A, "Interest Rates" included herein, for additional information on the risks associated with floating rate debt.

**ECONOMIC CONDITIONS**

The United States economy has been in a recession since December 2007, according to the National Bureau of Economic Research, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. 2008 revenue, operating results and cash flows were significantly impacted by the recession. The duration and depth of an economic recession in markets in which the Company operates may further reduce its future advertising and circulation revenue, operating results and cash flows.

## **OPERATING REVENUE**

A significant portion of the Company's revenue is derived from advertising. The demand for advertising is sensitive to the overall level of economic activity, both nationally and locally.

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Operating revenue in most categories decreased in 2008 and may decrease in the future. Such decreases may not be offset by growth in advertising in other categories, such as online revenue, which, until 2008, has been rising significantly over the last several years. There can also be no assurance such online growth will resume. Historically, newspaper publishing has been viewed as a cost-effective method of delivering various forms of advertising. There can be no guarantee that this historical perception will guide future decisions on the part of advertisers. To the extent that advertisers shift advertising expenditures to other media outlets, including the Internet, the profitability of the Company's business may continue to be impacted.

The rates the Company charges for advertising are, in part, related to the size of the audience of its publications and websites. There is significant competition for readers and viewers from other media. The Company's business may be adversely affected to the extent individuals decide to obtain news, entertainment, classified listings and local shopping information from Internet-based or other media, to the exclusion of the Company's outlets for such information.

**Retail Advertising**

Major retail store chains have experienced significant merger and acquisition activity over the last several years, and some have gone out of business, effectively reducing the number of brand names under which the merged entities operate. The Company's retail revenue is also being impacted by the current recession. For example, a decline in the housing market negatively impacts retail advertising related to home improvement, furniture and home electronics.

**Classified Advertising**

Classified advertising is the category that has been most significantly impacted by the current economic environment. In 2008, as the recession accelerated, employment classified advertising, including both print and online, declined as unemployment increased.

In 2008 and 2007, real estate classified advertising also suffered declines due primarily to cyclical issues, such as declining sale prices and an increase in unsold homes, affecting the residential real estate market nationally.

Automotive classified advertising revenue declined in 2008, 2007 and 2006, due to industry-wide issues affecting certain domestic auto manufacturers and the overall decline in economic conditions leading to the current recession.

See Item 1, "Advertising", included herein, for additional information on the risks associated with advertising revenue.

**Circulation**

Though the Company's audience is growing, and its circulation unit results have outperformed the industry, circulation unit sales have nonetheless been declining fractionally for several years. The possibility exists that future circulation price increases may be delayed or reduced as a result of future declines in circulation unit sales, and that price decreases may be necessary to retain or grow circulation unit volume. The Company is reaching increasingly larger audiences through modest growth in newspaper readership and rapid online audience growth, as well as through additional specialty and niche publications. Nonetheless, declines in circulation unit sales could also adversely impact advertising revenue.

See Item 1, *Audiences*, included herein, for additional information on the risks associated with circulation revenue.

## **OPERATING EXPENSES**

The Company reduced operating expenses, excluding depreciation, amortization and unusual costs (and cost reductions), by 3.2% in 2008 and expects to reduce such operating expenses by an additional 7-8% in 2009. Such expense reductions are not expected to significantly impact the Company's ability to deliver advertising and content to its customers.

The results of future labor negotiations could affect the Company's operating results. For additional information concerning the Company's labor relations, see Item 1, *Employees*, included herein.

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Newsprint comprises a significant amount of the Company's operating costs. See Item 1, Newsprint and Item 7A, Commodities included herein, for additional information on the risks associated with changes in newsprint costs.

**GOODWILL AND OTHER INTANGIBLE ASSETS**

The Company has significant amounts of goodwill and identified intangible assets. In 2008, the Company recorded substantial impairment charges to reduce the value of certain of these assets. Should general economic, market or business conditions continue to decline, and continue to have a negative impact on the Company's stock price, the Company may be required to record additional impairment charges in the future. See Item 7, Critical Accounting Policies, included herein, for additional information on the risks associated with such assets.

**EQUITY CAPITAL**

As of December 24, 2008, the Company's Common Stock traded at an average 30-day closing market price of less than \$1 per share. The Company's equity market capitalization may also fall under the \$25,000,000 minimum requirement of the NYSE at some future date. Under the NYSE listing standards, if the Company's Common Stock fails to maintain an adequate per share price and total market capitalization, the Company's Common Stock could be removed from the NYSE and traded in the over the counter market. In a letter dated December 30, 2008 the NYSE notified the Company that it does not meet the NYSE continued listing standard due to its failure to maintain an adequate share price. The Company may be given a six month period of time to cure issues relating to its ability to meet NYSE listing standards. All of these factors, along with otherwise volatile equity market conditions, could limit the Company's ability to raise new equity capital in the future.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company's executive offices are located in leased facilities at 201 North Harrison Street, Suite 600, Davenport, Iowa. The lease expires in 2019.

All of the Company's principal printing facilities except Madison, Wisconsin (which is owned by MNI), Tucson (which is jointly owned by Star Publishing and Citizen), St. Louis as described below, and leased land for the Helena, Montana and Lihue, Hawaii plants,

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are owned. All facilities are well maintained, in good condition, suitable for existing office and publishing operations and adequately equipped. With the exception of St. Louis, none of the Company's facilities is individually significant to its business.

Information related to St. Louis facilities at September 28, 2008 is as follows:

| <i>(Square Feet)</i> | Owned   | Leased |
|----------------------|---------|--------|
| PD LLC               | 755,000 | 52,000 |
| Suburban Journals    | 121,000 | 55,000 |

The *Baraboo News Republic*, *Beatrice Daily Sun*, *Corvallis Gazette-Times*, *Daily Citizen*, *Journal Gazette*, *The Lompoc Record*, *Muscatine Journal*, *Ravalli Republic*, *The Courier*, *Times Courier* and *Winona Daily News*, as well as many of the Company's and MNI's more than 300 other publications, are printed at other Company facilities, or outsourced, to enhance operating efficiency.

The Company's newspapers and other publications have formal or informal backup arrangements for printing in the event of a disruption in production capability.

### ITEM 3. LEGAL PROCEEDINGS

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

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In 2008, the Company was served with a lawsuit by a group of California newspaper carriers claiming to be employees and not independent contractors of the Company. Since the suit is in the earliest of phases, the Company is unable to predict whether the ultimate economic outcome, if any, could have a material effect on the Company's Consolidated Financial Statements, taken as a whole. The Company denies the allegations of employee status, consistent with past practices of the Company and the industry, and intends to vigorously contest the action, which is not covered by insurance.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the three months ended September 28, 2008.



**Table of Contents****Index to Financial Statements****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK****AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF COMMON STOCK**

Common Stock of the Company is listed on the NYSE. Class B Common Stock is not traded on an exchange but is readily convertible to Common Stock. Class B Common Stock was issued to stockholders of record of the Company in 1986 pursuant to a 100% stock dividend and is converted at sale, or at the option of the holder, into Common Stock. The table below includes the high and low prices of Common Stock for each quarter during the past three years, the closing price at the end of each quarter and dividends per common share.

|                     | Quarter  |          |          |          |
|---------------------|----------|----------|----------|----------|
|                     | 1st      | 2nd      | 3rd      | 4th      |
| <b>STOCK PRICES</b> |          |          |          |          |
| 2008                |          |          |          |          |
| High                | \$ 17.96 | \$ 14.91 | \$ 11.32 | \$ 5.00  |
| Low                 | 13.61    | 9.26     | 4.21     | 2.22     |
| Closing             | 14.53    | 10.76    | 4.40     | 3.35     |
| 2007                |          |          |          |          |
| High                | \$ 32.13 | \$ 35.65 | \$ 30.92 | \$ 21.48 |
| Low                 | 24.55    | 29.48    | 20.50    | 14.58    |
| Closing             | 31.06    | 30.05    | 20.86    | 15.57    |
| 2006                |          |          |          |          |
| High                | \$ 43.05 | \$ 37.43 | \$ 33.74 | \$ 27.61 |
| Low                 | 36.36    | 32.26    | 26.95    | 22.98    |
| Closing             | 36.91    | 33.29    | 26.95    | 25.24    |
| <b>DIVIDENDS</b>    |          |          |          |          |
| 2008                | \$ 0.19  | \$ 0.19  | \$ 0.19  | \$ 0.19  |
| 2007                | 0.18     | 0.18     | 0.18     | 0.18     |
| 2006                | 0.18     | 0.18     | 0.18     | 0.18     |

As of December 24, 2008, the Company's Common Stock traded at an average 30-day closing market price of less than \$1 per share. The Company's equity market capitalization may also fall under the \$25,000,000 minimum requirement of the NYSE at some future date. Under the NYSE listing standards, if the Company's Common Stock fails to maintain an adequate per share price and total market capitalization, the Company's Common Stock could be removed from the NYSE and traded in the over the counter market. In a letter dated December 30, 2008 the NYSE notified the Company that it does not meet the NYSE continued listing standard due to its failure to maintain an adequate share price. The Company may be given a six month period of time to cure issues relating to its ability to meet NYSE listing standards.

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Common Stock and Class B Common Stock have identical rights with respect to cash dividends and upon liquidation. For a more complete description of the relative rights of Common Stock and Class B Common Stock, see Note 12 of the Notes to Consolidated Financial Statements, included herein.

At September 28, 2008, the Company had 7,177 holders of Common Stock, including participants in the Company's employee stock purchase plans, and 1,294 holders of Class B Common Stock.

In 2008, the Company announced its intention to acquire up to \$30,000,000 of its Common Stock in open market and private transactions. In 2008, 1,722,280 shares have been acquired and returned to authorized shares at an average price of \$10.98.

An amendment to the Company's Credit Agreement consummated in October 2008 requires the Company to suspend stockholder dividends and share repurchases until its total leverage ratio is less than 4.5:1. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

**Table of Contents****Index to Financial Statements****Performance Presentation**

The following graph compares the quarterly percentage change in the cumulative total shareholder return of the Company, the Standard & Poor's (S&P) 500 Stock Index, and a Peer Group Index, in each case for the five years ended September 30, 2008 (with September 30, 2003 as the measurement point). Total shareholder return is measured by dividing (a) the sum of (i) the cumulative amount of dividends declared for the measurement period, assuming dividend reinvestment and (ii) the difference between the issuer's share price at the end and the beginning of the measurement period, by (b) the share price at the beginning of the measurement period.

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\$100 invested on September 30, 2003 in stock of the Company, the Peer Group and in the S&P 500 Stock Index, including reinvestment of dividends.

|                               | 2003      | 2004      | September 30 |          | 2007     | 2008     |
|-------------------------------|-----------|-----------|--------------|----------|----------|----------|
|                               |           |           | 2005         | 2006     |          |          |
| Lee Enterprises, Incorporated | \$ 100.00 | \$ 121.74 | \$ 113.42    | \$ 68.97 | \$ 43.81 | \$ 10.98 |
| Peer Group Index              | 100.00    | 110.96    | 96.87        | 82.19    | 69.19    | 44.87    |
| S&P 500 Stock Index           | 100.00    | 113.87    | 127.82       | 141.62   | 164.90   | 128.66   |

The S&P 500 Stock Index includes 500 U.S. companies in the industrial, transportation, utilities and financial sectors and is weighted by market capitalization. The Peer Group Index is comprised of ten U.S. publicly traded companies with significant newspaper publishing operations (excluding the Company) and is weighted by market capitalization. The Peer Group Index includes A.H. Belo Corp.(successor to Belo Corp.), Gannett Co., Inc., Journal Communications, Inc., Journal Register Company, The McClatchy Company, Media General, Inc., The New York Times Company, The E.W. Scripps Company, Sun-Times Media Group, Inc., and The Washington Post Company. Dow Jones & Company, Inc. and The Tribune Company, which were previously included in the Peer Group Index, are no longer publicly traded.

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Selected financial data is as follows:

| <i>(Thousands, Except Per Common Share Data)</i>  | 2008         | 2007         | 2006         | 2005         | 2004         |
|---|--------------|--------------|--------------|--------------|--------------|
|   |              |              |              | (1)          |              |
| <b>OPERATING RESULTS <sup>(2)</sup></b>   |              |              |              |              |              |
| Operating revenue   | \$ 1,028,868 | \$ 1,120,194 | \$ 1,121,390 | \$ 816,614   | \$ 643,277   |
| Operating expenses, excluding depreciation, amortization, and impairment of goodwill and other assets | 821,846      | 849,644      | 843,577      | 612,425      | 466,866      |
| Depreciation and amortization   | 91,078       | 92,700       | 90,276       | 58,958       | 43,930       |
| Impairment of goodwill and other assets <sup>(3)</sup>  | 1,070,808    | -            | 4,837        | -            | -            |
| Equity in earnings of associated companies  | 10,211       | 20,124       | 20,739       | 12,784       | 8,523        |
| Reduction in investment in TNI <sup>(3)</sup>   | 104,478      | -            | -            | -            | -            |
| Operating income (loss)   | (1,049,131)  | 197,974      | 203,439      | 158,015      | 141,004      |
| Financial income  | 5,857        | 7,613        | 6,054        | 2,824        | 1,066        |
| Financial expense   | (71,472)     | (90,341)     | (95,939)     | (38,038)     | (12,665)     |
| Income (loss) from continuing operations  | \$ (880,194) | \$ 80,328    | \$ 70,778    | \$ 70,681    | \$ 82,973    |
| Discontinued operations   | 285          | 671          | 54           | 6,197        | 3,098        |
| Net income (loss)   | \$ (879,909) | \$ 80,999    | \$ 70,832    | \$ 76,878    | \$ 86,071    |
| Income (loss) available to common stockholders  | \$ (888,747) | \$ 80,999    | \$ 70,832    | \$ 76,878    | \$ 86,071    |
| <b>EARNINGS (LOSS) PER COMMON SHARE</b>   |              |              |              |              |              |
| Basic:  |              |              |              |              |              |
| Continuing operations   | \$ (19.84)   | \$ 1.76      | \$ 1.56      | \$ 1.57      | \$ 1.85      |
| Discontinued operations   | 0.01         | 0.01         | -            | 0.14         | 0.07         |
|   | \$ (19.83)   | \$ 1.77      | \$ 1.56      | \$ 1.70      | \$ 1.92      |
| Diluted:  |              |              |              |              |              |
| Continuing operations   | \$ (19.84)   | \$ 1.75      | \$ 1.55      | \$ 1.56      | \$ 1.84      |
| Discontinued operations   | 0.01         | 0.01         | -            | 0.14         | 0.07         |
|   | \$ (19.83)   | \$ 1.77      | \$ 1.56      | \$ 1.70      | \$ 1.91      |
| Weighted average common shares:   |              |              |              |              |              |
| Basic   | 44,813       | 45,671       | 45,421       | 45,118       | 44,792       |
| Diluted   | 44,813       | 45,804       | 45,546       | 45,348       | 45,092       |
| Dividends per common share  | \$ 0.76      | \$ 0.72      | \$ 0.72      | \$ 0.72      | \$ 0.72      |
| <b>BALANCE SHEET INFORMATION (End of Year)</b>  |              |              |              |              |              |
| Total assets  | \$ 2,016,367 | \$ 3,260,963 | \$ 3,329,809 | \$ 3,445,200 | \$ 1,403,844 |
| Debt, including current maturities <sup>(4)</sup>   | 1,332,375    | 1,395,625    | 1,525,000    | 1,688,000    | 213,600      |
|   | 1,182,856    | 1,284,565    | 1,420,302    | 1,599,397    | 205,590      |

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|  |         |           |         |         |         |
|--|---------|-----------|---------|---------|---------|
| Debt, net of cash and restricted cash and investments <sup>(4)</sup> |         |           |         |         |         |
| Stockholders' equity   | 147,087 | 1,086,442 | 990,625 | 936,410 | 876,843 |

- (1) Includes four months of operations of Pulitzer, which was acquired in June 2005.
- (2) Results of DeKalb have been treated as a discontinued operation for all periods presented.

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- (3) In 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment.
- (4) Principal amount, excluding fair value adjustments in 2008, 2007, 2006 and 2005. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATION**

The following discussion includes comments and analysis relating to the Company's results of operations and financial condition as of, and for each of the three years ended, September 2008. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein.

**NON-GAAP FINANCIAL MEASURES**

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

**Operating Cash Flow and Operating Cash Flow Margin**

Operating cash flow, which is defined as operating income before depreciation, amortization, impairment of goodwill and other assets and equity in earnings of associated companies, and operating cash flow margin (operating cash flow divided by operating revenue) represent non-GAAP financial measures that are used in the analysis below. The Company believes these measures provide meaningful supplemental information because of their focus on results from operations before depreciation, amortization, impairment charges and earnings from equity investments.

Reconciliations of operating cash flow and operating cash flow margin to operating income (loss) and operating income (loss) margin, the most directly comparable measures under GAAP, are included in the table below:

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| <i>(Thousands)</i>                              | 2008           | Percent of Revenue | 2007       | Percent of Revenue | 2006       | Percent of Revenue |
|---|----------------|--------------------|------------|--------------------|------------|--------------------|
| Operating cash flow                             | \$ 207,022     | 20.1%              | \$ 270,550 | 24.2%              | \$ 277,813 | 24.8%              |
| Less depreciation and amortization              | 91,078         | 8.9                | 92,700     | 8.3                | 90,276     | 8.1                |
| Less impairment of goodwill and other assets    | 1,070,808      | NM                 | -          | -                  | 4,837      | 0.4                |
| Plus equity in earnings of associated companies | 10,211         | 1.0                | 20,124     | 1.8                | 20,739     | 1.8                |
| Less reduction in investment in TNI             | 104,478        | NM                 | -          | -                  | -          | -                  |
| Operating income (loss)                         | \$ (1,049,131) | NM                 | \$ 197,974 | 17.7%              | \$ 203,439 | 18.1%              |

**Adjusted Net Income and Adjusted Earnings Per Common Share**

Adjusted net income and adjusted earnings per common share, which are defined as income (loss) available to common stockholders and earnings (loss) per common share adjusted to exclude unusual matters and those of a substantially non-recurring nature, are non-GAAP financial measures that are used in the analysis below. The Company believes these measures provide meaningful supplemental

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information by identifying matters that are not indicative of core business operating results or are of a substantially non-recurring nature.

Reconciliations of adjusted net income and adjusted earnings (loss) per common share to income (loss) available to common stockholders and earnings (loss) per common share, respectively, the most directly comparable measures under GAAP, are set forth below under the caption Overall Results .

**SAME PROPERTY COMPARISONS**

Certain information below, as noted, is presented on a same property basis, which is exclusive of acquisitions and divestitures consummated in the current or prior year. The Company believes such comparisons provide meaningful supplemental information for an understanding of changes in its revenue and operating expenses. Same property comparisons exclude TNI and MNI. The Company owns 50% of TNI and also owns 50% of the capital stock of MNI, both of which are reported using the equity method of accounting. Same property comparisons also exclude corporate office costs.

**CRITICAL ACCOUNTING POLICIES**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company 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, the Company evaluates its estimates. The Company bases its 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. Additional information follows with regard to certain of the most critical of the Company's accounting policies.

**Goodwill and Other Intangible Assets**

In assessing the recoverability of its goodwill and other nonamortized intangible assets, the Company makes a determination of the fair value of its 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. An impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.



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

The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis at the end of its fiscal year, or more frequently if impairment indicators are present. See Note 6 of the Notes to Consolidated Financial Statements, included herein, for a more detailed explanation of the Company's intangible assets. Such indicators of impairment include, but are not limited to, changes in business climate and operating or cash flow losses related to such assets. Due primarily to the continuing, and increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses. The Company concluded the fair value of its business did not exceed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008.

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As a result, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment. The Company recorded \$281,564,000 of income tax benefit related to these charges.

The Company reviews its amortizable intangible assets for impairment when indicators of impairment are present. The Company assesses recovery 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 Company also periodically evaluates its determination of the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact the cash flows of the Company. 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. The Company tested such assets for impairment, and concluded no adjustments to the useful lives of such assets were required.

**Pension, Postretirement and Postemployment Benefit Plans**

The Company evaluates its liability 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, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors. If the Company 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. Increases in market interest rates, which may impact plan assumptions, generally result in lower service costs for current employees, higher interest expense and lower liabilities. Actual returns on plan assets that are lower than the plan assumptions will generally result in decreases in a plan's funded status.

**Income Taxes**

Deferred income taxes are provided using the 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 the opinion of management, it is more likely than not that 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. Recent changes in accounting for uncertain tax positions can result in significant variability in the Company's effective income tax rate.

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The Company files income tax returns with the Internal Revenue Service (IRS) and various state tax jurisdictions. From time to time, the Company is subject to routine audits by those agencies, and those audits may result in proposed adjustments. The Company has considered the alternative interpretations that may be assumed by the various taxing agencies, believes its positions taken regarding its 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. The Company does not believe the final resolution of such matters will be material to its consolidated financial position or cash flows.

### **Revenue Recognition**

Advertising revenue is recorded when advertisements are placed in the publication or on the related online site. Circulation revenue is recorded as newspapers are distributed over the subscription term. 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 publications or advance payments for advertising.

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**Uninsured Risks**

The Company is self-insured for health care, workers compensation and certain long-term disability costs of its employees, subject to stop loss insurance, which limits exposure to large claims. The Company accrues its 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. An increasing frequency of large claims or deterioration in overall claim experience could increase the volatility of expenses for such self-insured risks.

The Company's 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.

**IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2006, the FASB issued Statement 158, *Employer's Accounting for Defined Benefit Pension Postretirement Plans*, which amends Statements 87, 88, 106 and 132(R). The Company adopted the recognition and disclosure provisions of Statement 158 as of September 30, 2007.

Statement 158 will also require the Company to change its measurement date to the last day of the fiscal year from a date three months prior to the end of the fiscal year, beginning in 2009. The change in measurement date will require a one-time adjustment to accumulated deficit, the effect of which cannot be determined at this time. None of the changes required will impact the Company's results of operations or cash flows.

In 2006, the FASB issued Statement 157, *Fair Value Measurements*, which defines fair value, provides guidelines for measuring fair value and expands disclosure requirements. Statement 157 does not require any new fair value measurement but applies to the accounting pronouncements that require or permit fair value measurement. Statement 157 is effective for the Company in 2009. The Company does not anticipate that the implementation of Statement 157 will have a material impact on its financial position, results of operation, or cash flows. The FASB has deferred the effective date of this pronouncement until 2010 for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements.

In 2007, the FASB issued Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides the Company the option to measure many financial instruments and certain other items at fair value that are not currently required or permitted to be measured at fair value. Statement 159 is effective for the Company in 2009. The Company has not completed its evaluation on the effect of Statement 159 on its Consolidated Financial Statements.

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In 2008, the FASB issued Statement 141(R), *Business Combinations* and Statement 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. Statement 141(R) establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interests. For the Company, the provisions of Statement 141(R) are effective for business combinations occurring in 2010. Statement 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. Statement 160 is effective for the Company in 2010. The Company has not completed its evaluation of the effects of Statements 141(R) and 160 on its Consolidated Financial Statements.

In 2008, the FASB issued Statement 161, *Disclosures About Derivative Instruments and Hedging Activities*, an amendment of FASB Statement 133. Statement 161 requires disclosure regarding the objectives and strategies for using derivative instruments and the credit-risk-related features. Statement 161 also requires disclosure of the fair value amounts and the gains and losses on derivative instruments in tabular form. Statement 161 is effective for the Company in 2010.

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

|  |             |            | Percent Change |          |
|--|-------------|------------|----------------|----------|
|  |             |            | Total          | Property |
|  | 2008        | 2007       |                | Same     |
| <i>(Thousands, Except Per Common Share Data)</i>             |             |            |                |          |
| Advertising revenue:   |             |            |                |          |
| Retail   | \$ 434,069  | \$ 455,802 | (4.8)%         | (4.7)%   |
| National   | 44,143      | 54,901     | (19.6)         | (19.6)   |
| Classified:  |             |            |                |          |
| Daily newspapers:  |             |            |                |          |
| Employment   | 59,457      | 81,683     | (27.2)         | (27.2)   |
| Automotive   | 45,388      | 55,308     | (17.9)         | (17.9)   |
| Real estate  | 43,282      | 58,529     | (26.1)         | (26.1)   |
| All other  | 43,006      | 39,284     | 9.5            | 9.5      |
| Other publications   | 43,361      | 47,737     | (9.2)          | (9.6)    |
| Total classified   | 234,494     | 282,541    | (17.0)         | (17.1)   |
| Online   | 55,119      | 56,074     | (1.7)          | (1.7)    |
| Niche publications   | 15,874      | 16,094     | (1.4)          | (1.4)    |
| Total advertising revenue                                    | 783,699     | 865,412    | (9.4)          | (9.4)    |
| Circulation  | 195,457     | 203,481    | (3.9)          | (3.9)    |
| Commercial printing  | 15,993      | 16,541     | (3.3)          | (3.3)    |
| Online services and other                                    | 33,719      | 34,760     | (3.0)          | (3.0)    |
| Total operating revenue                                      | 1,028,868   | 1,120,194  | (8.2)          | (8.1)    |
| Compensation   | 421,652     | 439,426    | (4.0)          | (3.8)    |
| Newsprint and ink  | 103,926     | 111,842    | (7.1)          | (10.0)   |
| Other operating expenses                                     | 292,840     | 294,145    | (0.4)          | (0.7)    |
| Curtailement gains   | -           | (3,731)    | NM             | NM       |
| Workforce adjustments and early retirement programs          | 3,428       | 7,962      | NM             | NM       |
|  | 821,846     | 849,644    | (3.3)          | (3.8)    |
| Operating cash flow  | 207,022     | 270,550    | (23.5)         | (20.3)   |
| Depreciation and amortization                                | 91,078      | 92,700     | (1.7)          |          |
| Impairment of goodwill and other assets                      | 1,070,808   | -          | NM             |          |
| Equity in earnings of associated companies                   | 10,211      | 20,124     | (49.3)         |          |
| Reduction in investment in TNI                               | 104,478     | -          | NM             |          |
| Operating income (loss)                                      | (1,049,131) | 197,974    | NM             |          |
| Non-operating expense, net                                   | 64,730      | 82,749     | (21.8)         |          |
| Income (loss) from continuing operations before income taxes | (1,113,861) | 115,225    | NM             |          |
| Income tax expense (benefit)                                 | (234,202)   | 33,828     | NM             |          |
| Minority interest  | 535         | 1,069      | (50.0)         |          |
| Income (loss) from continuing operations                     | (880,194)   | 80,328     | NM             |          |
| Discontinued operations, net                                 | 285         | 671        | NM             |          |

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|  |              |           |    |
|--|--------------|-----------|----|
| Net income (loss)                              | (879,909)    | 80,999    | NM |
| Increase in redeemable minority interest       | 8,838        | -         | NM |
| Income (loss) available to common stockholders | \$ (888,747) | \$ 80,999 | NM |
| Earnings (loss) per common share:              |              |           |    |
| Basic  | \$ (19.83)   | \$ 1.77   | NM |
| Diluted  | (19.83)      | 1.77      | NM |

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The Company's 2008 fiscal year ended on the last Sunday in September. Beginning in 2008, all of the Company's enterprises use period accounting. The Company and its enterprises owned before the Pulitzer acquisition, which accounted for approximately 63% of revenue in 2008, used calendar accounting prior to 2008, with a September 30 fiscal year end. Pulitzer used period accounting for 2007. The table below summarizes days of business activity in years presented:

| <i>(Business Days)</i> | Enterprises Owned Prior         |      | Pulitzer Enterprises |      | TNI  |      |
|------------------------|---------------------------------|------|----------------------|------|------|------|
|                        | to Pulitzer Acquisition<br>2008 | 2007 | 2008                 | 2007 | 2008 | 2007 |
| Period Ending:         |                                 |      |                      |      |      |      |
| December               | 91                              | 92   | 91                   | 91   | 91   | 98   |
| March                  | 91                              | 90   | 91                   | 91   | 91   | 91   |
| June                   | 91                              | 91   | 91                   | 91   | 91   | 91   |
| September              | 91                              | 92   | 91                   | 98   | 91   | 91   |
|                        | 364                             | 365  | 364                  | 371  | 364  | 371  |

In total, acquisitions and divestitures accounted for \$664,000 of operating revenue in 2008 and \$817,000 of operating revenue in 2007.

**Economic Conditions**

The United States economy has been in a recession since December 2007, according to the National Bureau of Economic Research, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. 2008 revenue, operating results and cash flows were significantly impacted by the recession. The duration and depth of an economic recession in markets in which the Company operates may further reduce its future advertising and circulation revenue, operating results and cash flows.

**Advertising Revenue**

In 2008, advertising revenue decreased \$81,713,000, or 9.4%, and same property advertising revenue decreased \$81,566,000, or 9.4%. On a combined basis, same property print and online retail advertising decreased 3.5%. Same property print retail revenue decreased \$21,381,000, or 4.7%, in 2008. A 5.0% decrease in daily newspaper retail advertising lineage contributed to the decrease. Same property average retail rates, excluding preprint insertions, decreased 0.8% in 2008. Retail preprint insertion revenue decreased 2.6%. Online retail advertising increased 19.0%.

The table below combines print and online advertising revenue and reclassifies certain print retail revenue to classified based on the primary business of the advertiser:



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| <i>(Thousands, Same Property)</i> | 2008       | 2007       | Percent Change |
|-----------------------------------|------------|------------|----------------|
| Retail                            | \$ 439,477 | \$ 455,308 | (3.5)%         |
| Classified:                       |            |            |                |
| Employment                        | \$ 90,822  | \$ 116,859 | (22.3)%        |
| Automotive                        | 62,918     | 72,901     | (13.7)         |
| Real estate                       | 57,294     | 76,114     | (24.7)         |
| Other                             | 72,175     | 72,435     | (0.4)          |
| Total classified revenue          | \$ 283,209 | \$ 338,309 | (16.3)%        |

Same property print classified advertising revenue decreased \$48,254,000, or 17.1%, in 2008. On a combined basis, print and online classified revenue decreased 16.3%. Higher rate print employment advertising at the daily newspapers decreased 27.2% for the year on a same property basis. Same property print automotive advertising decreased 17.9% amid an industry-wide decline. Same property print real estate advertising decreased 26.1% in a weak housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Other daily newspaper print classified advertising increased 9.5% on a same property basis. Same property classified advertising rates decreased 9.4%.

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Advertising lineage, as reported on a same property basis for the Company's daily newspapers only, consists of the following:

| <i>(Thousands of Inches)</i> | 2008   | 2007   | Percent Change |
|------------------------------|--------|--------|----------------|
| Retail                       | 12,639 | 13,305 | (5.0)%         |
| National                     | 612    | 677    | (9.6)          |
| Classified                   | 14,317 | 15,833 | (9.6)          |
|                              | 27,568 | 29,815 | (7.5)%         |

Online advertising revenue decreased 1.7% on a same property basis, due to decreases in online classified sales, partially offset by a 19.0% increase in retail revenue. In addition, the Company began offering online employment advertising in Yahoo! Hot Jobs in 2007.

National advertising decreased \$10,757,000, or 19.6%, on a same property basis due to a 9.6% decline in lineage and a 19.5% decrease in average national rate. Advertising in niche publications decreased 1.4% on a same property basis.

The Company's year-over-year advertising results in 2008 and 2007 compare favorably to national statistics published by the NAA.

**Circulation and Other Revenue**

Circulation revenue decreased \$8,024,000, or 3.9% in 2008, and same property circulation revenue decreased \$8,018,000, or 3.9%. The Company's total average daily newspaper circulation units, including TNI and MNI, as measured by the ABC, declined 3.7% for the six months ended September 2008, compared to the same period in the prior year, and Sunday circulation declined 1.5%, significantly outperforming the industry as a whole, which experienced 4.5% declines both daily and Sunday. For the six months ended March 2008, total average daily circulation units including TNI and MNI, declined 2.9% and Sunday circulation decreased 0.8%, again outperforming the industry. In spite of modest declines in circulation, Company research in its larger markets indicates it is reaching an increasingly larger audience in these markets through modest growth in newspaper readership and rapid online growth, as well as through additional specialty and niche publications.

Same property commercial printing revenue decreased \$548,000, or 3.3%, in 2008. Same property online services and other revenue decreased \$1,043,000, or 3.0%, in 2008.

**Operating Expenses**

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Costs other than depreciation, amortization and unusual costs (and cost reductions) decreased \$26,995,000, or 3.2%, in 2008, and decreased \$29,699,000, or 3.6%, on a same property basis. In total, acquisitions and divestitures accounted for \$814,000 of operating expenses, excluding depreciation and amortization, in 2008 and \$1,123,000 in 2007.

Compensation expense decreased \$17,774,000, or 4.0%, in 2008 and same property compensation expense decreased 3.8% driven by a decline in same property full time equivalent employees of 4.3%.

Newsprint and ink costs decreased \$7,916,000, or 7.1%, in 2008 due to decreased usage from lower advertising, reduced page sizes and some reduction of content, partially offset by higher unit prices. Costs decreased 10.0% on a same property basis and volume decreased 11.2% on a same property basis. See Item 7A, *Commodities*, included herein.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation, amortization, or unusual costs (or cost reductions) decreased \$1,305,000, or 0.4%, in 2008 and decreased 0.7% on a same property basis.

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In 2007, defined pension benefits for certain of the Company's employees were frozen at then current levels. As a result, the Company recognized a curtailment gain of \$1,791,000 in 2007, and also recognized the Company's 50% share of the \$2,074,000 gain recognized by TNI.

In 2007, defined postretirement medical benefits for certain of the Company's employees were modified. As a result, the Company recognized a curtailment gain of \$1,940,000.

In 2008, reductions in staffing resulted in workforce adjustment costs totaling \$3,428,000. In 2007, the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. 60 employees volunteered to take advantage of the offer, which included enhanced pension and insurance benefits, and lump-sum cash payments based on continuous service. The initial cost totaled \$10,704,000 before income tax benefit of which \$7,962,000 was recorded as expense. The \$2,742,000 remaining cost was offset against previously existing unrecognized gains in certain of the Company's defined benefit plans. Approximately \$3,700,000 of the cost represents cash payments, with the remainder due primarily to enhancements of pension and other postretirement benefits.

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account based structure. The changes are expected to reduce annual net periodic postretirement medical cost by approximately \$5,400,000, beginning in January 2009, and will reduce the benefit obligation by approximately \$27,500,000, effective in January 2009.

The Company is engaged in various efforts to continue to reduce its operating expenses in 2009 and beyond, including staff reductions and newsprint conservation. The Company expects its operating expenses, excluding depreciation, amortization and unusual costs (and cost reductions), to decline approximately 7-8% in 2009.

**Results of Operations**

As a result of the above, operating cash flow decreased 23.5% to \$207,022,000 in 2008 from \$270,550,000 in 2007, and decreased 20.3% on a same property basis. Operating cash flow margin decreased to 20.1% from 24.2% in the prior year reflecting a larger decrease in operating revenue than the decrease in operating expenses, as well as unusual costs (and cost reductions) in both years.

Depreciation expense increased \$1,715,000, or 5.2%, and amortization expense decreased \$3,337,000, or 5.6%, in 2008.

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The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis at the end of its fiscal year, or 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. Due primarily to the continuing, and increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses. The Company concluded the fair value of its business did not exceed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008.

As a result, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment.

Equity in earnings in associated companies decreased \$9,913,000, or 49.3% in 2008. Operations of these businesses were similarly impacted by the recession. In April 2008, one of MNI's daily newspapers, *The*

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*Capital Times*, decreased print publication from six days per week to one day. The change resulted in severance and other transition costs of \$2,578,000. MNI expects the change will result in annual cost savings of \$3,500,000 to \$4,000,000, beginning in 2009. The Company's 50% share of TNI's curtailment gain increased 2007 results by \$1,037,000.

The above resulted in an operating loss of \$1,049,131,000, compared to operating income of \$197,974,000 in the prior year.

**Non-Operating Income and Expense**

Financial expense decreased \$18,869,000, or 20.9%, to \$71,472,000 due to debt reduction of \$63,250,000 funded primarily by cash generated from operations, as well as lower interest rates. LIBOR in 2008 decreased substantially from its 2007 levels.

Amendments to the Company's Credit Agreement consummated in 2009 will increase financial expense in 2009 in relation to LIBOR. Under the amendments, the Company's credit spreads will generally increase 200 basis points from the current pricing grid. The maximum rate will be increased to LIBOR plus 400 basis points. At the September 2008 leverage level, the Company's debt under the Credit Agreement will be priced at LIBOR plus 300 basis points.

**Overall Results**

Income tax expense (benefit) was (21.0%) of loss from continuing operations before income taxes in 2008 and 29.4% of income from continuing operations before income taxes in 2007. The favorable resolution of federal and state tax audits and other matters increased income tax benefit by \$2,811,000 in 2008 and reduced income tax expense by \$6,880,000 in 2007. In 2008, the Company reduced certain deferred income tax assets by an increase in the valuation allowance of \$29,502,000 due to the uncertainty that such assets will be realized.

On May 1, 2010, Herald will have a one-time right (the 2010 Redemption) to require PD LLC to redeem Herald's interest in PD LLC, together with Herald's interest, if any, in DS LLC, another limited liability company in which Pulitzer is the managing member and which is engaged in the business of delivering publications and products in the greater St. Louis metropolitan area.

Recording of the liability for the 2010 Redemption resulted in an increase of loss available to common stockholders in 2008 of \$8,838,000 and an increase in loss per common share of \$0.20. The Company estimates the ongoing impact on earnings per common share from accounting for the 2010 Redemption of up to \$0.10 per year through April 2010. There is no impact on net income based on the application of current accounting standards. Also, under such standards, if the 2010 Redemption does not occur, the liability and earnings per common share impact discussed above will be reversed for all periods.



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As a result of all of the above, loss available to common stockholders totaled \$888,747,000 in 2008 compared to income available to common stockholders of \$80,999,000 in 2007. The Company recorded a loss per diluted common share of \$19.83 in 2008 compared to earnings of \$1.77 in 2007. Excluding unusual costs (and cost reductions), as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.97 in 2008, compared to \$1.66 in 2007.

| <i>(Thousands, Except Per Share Data)</i>                             | 2008         |            | 2007      |           |
|---|--------------|------------|-----------|-----------|
|   | Amount       | Per Share  | Amount    | Per Share |
| Income (loss) available to common stockholders, as reported           | \$ (888,747) | \$ (19.83) | \$ 80,999 | \$ 1.77   |
| Adjustments:  |              |            |           |           |
| Impairment of goodwill and other assets                               | 1,070,808    |            | -         |           |
| Reduction of investment of TNI  | 104,478      |            | -         |           |
| Workforce adjustments, early retirement programs and transition costs | 4,463        |            | 7,962     |           |
| Curtailment gains   | -            |            | (3,731)   |           |
| Curtailment gains, TNI  | -            |            | (1,037)   |           |
|   | 1,179,749    |            | 3,194     |           |
| Income tax benefit of adjustments, net of impact on minority interest | (283,012)    |            | (1,406)   |           |
|   | 896,737      | 20.01      | 1,788     | 0.04      |
| Benefit of other federal and state tax adjustments                    | (2,811)      | (0.06)     | (6,880)   | (0.15)    |
| Increase in deferred tax valuation allowance                          | 29,502       | 0.66       | -         |           |
|   | 34,681       | 0.77       | 75,907    | 1.66      |
| Change in redeemable minority interest liability                      | 8,838        | 0.20       | -         |           |
| Net income, as adjusted   | \$ 43,519    | \$ 0.97    | \$ 75,907 | \$ 1.66   |



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

|   |            |            | Percent Change |          |
|---|------------|------------|----------------|----------|
|   |            |            | Total          | Property |
|   | 2007       | 2006       |                | Same     |
| <i>(Thousands, Except Per Common Share Data)</i>      |            |            |                |          |
| <b>Advertising revenue:</b>                           |            |            |                |          |
| Retail  | \$ 455,802 | \$ 460,849 | (1.1)%         | (1.1)%   |
| National  | 54,901     | 57,864     | (5.1)          | (5.1)    |
| <b>Classified:</b>                                    |            |            |                |          |
| <b>Daily newspapers:</b>                              |            |            |                |          |
| Employment  | 81,683     | 89,871     | (9.1)          | (9.1)    |
| Automotive  | 55,308     | 60,811     | (9.0)          | (9.0)    |
| Real estate   | 58,529     | 63,329     | (7.6)          | (7.6)    |
| All other   | 39,284     | 38,715     | 1.5            | 1.5      |
| Other publications                                    | 47,737     | 45,078     | 5.9            | 5.8      |
| Total classified                                      | 282,541    | 297,804    | (5.1)          | (5.1)    |
| Online  | 56,074     | 35,610     | 57.5           | 57.5     |
| Niche publications                                    | 16,094     | 16,381     | (1.8)          | (1.7)    |
| Total advertising revenue                             | 865,412    | 868,508    | (0.4)          | (0.4)    |
| Circulation   | 203,481    | 204,807    | (0.6)          | (0.7)    |
| Commercial printing                                   | 16,541     | 17,194     | (3.8)          | (1.9)    |
| Online services and other                             | 34,760     | 30,881     | 12.6           | 9.6      |
| Total operating revenue                               | 1,120,194  | 1,121,390  | (0.1)          | (0.2)    |
| Compensation  | 439,426    | 432,708    | 1.6            | 0.7      |
| Newsprint and ink                                     | 111,842    | 119,506    | (6.4)          | (4.7)    |
| Other operating expenses                              | 294,145    | 278,120    | 5.8            | 6.0      |
| Curtailment gains                                     | (3,731)    | -          | NM             | NM       |
| Early retirement programs                             | 7,962      | 8,654      | NM             | NM       |
| Transition costs                                      | -          | 4,589      | NM             | NM       |
|   | 849,644    | 843,577    | 0.7            | 1.3      |
| Operating cash flow                                   | 270,550    | 277,813    | (2.6)          | (4.1)    |
| Depreciation and amortization                         | 92,700     | 90,276     | 2.7            |          |
| Impairment of other assets                            | -          | 4,837      | NM             |          |
| Equity in earnings of associated companies            | 20,124     | 20,739     | (3.0)          |          |
| Operating income                                      | 197,974    | 203,439    | (2.7)          |          |
| Non-operating expense, net                            | 82,749     | 91,922     | (10.0)         |          |
| Income from continuing operations before income taxes | 115,225    | 111,517    | 3.3            |          |
| Income tax expense                                    | 33,828     | 39,508     | (14.4)         |          |
| Minority interest                                     | 1,069      | 1,231      | (13.2)         |          |
| Income from continuing operations                     | 80,328     | 70,778     | 13.5           |          |
| Discontinued operations, net                          | 671        | 54         | NM             |          |
| Net income  | \$ 80,999  | \$ 70,832  | 14.4%          |          |

Earnings per common share:

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|         |    |      |    |      |       |
|---------|----|------|----|------|-------|
| Basic   | \$ | 1.77 | \$ | 1.56 | 13.5% |
| Diluted |    | 1.77 |    | 1.56 | 13.5  |

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The Company and its enterprises owned before the Pulitzer acquisition, which accounted for approximately 61% of revenue in 2007, used calendar accounting in 2007 and 2006 with a September 30 fiscal year end. Pulitzer operations used period accounting for 2007 and 2006. The table below summarizes days of business activity in years presented:

| <i>(Business Days)</i> | Enterprises Owned Prior                  | Pulitzer Enterprises |      | TNI  |      |
|------------------------|--|----------------------|------|------|------|
|                        | to Pulitzer Acquisition<br>2007 and 2006 | 2007                 | 2006 | 2007 | 2006 |
| <b>Period Ending:</b>  |  |                      |      |      |      |
| December               | 92                                       | 91                   | 91   | 98   | 91   |
| March                  | 90                                       | 91                   | 91   | 91   | 91   |
| June                   | 91                                       | 91                   | 91   | 91   | 91   |
| September              | 92                                       | 98                   | 91   | 91   | 91   |
|                        | 365                                      | 371                  | 364  | 371  | 364  |

In total, acquisitions and divestitures accounted for \$3,900,000 of operating revenue in 2007 and \$3,007,000 of operating revenue in 2006.

**Advertising Revenue**

In 2007, total advertising revenue decreased \$3,096,000, or 0.4%, and same property advertising revenue decreased \$3,153,000, or 0.4%. On a combined basis, print and online retail advertising increased 0.4%. Same property print retail revenue decreased \$5,076,000, or 1.1%, in 2007. A 1.8% decrease in retail advertising lineage contributed to the decrease. Same property average retail rates, excluding preprint insertions, decreased 0.7% in 2007. Retail preprint insertion revenue increased 2.5%, partially offsetting lineage and rate declines. Online retail advertising increased 53.9% resulting in an overall increase in retail advertising.

The table below combines print and online advertising revenue and reclassifies certain retail revenue to classified based on the primary business of the advertiser:

| <i>(Thousands, Same Property)</i> | 2007              | 2006              | Percent Change |
|-----------------------------------|-------------------|-------------------|----------------|
| <b>Retail</b>                     | \$ 455,871        | \$ 453,963        | 0.4%           |
| <b>Classified:</b>                |                   |                   |                |
| Employment                        | \$ 116,864        | \$ 109,464        | 6.8%           |
| Automotive                        | 72,901            | 77,336            | (5.7)          |
| Real estate                       | 76,114            | 80,887            | (5.9)          |
| Other                             | 72,467            | 72,471            | -              |
| <b>Total classified revenue</b>   | <b>\$ 338,346</b> | <b>\$ 340,158</b> | <b>(0.5)%</b>  |

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Same property print classified advertising revenue decreased \$15,291,000, or 5.1%, in 2007. On a combined basis, print and online classified revenue decreased 0.5%. Increases in online advertising more than offset print advertising declines in employment advertising and mitigated declines in other print classified categories. Higher rate employment advertising at the daily newspapers decreased 9.1% for the year on a same property basis. The Company's decreases in print employment classified advertising compare favorably to national survey amounts. The September 2007 Help Wanted Index, as calculated by the Conference Board, decreased 17.2% from the prior year level. Same property print automotive advertising decreased 9.0%, amid a continuing industry-wide decline. Same property print real estate advertising decreased 7.6% in a weakening housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Other daily newspaper print classified advertising increased 1.5% on a same property basis. Same property print classified advertising rates decreased 3.2% primarily due to decreases in employment and automotive rates.

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Advertising lineage, as reported on a same property basis for the Company's daily newspapers only, consists of the following:

| <i>(Thousands of Inches)</i> | 2007   | 2006   | Percent Change |
|------------------------------|--------|--------|----------------|
| Retail                       | 13,305 | 13,548 | (1.8)%         |
| National                     | 677    | 778    | (13.0)         |
| Classified                   | 15,833 | 16,490 | (4.0)          |
|                              | 29,815 | 30,816 | (3.2)%         |

Online advertising revenue increased 57.5% on a same property basis, due to rate increases, improvements in the Company's online sites and cross-selling with the Company's print publications. In addition, the Company began offering online employment advertising in Yahoo! Hot Jobs in 2007. In 2007 online advertising surpassed national as a source of advertising revenue.

National advertising decreased \$2,965,000, or 5.1%, on a same property basis due to a 13.0% decline in lineage offset by a 6.2 increase in average national rate. Advertising in niche publications decreased 1.7% on a same property basis.

The Company's year-over-year advertising results in 2007 and 2006 compare favorably to national statistics published by the NAA.

**Circulation and Other Revenue**

Circulation revenue decreased \$1,326,000, or 0.6% in 2007, and same property circulation revenue decreased \$1,348,000, or 0.7%. The Company's total average daily newspaper circulation units, including TNI and MNI, as measured by the ABC, or other independent organizations, declined 1.8% for the six months ended September 2007, compared to the same period in the prior year, and Sunday circulation declined 0.8%, significantly outperforming the industry as a whole. For the six months ended March 2007, total average daily circulation units, including TNI and MNI, declined 0.3% and Sunday circulation decreased 1.4%, again outperforming the industry. In spite of modest declines in circulation, Company research in its larger markets indicates it is reaching an increasingly larger audience in these markets through modest growth in newspaper readership and rapid online growth, as well as through additional specialty and niche publications.

Same property commercial printing revenue decreased \$318,000, or 1.9%, in 2007. Same property online services and other revenue increased \$2,729,000, or 9.6%, in 2007.

**Operating Expenses and Results of Operations**

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Costs other than depreciation, amortization and unusual costs (and cost reductions) increased \$15,079,000, or 1.8%, in 2007, and increased \$13,437,000, or 1.7%, on a same property basis. In total, acquisitions and divestitures accounted for \$3,782,000 of operating expenses, excluding depreciation and amortization, in 2007 and \$2,720,000 in 2006.

Compensation expense increased \$6,718,000, or 1.6%, in 2007 and increased 0.7% on a same property basis. Normal salary adjustments and associated increases in payroll taxes and benefits account for the increase, partially offset by a decline in same property full time equivalent employees of 1.1% in 2007 from the prior year level.

Newsprint and ink costs decreased \$7,664,000, or 6.4%, in 2007 due to lower newsprint prices and decreased usage. Costs decreased 4.7% on a same property basis due to migration to lighter weight paper and narrower page widths. Newsprint prices, which had been increasing since the summer of 2002, declined from September 2006 until June 2007 and were stable for the remainder of 2007. See Item 7A, *Commodities*, included herein.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation, amortization or unusual costs (and cost reductions), increased \$16,025,000, or 5.8%, in 2007 and increased 6.0% on a same property basis. Expenses to support revenue initiatives in print and online and maintain circulation contributed to the growth in other operating expenses.

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In 2007, defined pension benefits for certain of the Company's employees were frozen at then current levels. As a result, the Company recognized a curtailment gain of \$1,791,000 in 2007, and also recognized the Company's 50% share of the \$2,074,000 gain recognized by TNI.

In 2007, defined postretirement medical benefits for certain of the Company's employees were modified. As a result, the Company recognized a curtailment gain of \$1,940,000.

In 2007, the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. 60 employees volunteered to take advantage of the offer, which included enhanced pension and insurance benefits, and lump-sum cash payments based on continuous service. The initial cost totaled \$10,704,000 before income tax benefit of which \$7,962,000 was recorded as expense. The \$2,742,000 remaining cost was offset against previously existing unrecognized gains in certain of the Company's defined benefit plans. Approximately \$3,700,000 of the cost represents cash payments substantially all of which were made in 2008, with the remainder due primarily to enhancements of pension and other postretirement benefits.

In 2006, the *St. Louis Post-Dispatch* concluded another offering of early retirement incentives that resulted in an adjustment of staffing levels. 130 employees volunteered to take advantage of the offer, which included enhanced pension and insurance benefits and lump sum cash payments based on continuous service. The cost totaled \$17,778,000 before income tax benefit, with \$8,654,000 recognized in 2006, and \$9,124,000 recognized in 2005. Approximately \$7,000,000 of the cost represented cash payments made, with the remainder due primarily to enhancements of pension and other postretirement benefits.

Transition costs related to the acquisition of Pulitzer, which are not included in same property comparisons, totaled \$4,589,000 in 2006. Transition costs were comprised of costs directly related to the acquisition of Pulitzer that were separately identifiable and non-recurring, but not capitalizable under GAAP.

**Results of Operations**

Operating cash flow decreased 2.6% to \$270,550,000 in 2007 from \$277,813,000 in 2006, and decreased 4.1% on a same property basis. Operating cash flow margin decreased to 24.2% from 24.8% in the prior year reflecting a decrease in operating revenue and increase in operating expenses, as well as unusual costs (and cost reductions) in both years.

Depreciation expense decreased \$561,000, or 1.7%, and amortization expense increased \$2,985,000, or 5.3%, in 2007.

In 2006, the Company, based on its most recent analysis and in conjunction with its ongoing requirement to assess the estimated useful lives of intangible assets, concluded that the period of economic benefit of certain identified intangible assets related to the Pulitzer acquisition had decreased. As a result, the weighted-average useful life of customer lists, including those of TNI, was

decreased from approximately 21 years to 17 years.

The change in estimated useful life of such assets resulted in recognition of additional amortization expense of \$1,847,000 in 2006, of which \$469,000 was recorded in equity in earnings of TNI.

In 2006, the Company also recorded a separate non-cash charge of \$5,424,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,837,000 was recorded in amortization expense and \$587,000 was recorded in equity in earnings of TNI.

Equity in earnings in associated companies decreased 3.0% in 2007. TNI, which uses period accounting, had 53 weeks of business activity in 2007, compared with 52 weeks in the prior year. The Company's 50% share of TNI's curtailment gain increased results by \$1,037,000. MNI results in 2006 were reduced by the \$1,002,000 loss on the sale of its Shawano, Wisconsin daily newspaper.



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As a result of all of the above, operating income decreased \$5,465,000, or 2.7%. Operating income margin decreased to 17.7% in 2007 from 18.1%.

**Non-Operating Income and Expense**

Financial expense decreased \$5,598,000, or 5.8%, to \$90,341,000 due to debt reduction of \$129,375,000 funded by cash generated from operations and 2006 sales of assets, which more than offset higher interest rates. In 2006, the Company wrote off certain other investments which resulted in a loss before income taxes of \$2,037,000.

**Overall Results**

Income taxes were 29.4% of income from continuing operations before income taxes in 2007 and 35.4% in 2006. The favorable resolution of federal and state tax audits and other matters reduced income tax expense by \$6,880,000 in 2007. The effective tax rate would have been 35.3% in 2007 without these matters.

As a result of all of the above, income from continuing operations totaled \$80,328,000 in 2007, an increase of 13.5% compared to \$70,778,000 in 2006. Earnings per diluted common share were \$1.77 in 2007 and \$1.56 in 2006. Excluding unusual costs (and cost reductions), as detailed in the table below, diluted earnings per common share, as adjusted, were \$1.66 in 2007, compared to \$1.81 in 2006.

| <i>(Thousands, Except Per Share Data)</i>                             | 2007      |           | 2006      |           |
|---|-----------|-----------|-----------|-----------|
|   | Amount    | Per Share | Amount    | Per Share |
| Income available to common stockholders, as reported                  | \$ 80,999 | \$1.77    | \$ 70,832 | \$1.56    |
| Adjustments:  |           |           |           |           |
| Workforce adjustments, early retirement programs and transition costs | 7,962     |           | 13,243    |           |
| Impairment of identified intangible assets                            | -         |           | 5,424     |           |
| Curtailment gains   | (3,731)   |           | -         |           |
| Curtailment gains, TNI  | (1,037)   |           | -         |           |
|   | 3,194     |           | 18,667    |           |
| Income tax benefit of adjustments, net of impact on minority interest | (1,406)   |           | (6,857)   |           |
|   | 1,788     | 0.04      | 11,810    | 0.26      |
| Benefit of other federal and state tax adjustments                    | (6,880)   | (0.15)    | -         | -         |
| Net income, as adjusted   | \$ 75,907 | \$1.66    | \$ 82,642 | \$1.81    |

**DISCONTINUED OPERATIONS**

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Revenue from discontinued operations in 2008, 2007 and 2006 was \$1,376,000, \$7,581,000 and \$48,362,000, respectively. Income from discontinued operations before income taxes was \$128,000 in 2008, \$882,000 in 2007, and \$8,393,000 in 2006.

In 2008, the Company sold its daily newspaper in DeKalb, Illinois for \$24,000,000, before income taxes. The transaction resulted in an after tax gain of \$219,000 which is recorded in discontinued operations in 2008.

In 2007, the Company sold a weekly newspaper in Oregon for \$250,000.

In 2006, the Company sold several stand-alone publishing and commercial printing operations in the Pacific Northwest, a twice-weekly newspaper in Oregon, and a daily newspaper in Rhinelander, Wisconsin. The transactions resulted in an after tax loss of \$5,204,000, which is recorded in discontinued operations in 2006. Proceeds from the sales totaled \$53,898,000 of which \$20,700,000 was received in 2007 and \$33,198,000 in 2006.

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**LIQUIDITY AND CAPITAL RESOURCES**

**Operating Activities**

Cash provided by operating activities of continuing operations was \$136,612,000 in 2008, \$167,630,000 in 2007, and \$196,203,000 in 2006. An operating loss in 2008 was caused primarily by non-cash charges for the impairment of goodwill and other assets and reduction of the Company's investment in TNI. Increased income from continuing operations in 2007 was accompanied by an increase in depreciation and amortization. Changes in operating assets and liabilities and the timing of income tax payments accounted for the bulk of the remainder of the change in all years.

An existing, unfunded, supplemental benefit retirement plan was liquidated, as planned, in 2008, reducing cash provided by operating activities by \$17,926,000.

**Investing Activities**

Cash required for investing activities totaled \$14,963,000 in 2008, \$38,523,000 in 2007, and \$42,666,000 in 2006. Capital spending totaled \$20,606,000 in 2008, \$34,381,000 in 2007 and \$32,527,000 in 2006 and accounted for substantially all of the usage of funds in all years.

The Company anticipates that funds necessary for capital expenditures, which are expected to total approximately \$15,000,000 in 2009, and other requirements, will be available from internally generated funds, or availability under its existing Credit Agreement. The 2009 Amendments, as discussed more fully below, limit capital expenditures to \$20,000,000 in 2009.

**Financing Activities**

Cash required by financing activities totaled \$113,360,000 in 2008, \$160,934,000 in 2007, and \$191,930,000 in 2006. Debt reduction and dividends accounted for the majority of the usage of funds in all years. The annual dividend declared was \$0.76 per share in 2008 and \$0.72 per share in 2007 and 2006.

In 2008, the Company announced its intention to acquire up to \$30,000,000 of its Common Stock in open market and private transactions. 1,722,280 shares have been acquired and returned to authorized shares at an average price of \$10.98.

The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases until its total leverage ratio is less than 4.5:1.

### **Credit Agreement**

In 2006, the Company entered into an amended and restated credit agreement (Credit Agreement) with a syndicate of financial institutions (the Lenders). The Credit Agreement provided for aggregate borrowing of up to \$1,435,000,000 and consisted of a \$950,000,000 A Term Loan, \$35,000,000 B Term Loan and \$450,000,000 revolving credit facility.

The Credit Agreement also provided the Company with the right, with the consent of the administrative agent, to request at certain times prior to June 2012 that one or more Lenders provide incremental term loan commitments of up to \$500,000,000, subject to certain requirements being satisfied at the time of the request. The Credit Agreement matures in June 2012 and amended and replaced a \$1,550,000,000 credit agreement consummated in 2005.

The Credit Agreement contained customary affirmative and negative covenants for financing of its type. These financial covenants included a maximum total leverage ratio (5.25:1 at September 28, 2008). The total leverage ratio is based primarily on the principal amount of debt, net of cash, which equaled \$1,182,856,000 at September 28, 2008, divided by a measure of trailing 12 month operating results which includes several factors, including distributions from TNI and MNI. The Company's total leverage ratio at September 28, 2008 was 5.20:1. The Credit Agreement also included a minimum

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interest expense coverage ratio of 2.5:1. The Company's interest expense coverage ratio at September 28, 2008 was 3.2:1. At September 28, 2008, the Company was in compliance with such covenants, as waived or amended from time to time.

The Credit Agreement requires the Company to apply the net proceeds from asset sales to repayment of the A Term Loan to the extent such proceeds exceed the amount used to purchase assets (other than inventory and working capital) within one year of the asset sales. Repayments in 2008, 2007 and 2006 met required repayments related to its sales transactions.

The Credit Agreement requires the Company to accelerate future payments under the A Term Loan in the amount of 75% of its Excess Cash Flow, as defined, beginning in 2008. The Company has Excess Cash Flow of approximately \$62,000,000 in 2008 and, as a result, will be paying approximately \$46,500,000 originally due under the A Term Loan in March and June 2009, in December 2008. The acceleration of such payments due to Excess Cash Flow does not change the due dates of other A Term Loan payments.

**Amendments to Credit Agreement**

In 2009, the Credit Agreement was amended (the 2009 Amendments).

Under the 2009 Amendments, the Company and certain of its subsidiaries pledged 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 Credit Agreement. Assets of Pulitzer, the Company's ownership interest in MNI and certain employee benefit plan assets are excluded.

The 2009 Amendments reduce the amount available under the revolving credit facility to \$375,000,000 and eliminate the incremental term loan facility. The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases until its total leverage ratio is less than 4.5:1. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Other covenants ensure that substantially all future cash flows of the Company are required to be directed for debt reduction.

Further, the 2009 Amendments modify other covenants, including restricting the Company's ability to make additional investments and acquisitions without the consent of its Lenders, limiting additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Company may hold to \$15,000,000.

Under the 2009 Amendments, the Company's credit spreads will generally increase 200 basis points from the current pricing grid. The maximum rate (for leverage greater than 6.25:1) will be increased to LIBOR plus 400 basis points. At the September 2008 leverage level, the Company's debt under the Credit Agreement will be priced at LIBOR plus 300 basis points.

Under the 2009 Amendments, the Company's total leverage ratio limit will increase from 5.25:1 to 6.25:1 in September 2008, increase to 6.5:1 in December 2008, increase to 6.75:1 in March 2009, decrease to 6.5:1 in December 2009, decrease to 6.25:1 in September 2010 and decrease to 4.5:1 in December 2010. Each change in the leverage ratio limit noted above is effective on the last day of the fiscal quarter.

The interest expense coverage ratio limit will decline from 2.5:1 to 2.0:1 through March 2009, decrease thereafter to 1.7:1 through September 2009, increase thereafter to 1.8:1 through December 2009, increase thereafter to 1.9:1 through March 2010, increase thereafter to 2.0:1 through September 2010, and increase thereafter to 2.5:1.

The Company paid a fee of 0.5% to consenting lenders, which along with the related expenses, totals \$6,277,000.

### **Pulitzer Notes**

In conjunction with its formation in 2000, PD LLC borrowed \$306,000,000 (Pulitzer Notes) from a group of institutional lenders (the Noteholders). The aggregate principal amount of the Pulitzer Notes is payable in

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April 2009 and bears interest at an annual rate of 8.05%. The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 (Guaranty Agreement) with the Noteholders. In turn, pursuant to an Indemnity Agreement dated May 1, 2000 (Indemnity Agreement) between The Herald Company, Inc. (Herald, Inc.) and Pulitzer, Herald, Inc. agreed to indemnify Pulitzer for any payments that Pulitzer may make under the Guaranty Agreement. In December 2006, Herald Inc. assigned its assets and liabilities to Herald.

The terms of the Pulitzer Notes, as amended, contain certain covenants and conditions including the maintenance, by Pulitzer, of EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. At September 28, 2008, Pulitzer was in compliance with such covenants, as waived or amended from time to time. In addition, the Pulitzer Notes and the Operating Agreement with Herald (Operating Agreement) require that PD LLC maintain the Reserve, consisting of cash and investments in U.S. government securities, totaling approximately \$126,060,000 at September 28, 2008 (Reserve). The Pulitzer Notes and the Operating Agreement provide for a \$3,750,000 quarterly increase in the minimum Reserve balance through May 1, 2010, when the amount will total \$150,000,000. See Note 19 of the Notes to Consolidated Financial Statements, included herein.

The Credit Agreement contains a cross-default provision tied to the terms of the Pulitzer Notes.

The purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which is recorded as debt in the Consolidated Balance Sheets. This amount will be accreted over the remaining life of the Pulitzer Notes, until April 2009, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due to, or reduce the amount of interest to be paid to, the Noteholders.

The Company is required to refinance the Pulitzer Notes from time to time, as they become due, until May 1, 2015.

**2009 Waivers**

In December 2008, certain covenant violations related to the Credit Agreement and Pulitzer Notes, as applicable, were waived (the 2009 Waivers). The 2009 Waivers relate to the going concern modification of the auditors' reports on the Consolidated Financial Statements of the Company, and the separate financial statements of Pulitzer and PD LLC for 2008, and a delay in the timing of delivery of 2008 year end covenant compliance information related to the Credit Agreement and the Pulitzer Notes. Waivers were also obtained related to a violation of the Consolidated Net Worth (as defined) covenant as of September 28, 2008 and as of December 28, 2008 under the Pulitzer Notes. The 2009 Waivers under the Credit Agreement and Pulitzer Notes expire March 30, 2009 and January 16, 2009, respectively. The Company is required to provide final 2008 year end covenant compliance information related to the Credit Agreement no later than January 5, 2009.

The Company paid fees and expenses related to the 2009 Waivers totaling \$1,874,000.

## Liquidity

The Company's ability to operate as a going concern is dependent on its ability to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed.

The Company's indebtedness could adversely affect its financial health in any or all of the following ways:

- Substantially all of the cash flows of the Company are required to be applied to payment of debt interest and principal, reducing funds available for investment, capital expenditures and other purposes;
- The Company reported significant net losses in 2008, due to impairment of goodwill and other assets resulting from the continuing and increasing difference between its stock price and the per share carrying value of its net assets. Reduced expectations of future cash flows were also an important factor in the determination of such impairment charges;
- The Company's flexibility to react to changes in economic and industry conditions may be more limited;
- Increasing leverage could make the Company more vulnerable in the event of additional deterioration of general economic conditions or other adverse events; and
- There could be a material impact on the Company's business if it is unable to meet the conditions of its debt agreements or obtain replacement financing.



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The Company generated cash flows in 2008 sufficient to reduce net debt by \$102,225,000, pay dividends totaling \$32,573,000 and acquire shares of its Common Stock in the amount of \$19,483,000. The Company does not have sufficient cash flows to meet both its requirements for 2009 operations and repayment of the Pulitzer Notes.

2009 principal payments required under the Credit Agreement totaling \$142,500,000 are expected to exceed the Company's cash flows available for such payments. As a result, the Company expects to utilize a portion of its capacity under its revolving credit facility to fund a portion of the 2009 principal payments required. At September 28, 2008, the Company had \$207,000,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, has approximately \$162,000,000 available for future use.

Principal payments under the Credit Agreement totaling \$166,250,000 are due in 2010. The Company expects to utilize the remainder of its capacity under its revolving credit facility to fund a portion of the 2010 principal payments required.

The Pulitzer Notes mature in April 2009. The Company is actively engaged in discussions with the Noteholders, and to the extent their approval may also be required, the Lenders, to extend or refinance the Pulitzer Notes. The Company has also initiated discussions with the Lenders related to changes to the Credit Agreement to maintain sufficient long-term liquidity. However, the timing and ultimate outcome of such discussions cannot be determined at this time due in part, to the abnormal condition of the domestic credit markets and the overall recessionary operating environment in which the Company, Pulitzer, and other publishing companies are currently operating. Continuing instability or further disruptions of these markets could prohibit or make it more difficult for the Company to access new capital, increase the cost of capital or limit its ability to refinance existing indebtedness.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default, including expiration of existing waivers, occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents, any of which would impair the ability of the Company to operate its business as a going concern.

**Interest Rate Exchange Agreements**

At September 28, 2008, the Company had outstanding interest rate swaps in the notional amount of \$200,000,000. The interest rate swaps have original terms of three to five years, carry interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fix the Company's interest rate on debt in the amount, and for the time periods, of such instruments. In November 2008, interest rate swaps in the notional amounts of \$75,000,000 expired.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars have a two year term and limit LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limit the range of the Company's exposure to

interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

### **Discontinued Operations and Other Matters**

Cash provided by discontinued operations totaled \$15,170,000, \$23,189,000, and \$39,488,000 in 2008, 2007, and 2006, respectively. Cash proceeds from the sales of discontinued operations and cash generated from operations were the primary sources of funds in 2008, 2007, and 2006.

Cash and cash equivalents increased \$23,459,000 in 2008, decreased \$8,638,000 in 2007, and increased \$1,095,000 in 2006.

**Table of Contents****Index to Financial Statements****SEASONALITY**

The Company's 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 first and third fiscal quarters. Advertising revenue is lowest in the second fiscal quarter.

Quarterly results of operations are summarized in Note 21 of the Notes to Consolidated Financial Statements, included herein.

**INFLATION**

The Company anticipates that changing costs of newsprint, its basic raw material, may impact future operating costs. Energy costs have also become more volatile. Price increases (or decreases) for the Company's products are implemented when deemed appropriate by management. The Company continuously evaluates price increases, productivity improvements, sourcing efficiencies and other cost reductions to mitigate the impact of inflation.

**CONTRACTUAL OBLIGATIONS**

The following table summarizes the more significant of the Company's contractual obligations.

| Nature of Obligation                   | Total        | Payments (or Commitments) Due by Year |            |            |             |
|--|--------------|---------------------------------------|------------|------------|-------------|
|  |              | Less Than 1                           | 1-3        | 3-5        | More Than 5 |
| Debt (principal amount) <sup>(1)</sup> | \$ 1,332,375 | \$ 448,500                            | \$ 427,500 | \$ 456,375 | \$ -        |
| Operating lease obligations            | 22,412       | 4,634                                 | 6,972      | 4,683      | 6,123       |
| Financial expense <sup>(2)(3)</sup>    | 18,474       | 18,474                                | -          | -          | -           |
| Capital expenditure commitments        | 5,211        | 5,211                                 | -          | -          | -           |
|  | \$ 1,378,472 | \$ 476,819                            | \$ 434,472 | \$ 461,058 | \$ 6,123    |

(1) Maturities of long-term debt exclude the possible impact of acceleration of amounts due under the Credit Agreement due to a future default under such agreement. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

(2) Financial expense excludes interest expense for the Pulitzer Notes after their maturity date in April 2009. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

(3) Financial expense excludes interest on floating rate debt. Based on LIBOR and the principal amount of floating rate debt at September 28, 2008, including debt subject to interest rate swaps and collars, as well as margins under the 2009 Amendments, annual interest on floating rate debt is expected to total approximately \$59,000,000 in 2009. See Note 7 of the Notes to

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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. The Company's estimate of cash requirements for these obligations in 2009 is approximately \$4,307,000. See Notes 9 and 10 of the Notes to Consolidated Financial Statements, included herein.

The table above excludes future cash requirements for the 2010 Redemption. The Company has not been notified that Herald will exercise its redemption rights. The present value of the 2010 Redemption at September 28, 2008 is approximately \$72,031,000. See Note 19 of the Notes to Consolidated Financial Statements, included herein.

A substantial amount of the Company's deferred income tax liabilities is related to acquisitions and will not result in future cash payments. See Note 14 of the Notes to Consolidated Financial Statements, included herein.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is 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**

**Restricted Cash and Investments**

Interest rate risk in the Company's restricted cash and investments is managed by investing only in short-term securities. Only U.S. Government and related securities are permitted.

**Debt**

The Company's debt structure and interest rate risk are managed through the use of fixed and floating rate debt. The Company's primary exposure is to LIBOR. A 100 basis point increase to LIBOR would decrease income from continuing operations before income taxes on an annualized basis by approximately \$6,764,000, based on \$676,375,000 of floating rate debt outstanding at September 28, 2008, after consideration of the interest rate swaps described below, and excluding debt subject to interest rate collars described below and debt of MNI. Such interest rates may also decrease.

At September 28, 2008, the Company has outstanding interest rate swaps in the notional amount of \$200,000,000. The interest rate swaps have original terms of three to five years, carry interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fix the Company's interest rate on debt in the amount, and for the time periods, of such instruments. In November 2008, interest rate swaps in the notional amounts of \$75,000,000 expired.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars have a two year term and limit LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limit the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

At September 28, 2008, after consideration of the interest rate swaps described above, approximately 62% of the principal amount of the Company's debt is subject to floating interest rates. The interest rate collars described above limit the Company's exposure to

interest rates on an additional 11% of the principal amount of its debt.

Certain of the Company's interest-earning assets, including those in employee benefit plans, also function as a natural hedge against fluctuations in interest rates on debt.

## **COMMODITIES**

Certain materials used by the Company are exposed to commodity price changes. The Company manages this risk through instruments such as purchase orders and non-cancelable supply contracts. The Company is a participant in a buying cooperative with other publishing companies, primarily for acquisition of newsprint. The Company is 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.

Between November 2007 and December 2008, North American newsprint manufacturers implemented, or attempted to implement, as many as 13 price increases totaling up to \$265 per metric ton on standard 30 pound newsprint. In October, November and December 2008, several suppliers delayed or rescinded several of such price increases. North American newsprint suppliers took significant steps in 2008 to curtail newsprint production capacity in an effort to balance supply capacity with declining demand trends and additional capacity reductions have been announced for 2009. Curtailment activities include permanent, indefinite, and temporary shutdown of newsprint production facilities. However, the significant

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decline in North American 2008 newsprint demand and consumption appears to be greater than the total newsprint production restraints and may favorably impact pricing trends in 2009. In addition, 2007 and 2008 increases in raw material costs, energy costs and the value of the Canadian dollar relative to the U.S. dollar, all of which contributed to recent increases in newsprint prices, have recently reverted to significantly lower levels, which may mitigate future increases in newsprint costs, or lead to a decline in such costs. The final extent of changes in price, if any, is subject to negotiation between such manufacturers and the Company.

A \$10 per metric ton price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$1,100,000 based on anticipated consumption in 2009, excluding consumption of MNI and TNI and the impact of LIFO accounting. Such prices may also decrease.

**SENSITIVITY TO CHANGES IN VALUE**

The Company's fixed rate debt consists of the Pulitzer Notes, which are not traded on an active market and held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists in the current recession, the Company is unable, as of September 28, 2008, to measure the maximum potential impact on fair value of fixed rate debt of the Company in one year from adverse changes in market interest rates under normal market conditions. The change in value, if determined, would likely be significant.

Changes in the value of interest rate swaps and interest rate collars from movements in interest rates are not determinable, due to the number of variables involved in the pricing of such instruments. However, increases in interest rates would generally result in increases in the fair value of such instruments.

**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 the Company's Proxy Statement to be filed in January 2009, which is incorporated herein by reference, under the caption Relationship with Independent Registered Public Accounting Firm .

**ITEM 9A. CONTROLS AND PROCEDURES**

In order to ensure that the information that must be disclosed in filings with the Securities and Exchange Commission is recorded, processed, summarized and reported in a timely manner, the Company has disclosure controls and procedures in place. The Company's chief executive officer, Mary E. Junck, and chief financial officer, Carl G. Schmidt, have reviewed and evaluated disclosure controls and procedures as of September 28, 2008, and have concluded that such controls and procedures are effective.

There have been no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect such controls, during the year ended September 28, 2008.



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**MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Lee Enterprises, Incorporated (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of the Company's Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America.

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.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of September 28, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on the assessment and those criteria, we believe that the Company maintained effective internal control over financial reporting as of September 28, 2008.

KPMG LLP, the Company's independent registered public accounting firm, issued an attestation report on the effectiveness of the Company's internal control over financial reporting. Their report appears on the following page.

/s/ Mary E. Junck  
Mary E. Junck  
Chairman, President and Chief Executive Officer

December 31, 2008

/s/ Carl G. Schmidt  
Carl G. Schmidt  
Vice President, Chief Financial Officer

and Treasurer  
December 31, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Lee Enterprises, Incorporated:

We have audited Lee Enterprises, Incorporated's internal control over financial reporting as of September 28, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lee Enterprises, Incorporated'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 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 maintained, in all material respects, effective internal control over financial reporting as of September 28, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lee Enterprises, Incorporated and subsidiaries as of September 28, 2008, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the 52-week period ended September 28, 2008.

Our report dated December 31, 2008, contains an explanatory paragraph that states that the Company has short-term obligations that cannot be satisfied by available funds and has incurred violations of debt covenants that subject the related principal amounts to acceleration, all of which raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

Chicago, Illinois

December 31, 2008

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**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 the Company's Executive Officers, is included under the caption "Executive Team" in Part I of this Form 10-K, is included in the Company's Proxy Statement to be filed in January 2009, which is incorporated herein by reference, under the captions "Proposal 1 Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance". The Company's Executive Officers are those elected officers whose names and certain information are set forth under the caption "Executive Team" in Part 1 of this Form 10-K.

The Company has a Code of Business Conduct and Ethics (Code) that applies to all of its employees, including its principal executive officer, and principal financial and accounting officer. The Code is monitored by the Audit Committee of the Company's Board of Directors and is annually affirmed by its directors and executive officers. The Company maintains a corporate governance page on its website which includes the Code. The corporate governance page can be found at [www.lee.net](http://www.lee.net) by clicking on "Governance". 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 the Company from, a provision of the Code will be posted on the Company's website.

**ITEM 11. EXECUTIVE COMPENSATION**

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2009, which is incorporated herein by reference, under the captions, "Compensation of Directors", "Executive Compensation" and "Compensation Discussion and Analysis"; provided, however, that the subsection entitled "Executive Compensation Report of the Executive Compensation Committee of the Board of Directors on Executive Compensation" shall not be deemed to be incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

**AND RELATED STOCKHOLDER MATTERS**

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Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2009, which is incorporated herein by reference, under the caption "Voting Securities and Principal Holders Thereof" and "Equity Compensation Plan Information".

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS,  
AND DIRECTOR INDEPENDENCE**

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2009, 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 the Company's Proxy Statement to be filed in January 2009, 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 on Form 10-K:

**FINANCIAL STATEMENTS**

Consolidated Statements of Operations and Comprehensive Income (Loss) Years ended September 28, 2008, and September 30, 2007 and 2006

Consolidated Balance Sheets September 28, 2008 and September 30, 2007

Consolidated Statements of Stockholders' Equity Years ended September 28, 2008, and September 30, 2007 and 2006

Consolidated Statements of Cash Flows Years ended September 28, 2008, and September 30, 2007 and 2006

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

**FINANCIAL STATEMENT SCHEDULES**

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

**EXHIBITS**

See Exhibit Index, included herein.

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**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 31<sup>st</sup> day of December 2008.

LEE ENTERPRISES, INCORPORATED

/s/ Mary E. Junck  
Mary E. Junck  
Chairman, President and Chief Executive Officer

/s/ Carl G. Schmidt  
Carl G. Schmidt  
Vice President, Chief Financial Officer and Treasurer

(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 31<sup>st</sup> day of December 2008.

Signature

/s/ Richard R. Cole  
Richard R. Cole

Director

/s/ Nancy S. Donovan  
Nancy S. Donovan

Director

/s/ Leonard J. Elmore  
Leonard J. Elmore

Director

/s/ Mary E. Junck  
Mary E. Junck

Chairman, President, and  
Chief Executive Officer, and Director

/s/ William E. Mayer  
William E. Mayer

Director

/s/ Herbert W. Moloney III  
Herbert W. Moloney III

Director

/s/ Andrew E. Newman  
Andrew E. Newman

Director



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/s/ Gordon D. Prichett  
Gordon D. Prichett

Director

/s/ Gregory P. Schermer  
Gregory P. Schermer

Vice President Interactive Media,  
and Director

/s/ Mark B. Vittert  
Mark B. Vittert

Director

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Exhibits marked with an asterisk (\*) are incorporated by reference to documents previously filed by the Company with the Securities and Exchange Commission, 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  |
|--------|--|
| 2.1 *  | Agreement and Plan of Merger dated as of January 29, 2005 among Lee Enterprises, Incorporated, LP Acquisition Corp. and Pulitzer Inc. (Exhibit 2.1 to Form 8-K filed on February 3, 2005)  |
| 2.3 *  | Asset Purchase Agreement dated September 6, 2006 by and among Lee Enterprises, Incorporated, Lee Procurement Solutions Co. and Sound Publishing, Inc. (Exhibit 2.3 to Form 10-K for the Fiscal Year Ended September 30, 2006)  |
| 2.4 *  | Asset Purchase Agreement dated September 5, 2006 by and among Lee Enterprises, Incorporated, Lee Procurement and Target Media Partners Operating Company, LLC (Exhibit 2.4 to Form 10-K for the Fiscal Year Ended September 30, 2006)  |
| 3.1 *  | Restated Certificate of Incorporation of Lee Enterprises, Incorporated, as amended, as of March 3, 2005 (Exhibit 3.1 to Quarterly Report on Form 10-Q for the Fiscal Quarter Ended March 31, 2005)   |
| 3.2 *  | Amended By-Laws of Lee Enterprises, Incorporated effective May 17, 2007. (Exhibit 99.1 to Form 8-K filed May 21, 2007)   |
| 4 *    | The description of the Company's preferred stock purchase rights contained in its report on Form 8-K, filed with the SEC 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 with the SEC 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 with the SEC on May 26, 1998 (File No. 1-6227), as supplemented by Form 8-A/A, Amendment No. 1, filed with the SEC on January 11, 2008. |
| 10.1 * | Amended and Restated Credit Agreement, dated as of December 21, 2005, by and among Lee Enterprises, Incorporated, the lenders from time to time party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running Manager, SunTrust Bank, as Syndication Agent and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents (Exhibit 10 to Form 10-Q for the Fiscal Quarter Ended December 31, 2005)   |
| 10.2 * | First Amendment and Waiver to Credit Agreement, dated as of September 29, 2008, among Lee Enterprises, Incorporated (the Company ), the Lenders party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, related to the Company's Amended and Restated Credit Agreement, dated as of December 21, 2005, by and among the Company, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running  |

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Manager, SunTrust Bank, as Syndication Agent, and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents and other lenders thereto (Exhibit 10.1 to Form 8-K filed December 17, 2008)

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| Number  | Description   |
|---------|---|
| 10.3 *  | Second Amendment to Credit Agreement, dated as of October 29, 2008, among Lee Enterprises, Incorporated (the Company ), the Lenders party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, related to the Company s Amended and Restated Credit Agreement, dated as of December 21, 2005, by and among the Company, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running Manager, SunTrust Bank, as Syndication Agent, and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents and other lenders thereto (Exhibit 10.1 to Form 8-K filed December 17, 2008) |
| 10.4    | Second Waiver to Credit Agreement, dated as of December 22, 2008, among Lee Enterprises, Incorporated, the lenders party thereto and Deutsche Bank Trust Company Americas, as Administrative Agent  |
| 10.5 *  | Security Agreement, dated as of November 21, 2008, among Lee Enterprises, Incorporated and certain of its subsidiaries in favor of Deutsche Bank Trust Company Americas, as Collateral Agent (Exhibit 10.1 to Form 8-K filed December 17, 2008)   |
| 10.6 *  | Amended and Restated Agreement and Plan of Merger by and among Pulitzer Publishing Company, Pulitzer Inc. and Hearst-Argyle Television, Inc. dated as of May 25, 1998 (Exhibit 10.1 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)  |
| 10.7 *  | 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)  |
| 10.8 *  | Partnership Agreement, dated December 22, 1988, between Star Publishing Company and Citizen Publishing Company (Exhibit 10.3 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)   |
| 10.9 *  | 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)   |
| 10.10*  | 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)   |
| 10.11   | Letter Agreement among The Herald Company, Inc., Pulitzer Inc. and Pulitzer Technologies, Inc. dated December 14, 2006  |
| 10.12 * | Joint Venture Agreement, dated as of May 1, 2000, among Pulitzer Inc., Pulitzer Technologies, Inc., The Herald Company, Inc. and St. Louis Post-Dispatch LLC (Exhibit 10.4 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)   |
| 10.13 * | St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended by Amendment No. 1 to Note Agreement, entered into as of November 23, 2004 (Exhibit 10.8 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)   |
| 10.14   | Amendment No. 2 to Note Agreement, entered into as of February 1, 2006, by and between St. Louis Post-Dispatch LLC and the Note Holders party thereto related to the St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended  |

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- 10.15 Amendment No. 3 to Note Agreement, entered into as of November 19, 2008, by and between St. Louis Post-Dispatch LLC and the Note Holders party thereto related to St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended
- 10.16 Limited Waiver to Note Agreement and Guaranty Agreement entered into as of December 26, 2008 by and among St. Louis Post-Dispatch LLC, Pulitzer Inc. and the Note Holders party thereto
- 10.17 \* Pulitzer Inc. Guaranty Agreement, dated as of May 1, 2000 as amended by Amendment No. 1 to Guaranty Agreement, dated as of August 7, 2000, as further amended by Amendment No. 2 to Guaranty Agreement, dated as of November 23, 2004, and further amended by Amendment No. 3 to Guaranty Agreement, dated as of June 3, 2005 (Exhibit 10.9 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)

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|------------|---|
| 10.18      | Amendment No. 4 to Guaranty Agreement, dated as of February 1, 2006, by Pulitzer Inc. related to the Pulitzer Inc. Guaranty Agreement, dated as of May 1, 2000, as amended  |
| 10.19 *    | Indemnity Agreement, dated as of May 1, 2000, between the Herald Company, Inc. and Pulitzer Inc. (Exhibit 10.6 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)   |
| 10.20 *    | 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)   |
| 10.21 *    | Non-Confidentiality Agreement, dated as of May 1, 2000 (Exhibit 10.10 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)  |
| 10.22 +*   | 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)   |
| 10.23.1 +* | Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (effective October 1, 1999, as amended effective January 10, 2008) (Exhibit 10.1 to Form 10-Q for the Fiscal Quarter Ended March 30, 2008)  |
| 10.23.2 +* | Forms of related Incentive Stock Option Agreement, Non-Qualified Stock Option Agreement, Accelerated Ownership Stock Option Agreement and Restricted Stock Agreement related to Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (effective as of October 1, 1999, as amended November 16, 2005). (Exhibit 10.15.1a to Form 10-K for the Fiscal Year Ended September 30, 2005) |
| 10.23.3 +* | Form of Key Executive Restricted Stock Agreement related to Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (Exhibit 10.2 to Form 8-K filed on November 26, 2004)   |
| 10.24 +*   | Lee Enterprises, Incorporated Amended and Restated 1996 Stock Plan for Non-Employee Directors (Exhibit A to Schedule 14A Definitive Proxy Statement for 2003)   |
| 10.25 +    | Lee Enterprises, Incorporated Supplementary Benefit Plan, Amended and Restated as of January 1, 2008  |
| 10.26 +    | Lee Enterprises, Incorporated Outside Directors Deferral Plan, Amended and Restated as of January 1, 2008   |
| 10.27 +*   | Amended and Restated Pulitzer Inc. Supplemental Executive Benefit Pension Plan (restated as of June 3, 2005) (Exhibit 10.15 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005)  |
| 10.28 +*   | 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)  |
| 10.29 +*   | 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)  |
| 10.30 +*   | Lee Enterprises, Incorporated 2005 Incentive Compensation Program (Appendix A to Schedule 14A Definitive Proxy Statement for 2005)  |
| 10.31 +*   | Cancellation Agreement dated November 19, 2004 between Lee Enterprises, Incorporated and Mary E. Junck (Exhibit 10.1 to Form 8-K filed on November 26, 2004)  |

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|--------|--|
| 21     | Subsidiaries and associated companies  |
| 23.1   | Consent of KPMG LLP, Independent Registered Public Accounting Firm   |
| 23.2   | Consent of Deloitte & Touche 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 |

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**Table of Contents****Index to Financial Statements****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)***(Thousands, Except Per Common Share Data)*

|   | 2008         | 2007       | 2006       |
|---|--------------|------------|------------|
| Operating revenue:  |              |            |            |
| Advertising   | \$ 783,699   | \$ 865,412 | \$ 868,508 |
| Circulation   | 195,457      | 203,481    | 204,807    |
| Other   | 49,712       | 51,301     | 48,075     |
| Total operating revenue                                       | 1,028,868    | 1,120,194  | 1,121,390  |
| Operating expenses:   |              |            |            |
| Compensation  | 421,652      | 439,426    | 432,708    |
| Newsprint and ink   | 103,926      | 111,842    | 119,506    |
| Other operating expenses                                      | 292,840      | 294,145    | 278,120    |
| Depreciation  | 34,670       | 32,955     | 33,516     |
| Amortization of intangible assets                             | 56,408       | 59,745     | 56,760     |
| Impairment of goodwill and other assets                       | 1,070,808    | -          | 4,837      |
| Curtailment gains   | -            | (3,731)    | -          |
| Workforce adjustments and early retirement programs           | 3,428        | 7,962      | 8,654      |
| Transition costs  | -            | -          | 4,589      |
| Total operating expenses                                      | 1,983,732    | 942,344    | 938,690    |
| Equity in earnings of associated companies                    | 10,211       | 20,124     | 20,739     |
| Reduction in investment in TNI                                | (104,478)    | -          | -          |
| Operating income (loss)                                       | (1,049,131)  | 197,974    | 203,439    |
| Non-operating income (expense):                               |              |            |            |
| Financial income  | 5,857        | 7,613      | 6,054      |
| Financial expense   | (71,472)     | (90,341)   | (95,939)   |
| Other, net  | 885          | (21)       | (2,037)    |
| Total non-operating expense, net                              | (64,730)     | (82,749)   | (91,922)   |
| Income (loss) from continuing operations before income taxes  | (1,113,861)  | 115,225    | 111,517    |
| Income tax expense (benefit)                                  | (234,202)    | 33,828     | 39,508     |
| Minority interest   | 535          | 1,069      | 1,231      |
| Income (loss) from continuing operations                      | (880,194)    | 80,328     | 70,778     |
| Discontinued operations:                                      |              |            |            |
| Income from discontinued operations, net of income tax effect | 84           | 580        | 5,258      |
| Gain (loss) on disposition, net of income tax effect          | 201          | 91         | (5,204)    |
| Net income (loss)   | (879,909)    | 80,999     | 70,832     |
| Increase in redeemable minority interest                      | 8,838        | -          | -          |
| Income (loss) available to common stockholders                | (888,747)    | 80,999     | 70,832     |
| Other comprehensive income (loss), net                        | 1,001        | (1,898)    | 1,674      |
| Comprehensive income (loss) available to common stockholders  | \$ (887,746) | \$ 79,101  | \$ 72,506  |
| Earnings (loss) per common share:                             |              |            |            |
| Basic:  |              |            |            |
| Continuing operations   | \$ (19.84)   | \$ 1.76    | \$ 1.56    |
| Discontinued operations                                       | 0.01         | 0.01       | -          |
|   | \$ (19.83)   | \$ 1.77    | \$ 1.56    |
| Diluted:  |              |            |            |
| Continuing operations   | \$ (19.84)   | \$ 1.75    | \$ 1.55    |
| Discontinued operations                                       | 0.01         | 0.01       | -          |
|   | \$ (19.83)   | \$ 1.77    | \$ 1.56    |

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|                            |    |      |    |      |    |      |
|----------------------------|----|------|----|------|----|------|
| Dividends per common share | \$ | 0.76 | \$ | 0.72 | \$ | 0.72 |
|----------------------------|----|------|----|------|----|------|

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

**Table of Contents****Index to Financial Statements****CONSOLIDATED BALANCE SHEETS**

| <i>(Thousands, Except Per Share Data)</i>   | September 28<br>2008 | September 30<br>2007 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$ 23,459            | \$ -                 |
| Accounts receivable, less allowance for doubtful accounts:<br>2008 \$6,647; 2007 \$10,266 | 100,380              | 118,723              |
| Receivable from associated companies  | -                    | 1,563                |
| Inventories   | 18,952               | 14,153               |
| Deferred income taxes   | 3,675                | 7,343                |
| Assets of discontinued operations   | -                    | 18,820               |
| Other   | 7,313                | 6,281                |
| Total current assets  | 153,779              | 166,883              |
| Investments:  |                      |                      |
| Associated companies  | 81,022               | 191,975              |
| Restricted cash and investments   | 126,060              | 111,060              |
| Other   | 16,621               | 20,749               |
| Total investments   | 223,703              | 323,784              |
| Property and equipment:   |                      |                      |
| Land and improvements   | 30,729               | 31,661               |
| Buildings and improvements  | 196,159              | 190,730              |
| Equipment   | 314,338              | 313,838              |
| Construction in process   | 4,317                | 14,559               |
|   | 545,543              | 550,788              |
| Less accumulated depreciation   | 252,715              | 226,133              |
| Property and equipment, net   | 292,828              | 324,655              |
| Goodwill  | 627,023              | 1,505,460            |
| Other intangible assets, net  | 701,184              | 914,232              |
| Other   | 17,850               | 25,949               |
| Total assets  | \$ 2,016,367         | \$ 3,260,963         |

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

**Table of Contents****Index to Financial Statements**

|  | September 28<br>2008 | September 30<br>2007 |
|--|----------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                      |
| Current liabilities:   |                      |                      |
| Current maturities of long-term debt   | \$ 1,337,640         | \$ 62,250            |
| Accounts payable   | 53,827               | 39,288               |
| Compensation and other accrued liabilities   | 60,416               | 96,036               |
| Income taxes payable   | 5,431                | 7,971                |
| Dividends payable  | 8,539                | 6,703                |
| Unearned revenue   | 38,871               | 38,513               |
| Liabilities of discontinued operations   | -                    | 3,943                |
| Total current liabilities  | 1,504,724            | 254,704              |
| Long-term debt, net of current maturities  | -                    | 1,346,630            |
| Pension obligations  | 2,803                | 2,302                |
| Postretirement and postemployment benefit obligations  | 58,767               | 72,236               |
| Other retirement and compensation obligations  | 9,845                | 11,711               |
| Deferred income taxes  | 196,300              | 478,418              |
| Redeemable and other minority interest   | 72,244               | 7,291                |
| Income taxes payable   | 11,756               | -                    |
| Other  | 12,841               | 1,229                |
| Total liabilities  | 1,869,280            | 2,174,521            |
| Stockholders equity:   |                      |                      |
| Serial convertible preferred stock, no par value;<br>authorized 500 shares; none issued  | -                    | -                    |
| Common Stock, \$2 par value; authorized<br>120,000 shares; issued and outstanding:<br>2008; 39,111 shares;<br>2007; 39,979 shares      | 78,222               | 79,958               |
| Class B Common Stock, \$2 par value; authorized<br>30,000 shares; issued and outstanding:<br>2008; 5,979 shares;<br>2007; 6,208 shares | 11,958               | 12,416               |
| Additional paid-in capital   | 134,289              | 132,090              |
| Retained earnings (accumulated deficit)  | (120,575)            | 819,786              |
| Accumulated other comprehensive income   | 43,193               | 42,192               |
| Total stockholders equity  | 147,087              | 1,086,442            |
| Total liabilities and stockholders equity  | \$ 2,016,367         | \$ 3,260,963         |

**Table of Contents****Index to Financial Statements****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

| <i>(Thousands)</i>   | 2008       | Amount<br>2007 | 2006       | 2008    | Shares<br>2007 | 2006   |
|--|------------|----------------|------------|---------|----------------|--------|
| Common Stock:  | \$ 79,958  | \$ 78,974      | \$ 76,818  | 39,979  | 39,487         | 38,409 |
| Balance, beginning of year                                     |            |                |            |         |                |        |
| Conversion from Class B<br>Common Stock                        | 458        | 372            | 1,380      | 229     | 186            | 690    |
| Shares issued  | 1,404      | 708            | 884        | 702     | 354            | 442    |
| Shares reacquired  | (3,598)    | (96)           | (108)      | (1,799) | (48)           | (54)   |
| Balance, end of year   | 78,222     | 79,958         | 78,974     | 39,111  | 39,979         | 39,487 |
| Class B Common Stock:  |            |                |            |         |                |        |
| Balance, beginning of year                                     | 12,416     | 12,788         | 14,168     | 6,208   | 6,394          | 7,084  |
| Conversion to Common Stock                                     | (458)      | (372)          | (1,380)    | (229)   | (186)          | (690)  |
| Balance, end of year   | 11,958     | 12,416         | 12,788     | 5,979   | 6,208          | 6,394  |
| Additional paid-in capital:                                    |            |                |            |         |                |        |
| Balance, beginning of year                                     | 132,090    | 123,738        | 115,464    |         |                |        |
| Reclassification from unearned compensation                    | -          | -              | (5,505)    |         |                |        |
| Stock option expense   | 1,507      | 2,144          | 2,678      |         |                |        |
| Amortization of restricted Common Stock                        | 4,669      | 5,199          | 5,425      |         |                |        |
| Income tax expense of stock options exercised                  | (3,413)    | (686)          | (33)       |         |                |        |
| Shares issued (redeemed)                                       | (564)      | 1,695          | 5,709      |         |                |        |
| Balance, end of year   | 134,289    | 132,090        | 123,738    |         |                |        |
| Unearned compensation:   |            |                |            |         |                |        |
| Balance, beginning of year                                     | -          | -              | (5,505)    |         |                |        |
| Reclassification to additional paid-in-capital                 | -          | -              | 5,505      |         |                |        |
| Balance, end of year   | -          | -              | -          |         |                |        |
| Retained earnings (accumulated deficit):                       |            |                |            |         |                |        |
| Balance, beginning of year                                     | 819,786    | 771,947        | 733,961    |         |                |        |
| Net income (loss)  | (879,909)  | 80,999         | 70,832     |         |                |        |
| Shares reacquired  | (15,472)   | -              | -          |         |                |        |
| Adoption of FASB Interpretation 48                             | (1,733)    | -              | -          |         |                |        |
| Change in redeemable minority interest                         | (8,838)    | -              | -          |         |                |        |
| Cash dividends   | (34,409)   | (33,160)       | (32,846)   |         |                |        |
| Balance, end of year   | (120,575)  | 819,786        | 771,947    |         |                |        |
| Accumulated other comprehensive income:                        |            |                |            |         |                |        |
| Balance, beginning of year                                     | 42,192     | 3,178          | 1,504      |         |                |        |
| Unrealized gain (loss) on interest rate exchange<br>agreements | (4,776)    | (3,796)        | 2,527      |         |                |        |
| Unrealized gain on available-for-sale securities               | 72         | 716            | 121        |         |                |        |
| Pension and postretirement benefits                            | 8,354      | -              | -          |         |                |        |
| Adoption of FASB Statement 158                                 | -          | 65,780         | -          |         |                |        |
| Deferred income taxes, net                                     | (2,649)    | (23,686)       | (974)      |         |                |        |
| Balance, end of year   | 43,193     | 42,192         | 3,178      |         |                |        |
| Total stockholders equity                                      | \$ 147,087 | \$ 1,086,442   | \$ 990,625 | 45,090  | 46,187         | 45,881 |

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



**Table of Contents****Index to Financial Statements****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(Thousands)</i>   | 2008         | 2007      | 2006      |
|--|--------------|-----------|-----------|
| <b>Cash provided by operating activities:</b>  |              |           |           |
| Net income (loss)  | \$ (879,909) | \$ 80,999 | \$ 70,832 |
| Results of discontinued operations   | 285          | 671       | 54        |
| Income (loss) from continuing operations   | (880,194)    | 80,328    | 70,778    |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations: |              |           |           |
| Depreciation and amortization  | 91,078       | 92,700    | 90,276    |
| Impairment of goodwill and other assets  | 1,070,808    | -         | 4,837     |
| Accretion of debt fair value adjustment  | (7,990)      | (7,579)   | (7,190)   |
| Stock compensation expense   | 5,905        | 7,193     | 7,693     |
| Distributions greater (less) than earnings of associated companies   | 1,772        | (792)     | (482)     |
| Reduction in investment in TNI   | 104,478      | -         | -         |
| Increase (decrease) in deferred income taxes   | (253,307)    | (6,091)   | (28,995)  |
| Change in operating assets and liabilities, net of acquisitions:   |              |           |           |
| Decrease (increase) in receivables   | 19,777       | (6,247)   | 5,940     |
| Decrease (increase) in inventories and other   | (4,875)      | 5,439     | 2,866     |
| Increase (decrease) in accounts payable, accrued expenses and unearned revenue   | (18,304)     | 18,264    | (8,177)   |
| Increase (decrease) in pension, postretirement and post employment benefits  | (315)        | (3,314)   | 10,178    |
| Change in income taxes receivable or payable   | 5,125        | (14,504)  | 42,060    |
| Other  | 2,654        | 2,233     | 6,419     |
| Net cash provided by operating activities of continuing operations   | 136,612      | 167,630   | 196,203   |
| <b>Cash provided by (required for) investing activities of continuing operations:</b>  |              |           |           |
| Purchases of marketable securities   | (115,555)    | (90,005)  | (70,415)  |
| Sales or maturities of marketable securities   | 87,873       | 78,018    | 68,043    |
| Purchases of property and equipment  | (20,606)     | (34,381)  | (32,527)  |
| Proceeds from sale of assets   | 12,685       | 1,334     | 176       |
| Acquisitions, net  | (1,624)      | (1,065)   | (4,245)   |
| Decrease (increase) in restricted cash   | 13,771       | (1,165)   | (11,916)  |
| Other  | 8,493        | 8,741     | 8,218     |
| Net cash required for investing activities of continuing operations  | (14,963)     | (38,523)  | (42,666)  |
| <b>Cash provided by (required for) financing activities of continuing operations:</b>  |              |           |           |
| Payments on long-term debt   | (197,650)    | (196,375) | (218,000) |
| Proceeds from long-term debt   | 134,400      | 67,000    | 55,000    |
| Financing costs  | -            | -         | (2,814)   |
| Cash dividends paid  | (32,573)     | (33,038)  | (32,671)  |
| Purchases of Common Stock  | (19,483)     | (1,099)   | (1,260)   |
| Other, primarily issuance of Common Stock  | 1,946        | 2,578     | 7,815     |
| Net cash required for financing activities of continuing operations  | (113,360)    | (160,934) | (191,930) |
| <b>Net cash provided by (required for) discontinued operations:</b>  |              |           |           |
| Operating activities   | (8,741)      | 502       | 6,522     |
| Investing activities   | 23,911       | 22,687    | 32,966    |
| Net increase (decrease) in cash and cash equivalents   | 23,459       | (8,638)   | 1,095     |
| <b>Cash and cash equivalents:</b>  |              |           |           |
| Beginning of year  | -            | 8,638     | 7,543     |
| End of year  | \$ 23,459    | \$ -      | \$ 8,638  |

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



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Lee Enterprises, Incorporated (Company), is a premier provider of local news, information and advertising in primarily midsize markets, with 49 daily newspapers and a joint interest in four others, rapidly growing online sites and more than 300 weekly newspapers and specialty publications in 23 states. The Company currently operates in a single operating segment.

**1 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned, except for its 95% interest in St. Louis Post-Dispatch LLC (PD LLC) and STL Distribution Services LLC (DS LLC), 50% interest in TNI Partners (TNI), 50% interest in Madison Newspapers, Inc. (MNI), and 82.5% interest in INN Partners, L.C. (INN).

As discussed more fully in Note 7 (and capitalized terms used below defined), the Company does not have sufficient cash flows to meet both its requirements for 2009 operations and the scheduled April 28, 2009 repayment of the Pulitzer Notes. The Company's ability to extend or refinance the Pulitzer Notes as they become due, to delay the acceleration of debt maturities upon the expiration of existing waivers of default under both the Credit Agreement and Pulitzer Notes, and to avoid future events of default, are factors that raise significant uncertainty about the Company's ability to continue as a going concern. The Company is actively engaged in discussions with the Noteholders of the Pulitzer Notes, and to the extent their approval may also be required, the Lenders under the Credit Agreement, to extend or refinance the Pulitzer Notes. However, the timing and ultimate outcome of such discussions cannot be determined at this time.

The Consolidated Financial Statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities should the Company be unable to continue as a going concern.

Certain amounts as previously reported have been reclassified to conform with the current period presentation. See Note 3.

References to 2008, 2007, 2006 and the like mean the fiscal year ended in September.

**Fiscal Year**

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The Company's 2008 fiscal year ends on the last Sunday in September. Beginning in 2008, all of the Company's enterprises use period accounting. The Company and its enterprises owned before the Pulitzer Inc. (Pulitzer) acquisition, which accounted for approximately 63% of revenue in 2008, used calendar accounting prior to 2008, with a September 30 fiscal year end. Pulitzer operations used period accounting in all periods presented. The table below summarizes days of business activity in years presented:

| <i>(Business Days)</i> | Enterprises Owned Prior         |             |                              |      |             |      |
|------------------------|---------------------------------|-------------|------------------------------|------|-------------|------|
|                        | to Pulitzer Acquisition<br>2007 |             | Pulitzer Enterprises<br>2008 |      | TNI<br>2008 |      |
|                        | 2008                            | and<br>2006 | and 2006                     | 2007 | and 2006    | 2007 |
| <b>Period Ending:</b>  |                                 |             |                              |      |             |      |
| December               | 91                              | 92          | 91                           | 91   | 91          | 98   |
| March                  | 91                              | 90          | 91                           | 91   | 91          | 91   |
| June                   | 91                              | 91          | 91                           | 91   | 91          | 91   |
| September              | 91                              | 92          | 91                           | 98   | 91          | 91   |
|                        | 364                             | 365         | 364                          | 371  | 364         | 371  |

### Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, revenue and expenses during the reporting period. Actual results could differ from those estimates.

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**Principles of Consolidation**

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned, or majority-owned, subsidiaries. All significant intercompany transactions have been eliminated.

Investments in MNI and TNI are accounted for using the equity method and are reported at cost plus the Company's share of undistributed earnings since acquisition less, for TNI, amortization of intangible assets.

**Cash and Cash Equivalents**

The Company considers 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**

The Company evaluates its 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, 2008 and September 30, 2007 are less than replacement cost by \$5,580,000 and \$3,320,000, respectively.

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

| <i>(Thousands)</i> | September 28<br>2008 | September 30<br>2007 |
|--------------------|----------------------|----------------------|
|--------------------|----------------------|----------------------|

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|                     |    |        |    |       |
|---------------------|----|--------|----|-------|
| First-in, first-out | \$ | 8,695  | \$ | 5,335 |
| Last-in, first-out  |    | 5,833  |    | 4,383 |
|                     | \$ | 14,528 | \$ | 9,718 |

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.

### Restricted Cash and Investments

Until May 1, 2010, PD LLC is restricted from making distributions (except under specified circumstances), capital expenditures and member loan repayments unless it has set aside out of its cash flow a reserve equal to the product of \$15,000,000 and the number of years since May 1, 2000, but not in excess of \$150,000,000 (the Reserve). PD LLC is not required to maintain the Reserve after May 1, 2010. Investments in the Reserve are limited to U.S. government and related securities and are recorded at fair value, with unrealized gains and losses reported, net of applicable income taxes, in accumulated other comprehensive income. The cost basis used to determine realized gains and losses is specific identification. See Note 19.

### 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.

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**Property and Equipment**

Property and equipment are carried at cost. Equipment, except for printing presses and mailroom 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 mailroom equipment | 2 28  |
| Other                                   | 3 20  |

The Company capitalizes interest as a component of the cost of constructing major facilities. At September 28, 2008, capitalized interest was not significant.

The Company recognizes 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. See Note 6.

**Goodwill and Other Intangible Assets**

Intangible assets include covenants not to compete, consulting agreements, customer lists, newspaper subscriber lists, mastheads and other. Intangible assets subject to amortization are being amortized as follows:

|                                      | Years |
|--------------------------------------|-------|
| Noncompete and consulting agreements | 4 15  |
| Customer lists                       | 5 23  |
| Newspaper subscriber lists           | 7 33  |
| Other                                | 10    |

In assessing the recoverability of its goodwill and other nonamortized intangible assets, the Company makes a determination of the fair value of its 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. An impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its

estimated fair value.

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

The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis at the end of its fiscal year, or 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.

The Company reviews its amortizable intangible assets for impairment when indicators of impairment are present. The Company assesses recovery 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.

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The Company also periodically evaluates its determination of the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact the cash flows of the Company. 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. See Note 6.

## **Minority Interest**

Minority interest in earnings of PD LLC, DS LLC and INN is recognized in the Consolidated Financial Statements.

The Company is subject to a one-time obligation to repurchase the minority interest in PD LLC and DS LLC (the 2010 Redemption). In 2008, the Company recorded the repurchase obligation and elected the accretion method under Emerging Issues Task Force Topic D-98 (EITF D-98) to record increases or decreases in the expected value of the 2010 Redemption as an adjustment to retained earnings. Changes in the expected value of the 2010 Redemption have a corresponding impact on income (loss) available to common stockholders and earnings (loss) per common share. See Note 19.

There is no impact on net income from the application of EITF D-98 to the 2010 Redemption. Also, under such standards, if the 2010 Redemption does not occur, the liability and earnings per common share impact discussed above will be reversed for all periods.

## **Revenue Recognition**

Advertising revenue is recorded when advertisements are placed in the publication or on the related online site. Circulation revenue is recorded as newspapers are distributed over the subscription term. 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 publications or advance payments for advertising.

## **Advertising Costs**

A substantial amount of the Company's advertising and promotion expense consists of ads placed in its own publications and on its own websites using available space. The incremental cost of such advertising is not significant and is not measured separately by the Company. External advertising costs are not significant and are expensed as incurred.

## **Pension, Postretirement and Postemployment Benefit Plans**

The Company evaluates its liability 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, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors. If the Company 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. See Note 20.

## 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 the opinion of management, it is more likely than not that 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.

Beginning with the adoption of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) as of October 1, 2007, the Company recognizes 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



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measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense.

**Interest Rate Exchange Agreements**

The Company accounts for interest rate exchange agreements, which are comprised of floating-to-fixed rate interest rate swaps, or interest rate collars, as cash flow hedges. The Company expects that the fair value of these agreements will significantly offset changes in the cash flows of the associated floating rate debt. The fair value of such instruments is recorded in accumulated other comprehensive income, net of applicable income tax expense or benefit. If the Company expects it is probable that its interest rate exchange agreements will no longer be effective as cash flow hedges, it will reclassify the fair value of such instruments as a component of earnings.

**Stock Compensation**

The Company has four stock-based compensation plans. The Company accounts for grants under those plans under the fair value expense recognition provisions of FASB Statement 123, *Accounting for Stock-Based Compensation*, as amended by FASB Statement 123 Revised, *Share-Based Payment*. The adoption of Statement 123 Revised in 2006 resulted in a reclassification of unearned compensation to additional paid-in capital in 2006. The Company amortizes as compensation expense the value of stock options and restricted Common Stock by the straight-line method over the vesting or restriction period, which is generally one to three years.

**Uninsured Risks**

The Company is self-insured for health care, workers compensation and certain long-term disability costs of its employees, subject to stop loss insurance, which limits exposure to large claims. The Company accrues its 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 a self-insurer bond totaling \$6,698,000 at September 28, 2008 are outstanding in support of the Company's insurance program.

The Company's 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 Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the operations and related losses on properties 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. See Note 3.

## 2 ACQUISITIONS

All acquisitions are accounted for as a purchase and, accordingly, the results of operations since the respective dates of acquisition are included in the Consolidated Financial Statements.

In 2008, the Company purchased a specialty publication at a cost of \$400,000 and a newspaper distribution business at a cost of \$240,000 and made final cash payments totaling \$984,000 related to newspaper distribution business purchases in 2007.

In 2007, the Company purchased a minority interest in an online employment application from PowerOne Media, LLC (PowerOne), in which the Company and MNI owned minority interests, at a cost of \$118,000. In 2007, PowerOne was dissolved. In 2007, the Company purchased several newspaper distribution businesses at a cost of \$1,911,000 of which \$984,000 was included in accounts payable at September 30, 2007. In 2007, the Company also purchased a specialty publication at a cost of \$20,000.

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In 2006, the Company purchased a web-hosting business and national advertising network at a cost of \$3,800,000 from PowerOne and purchased a minority interest in INN in exchange for the forgiveness of certain notes receivable with a carrying value of \$75,000. In 2006, the Company also purchased a weekly newspaper at a cost of \$412,000.

These acquisitions did not have a material effect on the Consolidated Financial Statements.

**3 DISCONTINUED OPERATIONS**

In 2008, the Company sold its daily newspaper in DeKalb, Illinois for \$24,000,000, before income taxes. The transaction resulted in an after tax gain of \$219,000, which is recorded in discontinued operations. Results of DeKalb have been classified as discontinued operations for all periods presented.

In 2007, the Company sold a weekly newspaper in Oregon and received \$250,000.

In 2006, the Company sold several stand-alone publishing and commercial printing operations in the Pacific Northwest, a twice weekly newspaper in Oregon and the daily newspaper in Rhinelander, Wisconsin. The Company received \$20,700,000 in 2007 and \$33,198,000 in 2006. The transactions resulted in an after tax loss of \$5,204,000, which is recorded in discontinued operations.

Results of discontinued operations consist of the following:

| <i>(Thousands)</i>  | 2008     | 2007     | 2006      |
|---|----------|----------|-----------|
| Operating revenue   | \$ 1,376 | \$ 7,581 | \$ 48,362 |
| Income from discontinued operations                                 | \$ 128   | \$ 882   | \$ 8,393  |
| Gain (loss) on sale of discontinued operations, before income taxes | 5,786    | 156      | (7,854)   |
| Income tax expense, net   | 5,629    | 367      | 485       |
|   | \$ 285   | \$ 671   | \$ 54     |

Assets and liabilities of discontinued operations consist of the following:

| <i>(Thousands)</i> | September 30<br>2007 |
|--------------------|----------------------|
| Current assets     | \$ 908               |

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|                             |           |
|-----------------------------|-----------|
| Property and equipment, net | 2,564     |
| Intangible and other assets | 15,348    |
| Total assets                | \$ 18,820 |
| Current liabilities         | \$ 796    |
| Deferred income taxes       | 3,147     |
| Total liabilities           | \$ 3,943  |

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Income tax expense related to discontinued operations differs from the amounts computed by applying the U.S. federal income tax rate as follows:

|  | 2008  | 2007  | 2006  |
|--|-------|-------|-------|
| Computed expected income tax expense (benefit) | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 3.0   | 0.4   | 3.0   |
| Other, primarily goodwill basis differences    | 57.2  | -     | 52.0  |
|  | 95.2% | 35.4% | 90.0% |

Tax expense of \$3,382,000 recorded in results of discontinued operations in 2008 is related to goodwill basis differences recognized as a result of the sale of DeKalb operations.

**4 INVESTMENTS IN ASSOCIATED COMPANIES****TNI Partners**

In Tucson, Arizona, TNI, acting as agent for the Company's 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* and *Tucson Citizen*, as well as their related online operations 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.

Each newspaper is solely responsible for its own news and editorial content. 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)                  | September 28<br>2008 | September 30<br>2007 |
|------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                |                      |                      |
| Current assets               | \$ 12,516            | \$ 12,894            |
| Investments and other assets | 19                   | 19                   |

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|                                       |    |        |    |        |
|---------------------------------------|----|--------|----|--------|
| Total assets                          | \$ | 12,535 | \$ | 12,913 |
| <b>LIABILITIES AND MEMBERS EQUITY</b> |    |        |    |        |
| Current liabilities                   | \$ | 7,032  | \$ | 6,327  |
| Members equity                        |    | 5,503  |    | 6,586  |
| Total liabilities and members equity  | \$ | 12,535 | \$ | 12,913 |

Summarized results of TNI are as follows:

| <i>(Thousands)</i>  | 2008      | 2007       | 2006       |
|---|-----------|------------|------------|
| Operating revenue   | \$ 98,156 | \$ 118,120 | \$ 121,223 |
| Operating expenses, excluding depreciation and amortization | 76,978    | 81,528     | 83,485     |
| Operating income  | \$ 21,178 | \$ 36,592  | \$ 37,738  |
| Company's 50% share of operating income                     | \$ 10,589 | \$ 18,296  | \$ 18,869  |
| Less amortization of intangible assets                      | 4,418     | 6,339      | 5,987      |
| Equity in earnings of TNI                                   | \$ 6,171  | \$ 11,957  | \$ 12,882  |

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Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss). These amounts totaled \$1,337,000, \$1,434,000, and \$2,049,000 in 2008, 2007, and 2006, respectively.

The Company's impairment analysis in 2008 resulted in pretax reductions in the carrying value of TNI totaling \$104,478,000. See Note 6.

In 2007, defined pension benefits for certain TNI employees were frozen at then current levels. As a result, TNI recognized a curtailment gain of \$2,074,000. See Note 9.

At September 28, 2008, the carrying value of the Company's 50% investment in TNI is \$57,500,000. The difference between the Company's carrying value and its 50% share of the members' equity of TNI relates principally to goodwill of \$34,933,000, and other identified intangible assets of \$20,110,000, certain of which are being amortized over their estimated useful lives through 2020. See Note 6.

Annual amortization of intangible assets is estimated to be \$1,517,000 in each year 2009 through 2012 and \$1,416,000 in 2013.

**Madison Newspapers, Inc.**

The Company has a 50% ownership interest in MNI, which publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, as well as their related online operations. Net income or loss of MNI (after income taxes) is allocated equally to the Company and The Capital Times Company (TCT). MNI conducts its business under the trade name Capital Newspapers.

Summarized financial information of MNI is as follows:

| <i>(Thousands)</i>           | September 28<br>2008 | September 30<br>2007 |
|------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                |                      |                      |
| Current assets               | \$ 17,678            | \$ 21,869            |
| Investments and other assets | 32,594               | 34,397               |
| Property and equipment, net  | 12,583               | 13,295               |

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|              |    |        |    |        |
|--------------|----|--------|----|--------|
| Total assets | \$ | 62,855 | \$ | 69,561 |
|--------------|----|--------|----|--------|

LIABILITIES AND STOCKHOLDERS' EQUITY

|  |    |        |    |        |
|--|----|--------|----|--------|
| Current liabilities, excluding debt        | \$ | 10,025 | \$ | 13,285 |
| Debt, including current maturities         |    | 2,285  |    | 2,642  |
| Other liabilities                          |    | 3,500  |    | 3,040  |
| Stockholders' equity                       |    | 47,045 |    | 50,594 |
| Total liabilities and stockholders' equity | \$ | 62,855 | \$ | 69,561 |

Summarized results of MNI are as follows:

| <i>(Thousands)</i>  | 2008       | 2007       | 2006       |
|---|------------|------------|------------|
| Operating revenue   | \$ 100,352 | \$ 111,968 | \$ 121,541 |
| Operating expenses, excluding depreciation and amortization | 84,345     | 81,793     | 91,572     |
| Operating income  | 11,949     | 25,871     | 25,129     |
| Net income  | 8,080      | 16,334     | 15,714     |
| Company's 50% share of net income                           | \$ 4,040   | \$ 8,167   | \$ 7,857   |



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Accounts receivable from associated companies in the Consolidated Balance Sheets consist of dividends due from MNI. Fees for editorial, marketing and information technology services provided to MNI by the Company are included in other revenue and totaled \$11,095,000, \$10,636,000, and \$10,425,000 in 2008, 2007 and 2006, respectively.

In April 2008, one of MNI's daily newspapers in Madison, *The Capital Times*, decreased print publication from six days per week to one day. The change resulted in workforce adjustments and other transition costs of \$2,578,000 in 2008.

In 2006, MNI sold its Shawano, Wisconsin daily newspaper and commercial printing operation. MNI recognized an after tax loss of \$1,002,000 on the sale.

Certain other information relating to the Company's investment in MNI is as follows:

| <i>(Thousands)</i>     | September 28<br>2008 | September 30<br>2007 |
|------------------------|----------------------|----------------------|
| Company's share of:    |                      |                      |
| Stockholders' equity   | \$ 23,522            | \$ 25,297            |
| Undistributed earnings | 23,272               | 25,047               |

**5 MARKETABLE SECURITIES AVAILABLE-FOR-SALE**

Marketable securities, which are comprised of debt securities issued by the U.S. government and agencies, and which include certain of the Company's restricted cash and investments, are classified as available-for-sale securities at September 28, 2008 and September 30, 2007, and consist of the following:

| <i>(Thousands)</i>      | September 28<br>2008 | September 30<br>2007 |
|-------------------------|----------------------|----------------------|
| Amortized cost          | \$ 118,347           | \$ 89,979            |
| Gross unrealized gains  | 899                  | 605                  |
| Gross unrealized losses | (219)                | (1)                  |
| Fair value              | \$ 119,027           | \$ 90,583            |

Proceeds from the sale of such securities total \$87,873,000 in 2008, \$78,018,000 in 2007, and \$68,043,000 in 2006. No significant gross realized gains or losses were realized in 2008, 2007 and 2006.

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The amortized cost and fair value of marketable securities at September 28, 2008, by contractual maturity, are as follows. Contractual maturities may differ from actual maturities as borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

| <i>(Thousands)</i>                    | Amortized<br>Cost | Fair<br>Value |
|---------------------------------------|-------------------|---------------|
| Due in one year or less               | \$ 66,119         | \$ 66,149     |
| Due after one year through five years | 52,228            | 52,878        |
|                                       | \$ 118,347        | \$ 119,027    |

**Table of Contents****Index to Financial Statements****6 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

| <i>(Thousands)</i>                                      | 2008         | 2007         |
|---|--------------|--------------|
| Goodwill, beginning of year, as previously reported     | \$ 1,505,460 | \$ 1,498,830 |
| Goodwill, included in assets of discontinued operations | -            | (8,897)      |
| Goodwill, beginning of year, as reclassified            | 1,505,460    | 1,489,933    |
| Goodwill, related to redeemable minority interest       | 55,594       | -            |
| Goodwill related to acquisitions                        | (25,098)     | 15,527       |
| Goodwill impairment                                     | (908,977)    | -            |
| Other   | 44           | -            |
| Goodwill, end of year                                   | \$ 627,023   | \$ 1,505,460 |

In 2008, the Company recorded a reduction to goodwill totaling \$25,098,000 to reflect a correction to the original 2005 purchase accounting of Pulitzer. The adjustment also reduced deferred income taxes by \$25,098,000. There is no impact on earnings or stockholders' equity from such adjustments.

In 2007, the Company recorded an adjustment to goodwill of \$13,616,000 to reflect the resolution of tax uncertainties associated with the acquisition of Pulitzer. Also in 2007, the Company recorded \$1,911,000 of goodwill associated with its acquisition of several newspaper distribution businesses.

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

| <i>(Thousands)</i>                      | September 28<br>2008 | September 30<br>2007 |
|---|----------------------|----------------------|
| <b>Nonamortized intangible assets:</b>  |                      |                      |
| Mastheads                               | \$ 59,869            | \$ 73,105            |
| <b>Amortizable intangible assets:</b>   |                      |                      |
| Customer and newspaper subscriber lists | 921,642              | 1,066,189            |
| Less accumulated amortization           | 280,359              | 225,130              |
|   | 641,283              | 841,059              |
| Noncompete and consulting agreements    | 28,658               | 28,658               |
| Less accumulated amortization           | 28,626               | 28,590               |
|   | 32                   | 68                   |
|   | \$ 701,184           | \$ 914,232           |

The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis at the end of its fiscal year, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to,

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changes in business climate and operating or cash flow losses related to such assets. Due primarily to the continuing, and increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses. The Company concluded the fair value of its business did not exceed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008.

As a result, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment. The Company recorded \$281,564,000 of income tax benefit related to these charges.

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In 2006, the Company, based on its analysis and in conjunction with its ongoing requirement to assess the estimated useful lives of intangible assets, concluded that the period of economic benefit of certain identified intangible assets related to the Pulitzer acquisition had decreased. As a result, the weighted-average useful life of customer lists, including those of TNI, was decreased from approximately 21 years to 17 years. The change in estimated useful life of such assets resulted in recognition of additional amortization expense of \$1,847,000 in 2006, of which \$469,000 is recorded in equity in earnings of TNI. This change in amortization expense has no impact on the Company's cash flows.

In 2006, the Company also recorded a separate non-cash charge of \$5,424,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,837,000 is recorded in amortization expense and \$587,000 is recorded in equity in earnings of TNI. The Company uses a royalty approach to value such assets. Lower than expected revenue growth resulted in the change in value.

Annual amortization of intangible assets for the five years ending September 2013 is estimated to be \$48,355,000, \$48,278,000, \$47,638,000, \$45,744,000, and \$42,085,000, respectively.

**7 DEBT**

**Credit Agreement**

In 2006, the Company entered into an amended and restated credit agreement (Credit Agreement) with a syndicate of financial institutions (the Lenders). The Credit Agreement provided for aggregate borrowing of up to \$1,435,000,000 and consists of a \$950,000,000 A Term Loan, \$35,000,000 B Term Loan and \$450,000,000 revolving credit facility.

The Credit Agreement also provided the Company with the right, with the consent of the administrative agent, to request at certain times prior to June 2012 that one or more Lenders provide incremental term loan commitments of up to \$500,000,000, subject to certain requirements being satisfied at the time of the request. The Credit Agreement matures in June 2012 and amended and replaced a \$1,550,000,000 credit agreement consummated in 2005.

The Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by substantially all of the Company's existing and future, direct and indirect subsidiaries in which the Company holds a direct or indirect interest of more than 50%; provided however, that Pulitzer and its subsidiaries will not be required to enter into such guaranty for so long as their doing so would violate the terms of the Pulitzer Notes discussed more fully below. The Credit Agreement was secured by first priority security interests in the stock and other equity interests owned by the Company and each guarantor in their respective subsidiaries. Both the guaranties and the collateral that secures them will be released in their entirety at such time as the Company achieves a total leverage ratio of less than 4.25:1 for two consecutive quarterly periods.

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Debt under the A Term Loan and revolving credit facility bore interest, at the Company's option, at either a base rate or an adjusted Eurodollar rate (LIBOR), plus an applicable margin. The base rate for the facility was the greater of the prime lending rate of Deutsche Bank Trust Company Americas at such time and 0.5% in excess of the overnight federal funds rate at such time. The margin applicable was a percentage determined according to the following: For revolving loans and A Term Loans, maintained as base rate loans: 0%, and maintained as Eurodollar loans: 0.625% to 1% (0.875% at September 28, 2008) depending, in each instance, upon the Company's leverage ratio at such time.

The Company may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit 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. The Company is required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. In addition to the scheduled payments, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. Total A Term Loan payments in 2008, 2007 and 2006 are \$62,250,000, \$44,375,000 and \$24,000,000, respectively. The Company repaid the B Term Loan in full in 2006.

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The Credit Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants included a maximum total leverage ratio (5.25:1 at September 28, 2008). The total leverage ratio is based primarily on the principal amount of debt, net of cash, which equaled \$1,182,856,000 at September 28, 2008, divided by a measure of trailing 12 month operating results which includes several factors, including distributions from TNI and MNI. The Company's total leverage ratio at September 28, 2008 was 5.20:1. The Credit Agreement also included a minimum interest expense coverage ratio of 2.5:1. The Company's interest expense coverage ratio at September 28, 2008 was 3.2:1. As of September 28, 2008, the Company is in compliance with such covenants, as waived or amended from time to time.

The Credit Agreement requires the Company to apply the net proceeds from asset sales to repayment of the A Term Loan to the extent such proceeds exceed the amount used to purchase assets (other than inventory and working capital) within one year of the asset sales. Repayments in 2008, 2007 and 2006 met required repayments related to the Company's sales transactions.

The Credit Agreement requires the Company to accelerate future payments under the A Term Loan in the amount of 75% of its Excess Cash Flow, as defined, beginning in 2008. The Company has Excess Cash Flow of approximately \$62,000,000 in 2008 and, as a result, will be paying approximately \$46,500,000 originally due under the A Term Loan in March and June 2009, in December 2008. The acceleration of such payments due to Excess Cash Flow does not change the due dates of other A Term Loan payments.

**Amendments to Credit Agreement**

In 2009, the Credit Agreement was amended (the 2009 Amendments).

Under the 2009 Amendments, the Company and certain of its subsidiaries pledged 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 Credit Agreement. Assets of Pulitzer, the Company's ownership in interest in MNI and certain employee benefit plan assets are excluded.

The 2009 Amendments reduce the amount available under the revolving credit facility to \$375,000,000 and eliminate the incremental term loan facility. The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases until its total leverage ratio is less than 4.5:1. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Other covenants ensure that substantially all future cash flows of the Company are required to be directed for debt reduction.

Further, the 2009 Amendments modify other covenants, including restricting the Company's ability to make additional investments and acquisitions without the consent of its Lenders, limiting additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Company may hold to \$15,000,000.

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Under the 2009 Amendments, the Company's credit spreads will generally increase 200 basis points from the current pricing grid. The maximum rate (for leverage greater than 6.25:1) will be increased to LIBOR plus 400 basis points. At the September 2008 leverage level, the Company's debt under the Credit Agreement will be priced at LIBOR plus 300 basis points.

Under the 2009 Amendments, the Company's total leverage ratio limit will increase from 5.25:1 to 6.25:1 in September 2008, increase to 6.5:1 in December 2008, increase to 6.75:1 in March 2009, decrease to 6.5:1 in December 2009, decrease to 6.25:1 in September 2010 and decrease to 4.5:1 in December 2010. Each change in the leverage ratio limit noted above is effective on the last day of the fiscal quarter.

The interest expense coverage ratio limit will decline from 2.5:1 to 2.0:1 through March 2009, decrease thereafter to 1.7:1 through September 2009, increase thereafter to 1.8:1 through December 2009, increase thereafter to 1.9:1 through March 2010, increase thereafter to 2.0:1 through September 2010, and increase thereafter to 2.5:1.



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The Company paid a fee of 0.5% to consenting lenders, which along with the related expenses, totals \$6,277,000.

**Pulitzer Notes**

In conjunction with its formation in 2000, PD LLC borrowed \$306,000,000 (Pulitzer Notes) from a group of institutional lenders (the Noteholders). The aggregate principal amount of the Pulitzer Notes is payable in April 2009 and bears interest at an annual rate of 8.05%. The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 (Guaranty Agreement) with the Noteholders. In turn, pursuant to an Indemnity Agreement dated May 1, 2000 (Indemnity Agreement) between The Herald Company, Inc. (Herald, Inc.) and Pulitzer, Herald, Inc. agreed to indemnify Pulitzer for any payments that Pulitzer may make under the Guaranty Agreement. In December 2006, Herald Inc. assigned its assets and liabilities to Herald.

The terms of the Pulitzer Notes, as amended, contain certain covenants and conditions including the maintenance, by Pulitzer, of EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. At September 28, 2008, Pulitzer is in compliance with such covenants, as waived or amended from time to time. In addition, the Pulitzer Notes and the Operating Agreement with Herald (Operating Agreement) require that PD LLC maintain the Reserve, consisting of cash and investments in U.S. government securities, totaling approximately \$126,060,000 at September 28, 2008. The Pulitzer Notes and the Operating Agreement provide for a \$3,750,000 quarterly increase in the minimum Reserve balance through May 1, 2010, when the amount will total \$150,000,000. See Note 19.

The Credit Agreement contains a cross-default provision tied to the terms of the Pulitzer Notes.

The purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which is recorded as debt in the Consolidated Balance Sheets. This amount will be accreted over the remaining life of the Pulitzer Notes, until April 2009, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due to, or reduce the amount of interest to be paid to, the Noteholders.

The Company is required to refinance the Pulitzer Notes from time to time, as they become due, until May 1, 2015.

**2009 Waivers**

In December 2008, certain covenant violations related to the Credit Agreement and Pulitzer Notes, as applicable, were waived (the 2009 Waivers). The 2009 Waivers relate to the going concern modification of the auditors' reports on the Consolidated Financial Statements of the Company, and the separate financial statements of Pulitzer and PD LLC for 2008, and a delay in the timing of

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delivery of 2008 year end covenant compliance information related to the Credit Agreement and the Pulitzer Notes. Waivers were also obtained related to a violation of the Consolidated Net Worth (as defined) covenant as of September 28, 2008 and as of December 28, 2008 under the Pulitzer Notes. The 2009 Waivers under the Credit Agreement and Pulitzer Notes expire March 30, 2009 and January 16, 2009, respectively. The Company is required to provide final 2008 year end covenant compliance information related to the Credit Agreement no later than January 5, 2009.

The Company paid fees and expenses related to the 2009 Waivers totaling \$1,874,000.

### **Liquidity**

The Company's ability to operate as a going concern is dependent on its ability to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed.

The Company's indebtedness could adversely affect its financial health in any or all of the following ways:

- Substantially all of the cash flows of the Company are required to be applied to payment of debt interest and principal, reducing funds available for investment, capital expenditures and other purposes;

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- The Company reported significant net losses in 2008, due to impairment of goodwill and other assets resulting from the continuing and increasing difference between its stock price and the per share carrying value of its net assets. Reduced expectations of future cash flows were also an important factor in the determination of such impairment charges;
- The Company's flexibility to react to changes in economic and industry conditions may be more limited;
- Increasing leverage could make the Company more vulnerable in the event of additional deterioration of general economic conditions or other adverse events; and
- There could be a material impact on the Company's business if it is unable to meet the conditions of its debt agreements or obtain replacement financing.

The Company generated cash flows in 2008 sufficient to reduce net debt by \$102,225,000, pay dividends totaling \$32,573,000 and acquire shares of its Common Stock in the amount of \$19,483,000. The Company does not have sufficient cash flows to meet both its requirements for 2009 operations and repayment of the Pulitzer Notes.

2009 principal payments required under the Credit Agreement totaling \$142,500,000 are expected to exceed the Company's cash flows available for such payments. As a result, the Company expects to utilize a portion of its capacity under its revolving credit facility to fund a portion of the 2009 principal payments required. At September 28, 2008, the Company had \$207,000,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments, letters of credit and other commitments, has approximately \$162,000,000 available for future use.

Principal payments under the Credit Agreement totaling \$166,250,000 are due in 2010. The Company expects to utilize the remainder of its capacity under its revolving credit facility to fund a portion of the 2010 principal payments required.

The Pulitzer Notes mature in April 2009. The Company is actively engaged in discussions with the Noteholders, and to the extent their approval may also be required, the Lenders, to extend or refinance the Pulitzer Notes. The Company has also initiated discussions with the Lenders related to changes to the Credit Agreement to maintain sufficient long-term liquidity. However, the timing and ultimate outcome of such discussions cannot be determined at this time due in part, to the abnormal condition of the domestic credit markets and the overall recessionary operating environment in which the Company, Pulitzer, and other publishing companies are currently operating. Continuing instability or further disruptions of these markets could prohibit or make it more difficult for the Company to access new capital, increase the cost of capital or limit its ability to refinance existing indebtedness.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default, including expiration of existing waivers, occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents, any of which would impair the ability of the Company to operate its business as a going concern.

Debt consists of the following:

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| (Thousands)                      | Balance              |                      | Interest Rate(s)<br>September 28<br>2008 |
|----------------------------------|----------------------|----------------------|--|
|                                  | September 28<br>2008 | September 30<br>2007 |  |
| <b>Credit Agreement:</b>         |                      |                      |  |
| A Term Loan                      | \$ 819,375           | \$ 881,625           | 3.55-3.69%                               |
| Revolving credit facility        | 207,000              | 208,000              | 3.35-5.0                                 |
| <b>Pulitzer Notes:</b>           |                      |                      |  |
| Principal amount                 | 306,000              | 306,000              | 8.05                                     |
| Unaccreted fair value adjustment | 5,265                | 13,255               |  |
|                                  | 1,337,640            | 1,408,880            |  |
| Less current maturities          | 1,337,640            | 62,250               |  |
|                                  | \$ -                 | \$ 1,346,630         |  |

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At September 28, 2008, the Company's weighted average cost of debt (including the effect of interest rate swaps and collars) was 4.95%.

Aggregate maturities of debt for each of the five years ending September 2013 are \$448,500,000, \$166,250,000, \$261,250,000, and \$456,375,000, respectively. Because the timing and ultimate outcome of discussions to extend or refinance the Pulitzer Notes cannot be determined at this time, and because of the potential for a cross default under the Credit Agreement related to expiration of waivers of current violations and/or potential future covenant violations under the Pulitzer Notes, the Company has classified all amounts outstanding under the Credit Agreement as a current liability in the Consolidated Balance Sheet at September 28, 2008.

**8 INTEREST RATE EXCHANGE AGREEMENTS**

At September 28, 2008, the Company has outstanding interest rate swaps in the notional amount of \$200,000,000. The interest rate swaps have original terms of three to five years, carry interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fix the Company's interest rate on debt in the amounts, and for the time periods, of such instruments.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars have a two year term and limit LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limit the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

At September 28, 2008 and September 30, 2007, the Company recorded a liability and an asset of \$3,337,000 and \$1,438,000, respectively, related to the fair value of such instruments. The change in this fair value is recorded in other comprehensive income, net of income taxes.

At September 28, 2008, after consideration of the interest rate swaps described above, approximately 62% of the principal amount of the Company's debt is subject to floating interest rates. The interest rate collars described above limit the Company's exposure to interest rates on an additional 11% of the principal amount of its debt.

The Company's interest rate exchange agreements at September 28, 2008 consist of the following:

| <i>(Thousands)</i>                  |            |               |         |            |
|-------------------------------------|------------|---------------|---------|------------|
| Notional Amount                     | Start Date | Maturity Date | Rate(s) | Fair Value |
| <b>VARIABLE TO FIXED RATE SWAPS</b> |            |               |         |            |

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|                |                   |                   |            |            |
|----------------|-------------------|-------------------|------------|------------|
| \$ 75,000      | November 30, 2005 | November 30, 2008 | 4.290%     | \$ (201)   |
| 50,000         | November 30, 2005 | November 30, 2009 | 4.315      | (722)      |
| 50,000         | November 30, 2005 | November 30, 2009 | 4.325      | (728)      |
| 25,000         | November 30, 2005 | November 30, 2010 | 4.395      | (530)      |
| \$200,000      |                   |                   |            | \$ (2,181) |
| <b>COLLARS</b> |                   |                   |            |            |
| \$ 75,000      | November 30, 2007 | November 30, 2009 | 3.53-5.00% | \$ (551)   |
| 75,000         | November 30, 2007 | November 30, 2009 | 3.61-5.00  | (605)      |
| \$150,000      |                   |                   |            | \$ (1,156) |

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**9 PENSION PLANS**

The Company and its subsidiaries have several noncontributory defined benefit pension plans that together cover a significant number of *St. Louis Post-Dispatch* and selected other employees. Benefits under the plans are generally based on salary and years of service. The Company's 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 tax regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, and cash.

The Company uses a June 30 measurement date for all of its pension obligations.

Effective September 30, 2007, the Company adopted the recognition and disclosure provisions of FASB Statement 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. Statement 158 requires the recognition of the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and recognition of the changes in that funded status in the year in which the changes occur as a component of other comprehensive income. Adoption of the recognition and disclosure provisions of Statement 158 resulted in an increase in assets and decrease in liabilities in the aggregate amounts of \$9,591,000, and \$32,649,000, respectively, and an increase in stockholders' equity of \$26,944,000, net of the related income tax effect.

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The cost components of the Company's pension plans are as follows:

| <i>(Thousands)</i>                               | 2008       | 2007       | 2006     |
|--|------------|------------|----------|
| Service cost for benefits earned during the year | \$ 1,501   | \$ 1,909   | \$ 5,532 |
| Interest cost on projected benefit obligation    | 9,333      | 9,172      | 9,191    |
| Expected return on plan assets                   | (13,743)   | (12,827)   | (12,637) |
| Amortization of net gain                         | (1,697)    | (1,355)    | -        |
| Amortization of prior service cost               | (132)      | (93)       | -        |
| Curtailment gains                                | -          | (3,865)    | (102)    |
| Early retirement program benefits (see Note 19)  | -          | 3,869      | 4,523    |
| Net periodic pension cost (benefit)              | \$ (4,738) | \$ (3,190) | \$ 6,507 |

Net periodic pension cost (benefit) of \$(238,000), \$(2,136,000), and \$605,000, is allocated to TNI in 2008, 2007, and 2006, respectively.

Changes in benefit obligations and plan assets are as follows:

| <i>(Thousands)</i>                                       | 2008       | 2007       |
|--|------------|------------|
| Benefit obligation, beginning of year                    | \$ 167,838 | \$ 168,172 |
| Service cost   | 1,501      | 1,909      |
| Interest cost  | 9,333      | 9,172      |
| Actuarial loss (gain)                                    | (20,853)   | 985        |
| Benefits paid  | (10,345)   | (10,813)   |
| Change in plan provisions                                | (50)       | (1,591)    |
| Curtailment gains  | -          | (3,865)    |
| Early retirement program benefits                        | -          | 3,869      |
| Benefit obligation, end of year                          | 147,424    | 167,838    |
| Fair value of plan assets, beginning of year:            | 177,179    | 161,764    |
| Actual return on plan assets                             | (13,738)   | 25,383     |
| Benefits paid  | (10,345)   | (10,813)   |
| Administrative expenses paid                             | (1,425)    | -          |
| Employer contributions                                   | 130        | 845        |
| Fair value of plan assets, June 30 measurement date      | 151,801    | 177,179    |
| Funded status - benefit obligation less than plan assets | (4,377)    | (9,341)    |
| Contributions made after measurement date                | -          | (130)      |
| Net asset recognized in the Consolidated Balance Sheets  | \$ (4,377) | \$ (9,471) |

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



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| <i>(Thousands)</i>   | September 28<br>2008 | September 30<br>2007 |
|--|----------------------|----------------------|
| Other non-current assets                                     | \$ 4,941             | \$ 9,591             |
| Pension obligations  | 564                  | 120                  |
| Accumulated other comprehensive income (before income taxes) | 32,408               | 42,240               |

Amounts recognized in accumulated other comprehensive income are as follows:

| <i>(Thousands)</i>                 | September 28<br>2008 | September 30<br>2007 |
|------------------------------------|----------------------|----------------------|
| Unrecognized net actuarial gain    | \$ 30,901            | \$ 40,650            |
| Unrecognized prior service benefit | 1,507                | 1,590                |
|                                    | \$ 32,408            | \$ 42,240            |

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The Company expects to recognize \$137,000 and \$1,180,000 of unrecognized prior service benefit and unrecognized net actuarial gain, respectively, in net periodic pension cost in 2009.

The accumulated benefit obligation for the plans are \$144,937,000 at September 28, 2008 and \$161,701,000 at September 30, 2007. 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 \$9,505,000, \$9,505,000 and \$8,941,000, respectively, at September 28, 2008.

**Assumptions**

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

|                               | September 28<br>2008 | September 30<br>2007 |
|-------------------------------|----------------------|----------------------|
| Discount rate                 | 6.75%                | 5.75%                |
| Rate of compensation increase | 3.5                  | 4.0                  |

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

|  | 2008  | 2007  | 2006 |
|--|-------|-------|------|
| Discount rate                            | 5.75% | 5.75% | 5.0% |
| Expected long-term return on plan assets | 8.0   | 8.0   | 8.5  |
| Rate of compensation increase            | 4.0   | 4.0   | 4.0  |

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

**Plan Assets**

The weighted-average asset allocation of the Company's pension assets is as follows:

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| Asset Class       | Policy Allocation | Actual Allocation |              |
|-------------------|-------------------|-------------------|--------------|
|                   |                   | September 28      | September 30 |
|                   |                   | 2008              | 2007         |
| Equity securities | 65 to 70%         | 68%               | 71%          |
| Debt securities   | 30 to 35          | 32                | 29           |

An 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 Company 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 pension trust holds no Company securities, directly or through separate accounts.

Subsequent to June 30, 2008, the fair value of plan assets declined to \$108,951,000 at November 30, 2008. The decline in the value of plan assets is related to declines in worldwide equity and debt markets. In the event the value of plan assets does not recover to the June 30, 2008 level, the Company's future pension expense and funding requirements may increase if the same level of benefits is maintained and is not offset by other changes in plan assumptions.

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Based on its forecast at September 28, 2008, the Company expects to make contributions of \$47,000 to its pension trust in 2009.

The Company anticipates future benefit payments, which reflect future service, to be paid from the pension trust as follows:

*(Thousands)*

|           |           |
|-----------|-----------|
| 2009      | \$ 11,495 |
| 2010      | 11,105    |
| 2011      | 11,116    |
| 2012      | 11,256    |
| 2013      | 11,491    |
| 2014-2018 | 60,717    |

**2007 Curtailment**

In 2007, defined pension benefits for certain of the Company's employees were frozen at then current levels. As a result, the Company recognized a curtailment gain of \$1,791,000 and also recognized the Company's 50% share of the \$2,074,000 gain recognized by TNI. See Note 4.

**Other Plans**

The Company is 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 \$2,634,000 and \$2,695,000 at September 28, 2008 and September 30, 2007, respectively.

Certain of the Company's employees participate in multi-employer retirement plans sponsored by their respective bargaining units. The amount charged to operating expense, representing the Company's required contributions to these plans, is approximately \$2,230,000 in 2008, \$597,000 in 2007, and \$679,000 in 2006.

**10 POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS**

The Company provides retiree medical and life insurance benefits under postretirement plans at several of its 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 at the *St. Louis Post-Dispatch*. The Company's liability and related expense for benefits under the postretirement plans are recorded over the service period of active employees based upon annual actuarial calculations. The Company accrues 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.

Effective September 30, 2007 the Company adopted the recognition and disclosure provisions of Statement 158. Statement 158 requires the Company to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and recognition of the changes in that funded status in the year in which the changes occur as a component of other comprehensive income. Adoption of the recognition and disclosure provisions of Statement 158 resulted in a decrease in liabilities in the aggregate amount of \$23,540,000, and an increase in stockholders' equity of \$13,968,000, net of the related income tax effect.

The Company uses a June 30 measurement date for all of its postretirement obligations.

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The net periodic postretirement benefit cost components for the Company's postretirement plans are as follows:

| <i>(Thousands)</i>                               | 2008     | 2007     | 2006     |
|--|----------|----------|----------|
| Service cost for benefits earned during the year | \$ 2,100 | \$ 2,099 | \$ 3,377 |
| Interest cost on projected benefit obligation    | 6,610    | 6,932    | 6,588    |
| Expected return on plan assets                   | (2,194)  | (2,189)  | (2,071)  |
| Amortization of net gain                         | (633)    | (101)    | -        |
| Amortization of prior service cost               | (233)    | (175)    | -        |
| Curtailement gain                                | -        | (1,940)  | -        |
| Early retirement program benefits                | -        | 386      | 660      |
| Net periodic postretirement benefit cost         | \$ 5,650 | \$ 5,012 | \$ 8,554 |

Changes in benefit obligations and plan assets are as follows:

| <i>(Thousands)</i>  | 2008       | 2007       |
|---|------------|------------|
| Benefit obligation, beginning of year                       | \$ 118,278 | \$ 127,133 |
| Service cost  | 2,100      | 2,099      |
| Interest cost   | 6,610      | 6,932      |
| Actuarial gain  | (18,156)   | (10,410)   |
| Benefits paid, net of premiums received                     | (6,079)    | (6,160)    |
| Change in plan provisions                                   | -          | (3,027)    |
| Curtailement gain   | -          | 801        |
| Medicare Part D subsidies                                   | 392        | 524        |
| Early retirement program benefits                           | -          | 386        |
| Benefit obligation, end of year                             | 103,145    | 118,278    |
| Fair value of plan assets, beginning of year                | 44,885     | 45,789     |
| Actual return on plan assets                                | 3,076      | 1,645      |
| Employer contributions                                      | 2,513      | 3,087      |
| Benefits paid   | (5,688)    | (5,636)    |
| Fair value of plan assets, June 30 measurement date         | 44,786     | 44,885     |
| Funded status - benefit obligation in excess of plan assets | 58,359     | 73,393     |
| Funding changes made after measurement date                 | 1,122      | (191)      |
| Net liability recognized in the Consolidated Balance Sheets | \$ 59,481  | \$ 73,202  |

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

| <i>(Thousands)</i>   | September 28<br>2008 | September 30<br>2007 |
|--|----------------------|----------------------|
| Current portion of benefit obligation                              | \$ 4,260             | \$ 4,610             |
| Postretirement benefit obligations                                 | 55,221               | 68,592               |
| Accumulated other comprehensive income (before income tax benefit) | 41,712               | 23,540               |

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Amounts recognized in accumulated other comprehensive income are as follows:

| <i>(Thousands)</i>                 | September 28<br>2008 | September 30<br>2007 |
|------------------------------------|----------------------|----------------------|
| Unrecognized net actuarial gain    | \$39,093             | \$20,688             |
| Unrecognized prior service benefit | 2,619                | 2,852                |
|                                    | \$41,712             | \$23,540             |

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The Company expects to recognize \$233,000 and \$2,056,000 of unrecognized prior service benefit and unrecognized net actuarial gain, respectively, in net periodic postretirement benefit cost in 2009.

**Assumptions**

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

|  | September 28<br>2008 | September 30<br>2007 |
|--|----------------------|----------------------|
| Discount rate                            | 6.75%                | 5.75%                |
| Expected long-term return on plan assets | 5.75                 | 5.0                  |

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

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

|  | 2008  | 2007  | 2006 |
|--|-------|-------|------|
| Discount rate                            | 5.75% | 5.75% | 5.0% |
| Expected long-term return on plan assets | 5.0   | 5.0   | 5.0  |

Assumed health care cost trend rates are as follows:

|   | September 28<br>2008 | September 30<br>2007 |
|---|----------------------|----------------------|
| Health care cost trend rates  | 8.0%                 | 8.0%                 |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 4.5-5.0%             | 4.5-5.0%             |
| Year in which the rate reaches the ultimate trend rate                            | 2011                 | 2011                 |

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



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Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage point change in assumed health care cost trend rates would have the following annualized effects on reported amounts for 2008:

| <i>(Thousands)</i>                                 | One Percentage |                   |
|--|----------------|-------------------|
|  | Increase       | Point<br>Decrease |
| Effect on net periodic postretirement benefit cost | \$ 1,015       | \$ (843)          |
| Effect on postretirement benefit obligation        | 10,880         | (9,254)           |

**Plan Assets**

The weighted-average asset allocation of the Company's postretirement fund at September 28, 2008 and September 30, 2007, is as follows:

| Asset Class     | Policy Allocation | Actual Allocation |
|-----------------|-------------------|-------------------|
| Debt securities | 100%              | 100%              |

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An 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 Company executives and supported by independent consultants, is responsible for monitoring compliance with the investment policy. In 2009, the investment policy allocation was revised to allow a mix of debt and equity investments.

The postretirement fund holds no Company securities, directly or through separate accounts.

Subsequent to June 30, 2008, the fair value of plan assets declined to \$41,967,000 at November 30, 2008. The decline in the value of plan assets is related to declines in worldwide debt markets. In the event the value of plan assets does not recover to the June 30, 2008 level, the Company's future expense and funding requirements may increase if the same level of benefits is maintained and is not offset by other changes in plan assumptions.

**Cash Flows**

Based on its forecast at September 28, 2008, the Company expects to contribute \$4,260,000 to its postretirement plans in 2009. The impact of possible reductions in 2009 funding requirements from modifications to the plans, as described under "2009 Changes to Plans" below, has not been determined.

In December 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The 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 that is at least actuarially equivalent (as that term is defined in the Act) to Medicare Part D. The Company concluded that it qualifies for the Subsidy under the Act since the prescription drug benefits provided under the Company's 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 Act.

The Company anticipates future benefit payments, which reflect future services, to be paid either with future contributions to the plan or directly from plan assets, as follows:

| <i>(Thousands)</i> | Gross<br>Payments | Less<br>Medicare<br>Part D<br>Subsidy | Net<br>Payments |
|--------------------|-------------------|---------------------------------------|-----------------|
| 2009               | \$ 7,830          | \$ (570)                              | \$ 7,260        |

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|           |        |         |        |
|-----------|--------|---------|--------|
| 2010      | 8,050  | (600)   | 7,450  |
| 2011      | 8,240  | (620)   | 7,620  |
| 2012      | 8,330  | (650)   | 7,680  |
| 2013      | 8,340  | (680)   | 7,660  |
| 2014-2018 | 39,840 | (3,890) | 35,950 |

**2009 Changes to Plans**

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account-based structure. The changes are expected to reduce annual net periodic postretirement medical cost by approximately \$5,400,000, beginning in January 2009, and will reduce the benefit obligation by approximately \$27,500,000, effective in January 2009.

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**2007 Curtailment**

In 2007, defined postretirement medical benefits for certain of the Company's employees were modified. As a result, the Company recognized a curtailment gain of \$1,940,000.

**Postemployment Plan**

The Company's postemployment benefit obligation, representing certain disability benefits at the *St. Louis Post-Dispatch*, is \$3,546,000 at September 28, 2008 and \$3,644,000 at September 30, 2007.

**11 OTHER RETIREMENT PLANS**

Substantially all of the Company's employees are eligible to participate in a qualified defined contribution retirement plan. The Company also has other retirement and compensation plans for executives and others.

Retirement and compensation plan costs, including interest on deferred compensation costs, charged to continuing operations are \$24,325,000 in 2008, \$24,664,000 in 2007, and \$25,060,000 in 2006.

In conjunction with the acquisition of Pulitzer, an existing supplemental benefit retirement plan (SERP) was amended and converted into an individual account plan. An account was established for each participant and was credited with an amount representing the present value of the participant's accrued benefit under the SERP, plus adjustments for certain individuals subject to existing transition agreements. Interest was credited to each account at an annual rate of 5.75%. The SERP, as amended, was liquidated in 2008, at which time each participant received a lump sum payment equal to the balance in his account. Retired participants continued to receive annuity payments until the liquidation of the SERP. The final payment amount totals \$17,926,000. At September 30, 2007, the Company's liability under the SERP totaled \$18,140,000.

**12 COMMON STOCK, CLASS B COMMON STOCK, AND PREFERRED SHARE PURCHASE RIGHTS**

Class B Common Stock has ten votes per share on all matters and generally votes as a class with Common Stock (which has one vote per share). The transfer of Class B Common Stock is restricted. Class B Common Stock is at all times convertible into shares of Common Stock on a share-for-share basis. Common Stock and Class B Common Stock have identical rights with respect to cash dividends and upon liquidation. All outstanding Class B Common Stock converts to Common Stock when the shares of Class B Common Stock outstanding total less than 5,600,000 shares. At November 30, 2008, there were 5,931,150 shares of Class B

Common Stock outstanding.

In 1998, the Board of Directors adopted a Shareholder Rights Plan (Plan). Under the Plan, the Board of Directors declared a dividend of one Preferred Share Purchase Right (Right) for each outstanding share of Common Stock and Class B Common Stock (collectively Common Shares) of the Company. Rights are attached to, and automatically trade with, the Company's Common Shares.

In January 2008, the Board of Directors approved an amendment to the 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 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 the Company's 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 the Company's 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

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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.

**13 STOCK OWNERSHIP PLANS**

Total non-cash stock compensation expense is \$5,905,000, \$7,193,000, and \$7,693,000, in 2008, 2007, and 2006, respectively.

**Stock Options**

The Company has reserved 1,682,363 shares of Common Stock for issuance to employees under an incentive and nonstatutory stock option and restricted stock plan approved by stockholders. 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:

| <i>(Thousands of Shares)</i>    | 2008  | 2007  | 2006  |
|---------------------------------|-------|-------|-------|
| Under option, beginning of year | 1,195 | 939   | 981   |
| Granted                         | -     | 304   | 177   |
| Exercised                       | -     | (1)   | (113) |
| Canceled                        | (932) | (47)  | (106) |
| Under option, end of year       | 263   | 1,195 | 939   |
| Exercisable, end of year        | 171   | 749   | 627   |

Weighted average prices of stock options are as follows:

|                           | 2008  | 2007     | 2006     |
|---------------------------|-------|----------|----------|
| Granted                   | \$ -  | \$ 28.72 | \$ 39.56 |
| Exercised                 | -     | 21.50    | 32.94    |
| Under option, end of year | 34.69 | 35.61    | 37.96    |

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The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions for options granted.

|                         | 2007    | 2006    |
|-------------------------|---------|---------|
| Dividend yield          | 2.5%    | 1.7%    |
| Volatility              | 18.7%   | 21.7%   |
| Risk-free interest rate | 4.5%    | 4.4%    |
| Expected life (years)   | 4.7     | 4.7     |
| Estimated fair value    | \$ 5.16 | \$ 8.74 |

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A summary of stock options outstanding at September 28, 2008 is as follows:

| Range of<br>Exercise<br>Prices | Options Outstanding   |   |                                       | Options Exercisable   |                                       |
|--------------------------------|-----------------------|---|---------------------------------------|-----------------------|---------------------------------------|
|                                | Number<br>Outstanding | Weighted Average<br>Remaining Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise Price | Number<br>Exercisable | Weighted<br>Average<br>Exercise Price |
| \$25 to 30                     | 118,660               | 7.5   | \$ 28.68                              | 43,394                | \$ 28.62                              |
| 30 to 35                       | 34,341                | 4.1   | 32.67                                 | 34,341                | 32.67                                 |
| 35 to 40                       | 57,395                | 6.0   | 38.47                                 | 40,782                | 38.05                                 |
| 40 to 45                       | 27,008                | 5.1   | 43.26                                 | 27,008                | 43.26                                 |
| 45 to 50                       | 25,732                | 6.1   | 47.63                                 | 25,732                | 47.63                                 |
|                                | 263,136               | 6.3   | \$ 34.69                              | 171,257               | \$ 36.84                              |

Total unrecognized compensation expense for unvested stock options at September 28, 2008 is \$248,000, which will be recognized over a weighted average period of 1 year. In 2008, the Company canceled 852,000 outstanding stock options for certain of its key employees who voluntarily tendered such options to the Company for cancellation and termination without consideration or promise of consideration for their shares.

The exercise of stock options in 2007 and 2006 resulted in cash proceeds of \$28,000 and \$3,711,000, respectively, and income tax benefits of \$3,000 and \$215,000, respectively. There were no exercises of stock options in 2008.

The intrinsic value of stock options exercised in 2007 and 2006 is \$7,000 and \$552,000 respectively. The aggregate intrinsic value of options outstanding and exercisable at September 28, 2008, is zero.

**Restricted Common Stock**

Restricted Common Stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment, generally within three years of the grant date for reasons other than normal retirement, death or disability.

A summary of restricted Common Stock activity follows:

| (Thousands of Shares) | 2008 | 2007 | 2006 |
|-----------------------|------|------|------|
|-----------------------|------|------|------|



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|                                |       |       |      |
|--------------------------------|-------|-------|------|
| Outstanding, beginning of year | 416   | 335   | 279  |
| Granted                        | 482   | 197   | 165  |
| Vested                         | (112) | (106) | (88) |
| Forfeited                      | (40)  | (10)  | (21) |
| Outstanding, end of year       | 746   | 416   | 335  |

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

|                                | 2008     | 2007     | 2006     |
|--------------------------------|----------|----------|----------|
| Outstanding, beginning of year | \$ 36.60 | \$ 43.91 | \$ 44.98 |
| Granted                        | 15.02    | 28.73    | 40.73    |
| Vested                         | 46.66    | 45.24    | 41.79    |
| Forfeited                      | 27.95    | 34.94    | 42.03    |
| Outstanding, end of year       | 21.60    | 36.60    | 43.91    |

The fair value of restricted Common Stock vested in 2008, 2007, and 2006 is \$1,743,000, \$3,004,000, and \$3,466,000, respectively.

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Total unrecognized compensation expense for unvested restricted Common Stock as of September 28, 2008 is \$5,464,000, which will be recognized over a weighted average period of 1.7 years.

At September 28, 2008, 1,419,227 shares are available for granting of stock options or issuance of restricted Common Stock.

In November 2008, the Company suspended future grants under its stock compensation program until further notice.

**Stock Purchase Plans**

The Company has 270,000 shares of Common Stock available for issuance pursuant to the Company's Employee Stock Purchase Plan (ESPP). April 30, 2009 is the exercise date for the current offering. In 2007, the purchase price provision of the ESPP was amended to 85% of the fair market value on the exercise date, beginning with the current offering. The Company's expense in 2008 and 2007 is based on the difference between the fair value of shares purchased and the purchase price. The weighted-average fair values of purchase rights granted under the ESPP in 2006, computed using the Black-Scholes option-pricing model, is \$6.53.

In 2008, 2007, and 2006 employees purchased 150,000, 121,000, and 131,000, shares, respectively, under the ESPP at a price of \$6.60 in 2008, \$22.48 in 2007, and \$26.11 in 2006. The market value on the purchase date was \$7.77 in 2008, \$26.18 in 2007, and \$30.80 in 2006.

The Company also has 8,700 shares of Common Stock available for issuance under the Company's Supplemental Employee Stock Purchase Plan (SPP). Under the SPP, an offering period is each three-month calendar quarter, unless changed, and the last business day of each calendar quarter is the exercise date for such quarterly offering period. The purchase price is 85% of the market price on the last business day of each calendar quarter during the offering period.

Employees purchased 73,000, 25,000, and 23,000 shares, respectively, at a weighted average price of \$5.20 in 2008, \$19.47 in 2007, and \$25.67 in 2006 under the SPP. The weighted average market values on the purchase dates in 2008, 2007, and 2006 are \$6.11, \$22.91, and \$30.20 respectively.

**14 INCOME TAXES**

Income tax expense (benefit) consists of the following:

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| <i>(Thousands)</i>      | 2008         | 2007      | 2006      |
|-------------------------|--------------|-----------|-----------|
| Current:                |              |           |           |
| Federal                 | \$ 24,442    | \$ 36,623 | \$ 61,270 |
| State                   | 3,383        | 3,881     | 9,175     |
| Deferred                | (256,398)    | (6,309)   | (30,452)  |
|                         | \$ (228,573) | \$ 34,195 | \$ 39,993 |
| Continuing operations   | \$ (234,202) | \$ 33,828 | \$ 39,508 |
| Discontinued operations | 5,629        | 367       | 485       |
|                         | \$ (228,573) | \$ 34,195 | \$ 39,993 |

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Income tax expense 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:

|  | 2008    | 2007  | 2006  |
|--|---------|-------|-------|
| Computed expected income tax expense                       | (35.0)% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit             | (3.0)   | 3.0   | 3.0   |
| Net income of associated companies taxed at dividend rates | (0.1)   | (2.0) | (2.0) |
| Domestic production deduction                              | (0.1)   | (0.8) | (0.8) |
| Resolution of tax matters                                  | (0.3)   | (5.9) | (0.3) |
| Impairment   | 14.9    | -     | -     |
| Valuation allowance  | 2.6     | -     | -     |
| Other  | -       | 0.1   | 0.5   |
|  | (21.0)% | 29.4% | 35.4% |

Substantial deferred income tax liabilities were recorded in 2005 as a result of acquisitions. Net deferred income tax liabilities consist of the following components:

| (Thousands)  | September 28<br>2008 | September 30<br>2007 |
|--|----------------------|----------------------|
| <b>Deferred income tax liabilities:</b>              |                      |                      |
| Property and equipment                               | \$ (46,110)          | \$ (51,485)          |
| Equity in undistributed earnings of affiliates       | (1,784)              | (2,041)              |
| Investment in Tucson newspaper partnership           | (20,905)             | (62,284)             |
| Identified intangible assets                         | (144,706)            | (417,609)            |
|  | \$ (213,505)         | \$ (533,419)         |
| <b>Deferred income tax assets:</b>                   |                      |                      |
| Accrued compensation                                 | \$ 11,445            | \$ 19,468            |
| Allowance for doubtful accounts and losses on loans  | 2,487                | 5,192                |
| Pension and postretirement benefits                  | 26,171               | 32,307               |
| Long-term debt and interest rate exchange agreements | (375)                | (397)                |
| State operating loss carryforwards                   | 13,266               | 12,708               |
| Other  | 9,340                | 4,501                |
|  | 62,334               | 73,779               |
| Valuation allowance                                  | (41,454)             | (11,435)             |
| Net deferred income tax liabilities                  | \$ (192,625)         | \$ (471,075)         |

Net deferred income tax liabilities are classified as follows:

(Thousands)

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|                                     | September 28<br>2008 | September 30<br>2007 |
|-------------------------------------|----------------------|----------------------|
| Current assets                      | \$ 3,675             | \$ 7,343             |
| Non-current liabilities             | (196,300)            | (478,418)            |
| Net deferred income tax liabilities | \$ (192,625)         | \$ (471,075)         |

The Company adopted the provisions of FIN 48, as of October 1, 2007. As a result of the adoption of FIN 48, the Company recognized a \$1,733,000 increase in income taxes payable, which was accounted for as a reduction of retained earnings. The Company also recognized a \$196,000 purchase accounting-related decrease in income taxes payable, which was accounted for as a decrease in goodwill.

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A reconciliation of 2008 changes in gross unrecognized tax benefits is as follows:

| <i>(Thousands)</i>                                | 2008      |
|---|-----------|
| Balance, beginning of year, on adoption of FIN 48 | \$ 14,433 |
| Increases in tax positions for prior years        | 151       |
| Increases in tax positions for the current year   | 1,097     |
| Lapse in statute of limitations                   | (2,866)   |
| Balance, end of year                              | \$ 12,815 |

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$10,409,000 at October 1, 2007. The Company recognizes 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, \$1,858,000 at September 28, 2008 and \$2,268,000 at October 1, 2007. There were no amounts provided for penalties at September 28, 2008.

The Company estimates that it is reasonably possible that up to \$3,168,000 net of tax, of uncertain tax benefits associated with federal and state income tax return issues could be recognized in 2009 as a result of ongoing federal and state income tax examinations, anticipated state and federal settlements and expiration of statutes of limitations.

At September 28, 2008, the Company has approximately \$343,146,000 of net operating loss carryforwards for state tax purposes that expire between 2009 and 2028. Such loss carryforwards result in a deferred income tax asset of \$13,266,000 at September 28, 2008, of which \$11,952,000 is offset by a valuation allowance. An increase in the valuation allowance of \$29,502,000 was recorded in 2008 due to the uncertainty certain of such deferred tax assets will be realized.

**15 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. The carrying value of other investments, consisting of debt and equity securities in a deferred compensation trust, is carried at fair value based upon quoted market prices. Investments totaling \$7,589,000, consisting primarily of the Company's 17% ownership of the nonvoting common stock of TCT are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. The fair value of the Company's fixed rate debt at September 30, 2007 follows and is estimated based on the quoted market prices for similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The Company's fixed rate debt consists of the \$306,000,000 principal amount of Pulitzer Notes, as discussed more fully in Note 7, which is not traded on an active market and is held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists in the current recession, the Company is unable, as of September 28, 2008, to determine the fair value of such debt. The value, if determined, would likely be less than the carrying amount.

*(Thousands)*

September 30  
2007

|                 |           |
|-----------------|-----------|
| Carrying amount | \$319,255 |
| Fair value      | 316,913   |

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

| <i>(Thousands, Except Per Common Share Data)</i>   | 2008         | 2007      | 2006      |
|--|--------------|-----------|-----------|
| Income (loss) available to common stockholders:    |              |           |           |
| Continuing operations                              | \$ (889,032) | \$ 80,328 | \$ 70,778 |
| Discontinued operations                            | 285          | 671       | 54        |
|  | \$ (888,747) | \$ 80,999 | \$ 70,832 |
| Weighted average Common Shares                     | 45,478       | 46,088    | 45,763    |
| Less non-vested restricted Common Stock            | 665          | 417       | 342       |
| Basic average Common Shares                        | 44,813       | 45,671    | 45,421    |
| Dilutive stock options and restricted Common Stock | -            | 133       | 125       |
| Diluted average Common Shares                      | 44,813       | 45,804    | 45,546    |
| Earnings (loss) per common share:                  |              |           |           |
| Basic:   |              |           |           |
| Continuing operations                              | \$ (19.84)   | \$ 1.76   | \$ 1.56   |
| Discontinued operations                            | 0.01         | 0.01      | -         |
|  | \$ (19.83)   | \$ 1.77   | \$ 1.56   |
| Diluted:   |              |           |           |
| Continuing operations                              | \$ (19.84)   | \$ 1.75   | \$ 1.55   |
| Discontinued operations                            | 0.01         | 0.01      | -         |
|  | \$ (19.83)   | \$ 1.77   | \$ 1.56   |

For 2008, 2007 and 2006, the Company had 263,000, 1,128,000, and 842,500 weighted average shares, respectively, subject to issuance under its stock option and employee stock purchase plan that have no intrinsic value and are not considered in the computation of earnings (loss) per common share.

**17 ALLOWANCE FOR DOUBTFUL ACCOUNTS**

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

| <i>(Thousands)</i>           | 2008      | 2007      | 2006     |
|------------------------------|-----------|-----------|----------|
| Balance, beginning of year   | \$ 10,266 | \$ 11,247 | \$ 9,303 |
| Additions charged to expense | 5,977     | 5,727     | 7,232    |
| Deductions from reserves     | (9,596)   | (6,708)   | (5,288)  |



|                      |          |           |           |
|----------------------|----------|-----------|-----------|
| Balance, end of year | \$ 6,647 | \$ 10,266 | \$ 11,247 |
|----------------------|----------|-----------|-----------|

**18 OTHER INFORMATION**

Compensation and other accrued liabilities consist of the following:

| <i>(Thousands)</i>                  | September 28<br>2008 | September 30<br>2007 |
|-------------------------------------|----------------------|----------------------|
| Compensation                        | \$ 21,706            | \$ 31,006            |
| Retirement and stock purchase plans | 13,486               | 33,501               |
| Interest                            | 8,872                | 14,790               |
| Other                               | 16,352               | 16,739               |
|                                     | \$ 60,416            | \$ 96,036            |

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Cash payments are as follows:

| <i>(Thousands)</i>           | 2008      | 2007      | 2006       |
|------------------------------|-----------|-----------|------------|
| Interest                     | \$ 80,960 | \$ 86,767 | \$ 101,018 |
| Income taxes, net of refunds | 26,173    | 55,693    | 28,403     |

Components of accumulated other comprehensive income, net of deferred income taxes, are as follows:

| <i>(Thousands)</i>  | September 28<br>2008 | September 30<br>2007 |
|---|----------------------|----------------------|
| Unrealized gain (loss) on interest rate exchange agreements | \$ (2,069)           | \$ 892               |
| Unrealized gain on available-for-sale securities            | 434                  | 388                  |
| Pension and postretirement benefits                         | 44,828               | 40,912               |
| Total accumulated other comprehensive income                | \$ 43,193            | \$ 42,192            |

**19 COMMITMENTS AND CONTINGENT LIABILITIES****Operating Leases**

The Company has operating lease commitments for certain of its 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 2013 and thereafter are \$4,634,000, \$3,667,000, \$3,305,000, \$2,656,000, \$2,027,000 and \$6,123,000, respectively. Total operating lease expense is \$5,325,000, \$5,518,000, and \$5,354,000, in 2008, 2007, and 2006, respectively.

**Capital Expenditures**

At September 28, 2008, the Company had construction and equipment purchase commitments totaling approximately \$5,211,000.

***St. Louis Post-Dispatch* Early Retirement Programs**

In 2007, the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. 60 employees volunteered to take advantage of the offer, which includes enhanced pension and insurance benefits, and lump-sum cash payments based on continuous service. The initial cost totaled \$10,704,000 before income tax benefit of which

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\$7,962,000 was recorded as expense in 2007. The \$2,742,000 remaining cost was offset against previously existing unrecognized gains in certain of the Company's defined benefit plans. Approximately \$3,700,000 of the cost represents cash payments, with the remainder due primarily to enhancements of pension and other postretirement benefits. Cash payments of \$442,000 were made in 2007, and the remainder was paid in 2008.

In 2006, the *St. Louis Post-Dispatch* concluded another offering of early retirement incentives that resulted in an adjustment of staffing levels. 130 employees volunteered to take advantage of the offer, which includes enhanced pension and insurance benefits and lump-sum cash payments based on continuous service. The cost totaled \$17,778,000 before income tax benefit, with \$9,124,000 recognized in 2005, and \$8,654,000 recognized in 2006. Approximately \$7,000,000 of the cost represents cash payments made, with the remainder due primarily to enhancements of pension and other post retirement benefits.

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**PD LLC Operating Agreement**

In 2000, Pulitzer and Herald Inc. completed the transfer of their respective interests in the assets and operations of the *St. Louis Post-Dispatch* and certain related businesses to a new joint venture (the Venture), known as PD LLC. Pulitzer is the managing member of PD LLC. Under the terms of the Operating Agreement, Pulitzer and another subsidiary hold a 95% interest in the results of operations of PD LLC and Herald, as successor to Herald Inc., holds a 5% interest. Until March 30, 2008, Herald's 5% interest was reported as minority interest in the Consolidated Statements of Operations and Comprehensive Income (Loss) at historical cost, plus accumulated earnings since the acquisition of Pulitzer.

Also, under the terms of the Operating Agreement, Herald Inc. received on May 1, 2000 a cash distribution of \$306,000,000 from PD LLC (the Initial Distribution). This distribution was financed by the Pulitzer Notes. Pulitzer's entry into the Venture was treated as a purchase for accounting purposes and a leveraged partnership for income tax purposes.

On May 1, 2010, the 2010 Redemption will provide Herald a one-time right to require PD LLC to redeem its interest in PD LLC, together with its interest, if any, in DS LLC. The May 1, 2010 redemption price for Herald's interest will be determined pursuant to a formula yielding an amount which will result in the present value to May 1, 2000 of the after tax cash flows to Herald (based on certain assumptions) from PD LLC, including the Initial Distribution and the special distribution described below, if any, and from DS LLC, being equal to \$275,000,000. Based on this formula, the present value of the 2010 Redemption at September 28, 2008, is approximately \$72,031,000. The Company concluded the remaining amount of this potential liability should be recorded in its Consolidated Balance Sheet in 2008, with the offset primarily to goodwill in the amount of \$55,594,000, and the remainder recorded as a reduction of retained earnings.

Recording of the liability for the 2010 Redemption in 2008 also resulted in an increase in loss available to common stockholders and loss per common share of \$8,838,000 and \$0.20 respectively, which accounts primarily for the time value of the increase in the liability since the acquisition of Pulitzer on June 3, 2005.

During the first ten years of its term, PD LLC is restricted from making distributions (except under specified circumstances), capital expenditures and member loan repayments unless it has set aside out of its cash flow the Reserve which is equal to the product of \$15,000,000 and the number of years since May 1, 2000, but not in excess of \$150,000,000.

PD LLC is not required to maintain the Reserve after May 1, 2010.

Upon termination of PD LLC and DS LLC, which will be on May 1, 2015 (unless Herald exercises the 2010 Redemption described above), Herald will be entitled to the liquidating value of its interests in PD LLC and DS LLC, to be paid in cash by Pulitzer (the 2015 Liquidation). That amount would be equal to the amount of Herald's capital accounts, after allocating the gain or loss that would result from a cash sale of PD LLC and DS LLC's assets for their fair market value at that time. Herald's share of such gain or

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loss generally will be 5%, but will be reduced (but not below 1%) to the extent that the present value to May 1, 2000 of the after tax cash flows to Herald from PD LLC and from DS LLC, including the Initial Distribution, the special distribution described below, if any, and the liquidation amount (based on certain assumptions), exceeds \$325,000,000.

The actual amount payable to Herald upon the termination of PD LLC and DS LLC on May 1, 2015 will depend on such variables as future cash flows, the amounts of any distributions to Herald prior to such payment, PD LLC's and DS LLC's rate of growth and market valuations of newspaper properties.

The redemption of Herald's interest in PD LLC and DS LLC either on May 1, 2010 or upon termination of PD LLC and DS LLC in 2015 is expected to generate significant tax benefits to the Company as a consequence of the resulting increase in the tax basis of the assets owned by PD LLC and DS LLC and

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the related depreciation and amortization deductions. The increase in basis, which will be amortized for income tax purposes over a 15 year period, approximates the sum of the Initial Distribution and either the 2010 Redemption or the 2015 Liquidation.

In the event the transactions effectuated in connection with either the formation of the Venture and the Initial Distribution or the organization of DS LLC are recharacterized by the Internal Revenue Service (IRS) as a taxable sale by Herald, with the result in either case that the tax basis of PD LLC's assets increases and Herald is required to recognize taxable income as a result of such recharacterization, Herald generally will be entitled to receive a special distribution from PD LLC in an amount that corresponds, approximately, to the present value of the after tax benefit to the members of PD LLC of the tax basis increase. The adverse financial effect of any such special distribution to Herald on PD LLC (and thus Pulitzer and the Company) will be partially offset by the current and deferred tax benefits arising as a consequence of the treatment of the transactions effectuated in connection with the formation of the Venture and the Initial Distribution or the organization of DS LLC as a taxable sale by Herald. In 2006, the IRS concluded an examination of Herald without adjustment related to the Venture or the Initial Distribution.

**Stock Repurchase Program**

In 2008, the Company announced its intention to acquire up to \$30,000,000 of its Common Stock in open market and private transactions. In 2008, 1,722,280 shares have been acquired and returned to authorized shares at an average price of \$10.98.

The 2009 Amendments to the Credit Agreement require the Company to suspend share repurchases until its total leverage ratio is less than 4.5:1.

**Income Taxes**

Commitments exclude unrecognized tax benefits to be recorded in accordance with FIN 48. The Company is unable to reasonably estimate the ultimate amount or timing of cash settlements with the respective taxing authorities for such matters. See Note 14.

The Company files income tax returns with the IRS and various state tax jurisdictions. From time to time, the Company is subject to routine audits by those agencies, and those audits may result in proposed adjustments. The Company has considered the alternative interpretations that may be assumed by the various taxing agencies, believes its positions taken regarding its 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. The Company does not believe the final resolution of such matters will be material to its consolidated financial position or cash flows.

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In June 2006, the Company received a notice of deficiency asserting transferee liability for federal income taxes and penalties, excluding interest, totaling \$25,200,000 related to the acquisition of assets by the Company in 2000. In August 2006, the IRS rescinded the notice of deficiency and issued a letter, which allowed the Company to initially pursue this matter at the IRS Appeals level. In February 2007, the IRS informed the Company that it does not intend to pursue the claim. In 2007, the IRS completed its audit of 2003 and 2004 without any adjustment corresponding to this matter. As a result of those developments and the resolution of certain state audits, the Company reduced income tax expense by \$2,811,000 in 2008 and \$6,880,000 in 2007.

The IRS has completed its review of the Company's income tax returns through 2004 and is presently examining income tax returns of Pulitzer for 2003, 2004 and 2005. The Company has various state income tax examinations ongoing and at various stages of completion, but generally the state income tax returns have been audited or closed to audit through 2002.

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**Legal Proceedings**

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

In 2008, the Company was served with a lawsuit by a group of California newspaper carriers claiming to be employees and not independent contractors of the Company. Since the suit is in the earliest of phases, the Company is unable to predict whether the ultimate economic outcome, if any, could have a material effect on the Company's Consolidated Financial Statements, taken as a whole. The Company denies the allegations of employee status, consistent with past practices of the Company and the industry, and intends to vigorously contest the action, which is not covered by insurance.

**20 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2006, the FASB issued Statement 158. The Company adopted the recognition and disclosure provisions of Statement 158 as of September 30, 2007.

Statement 158 will also require the Company to change its measurement date to the last day of the fiscal year from a date three months prior to the end of the fiscal year, beginning in 2009. The change in measurement date will require a one-time adjustment to accumulated deficit, the effect of which cannot be determined at this time. None of the changes required will impact the Company's results of operations or cash flows.

In 2006, the FASB issued Statement 157, *Fair Value Measurements*, which defines fair value, provides guidelines for measuring fair value and expands disclosure requirements. Statement 157 does not require any new fair value measurement but applies to the accounting pronouncements that require or permit fair value measurement. Statement 157 is effective for the Company in 2009. The Company does not anticipate that the implementation of Statement 157 will have a material impact on its financial position, results of operation, or cash flows. The FASB has deferred the effective date of this pronouncement until 2010 for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements.

In 2007, the FASB issued Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides the Company the option to measure many financial instruments and certain other items at fair value that are not currently required or permitted to be measured at fair value. Statement 159 is effective for the Company in 2009. The Company has not completed its evaluation on the effect of Statement 159 on its Consolidated Financial Statements.



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In 2008, the FASB issued Statement 141(R), *Business Combinations* and Statement 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. Statement 141(R) establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interests. For the Company, the provisions of Statement 141(R) are effective for business combinations occurring in 2010. Statement 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. Statement 160 is effective for the Company in 2010. The Company has not completed its evaluation of the effects of Statements 141(R) and 160 on its Consolidated Financial Statements.

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In 2008, the FASB issued Statement 161, *Disclosures About Derivative Instruments and Hedging Activities*, an amendment of FASB Statement 133. Statement 161 requires disclosure regarding the objectives and strategies for using derivative instruments and the credit-risk-related features. Statement 161 also requires disclosure of the fair value amounts and the gains and losses on derivative instruments in tabular form. Statement 161 is effective for the Company in 2010.

**21 QUARTERLY FINANCIAL DATA (UNAUDITED)**

| <i>(Thousands, Except Per Common Share Data)</i> | Quarter    |              |            |              |
|--|------------|--------------|------------|--------------|
|  | 1st        | 2nd          | 3rd        | 4th          |
| <b>2008</b>                                      |            |              |            |              |
| Operating revenue                                | \$ 279,856 | \$ 247,725   | \$ 256,394 | \$ 244,893   |
| Income from continuing operations                | \$ 21,788  | \$ (705,553) | \$ 3,539   | \$ (199,968) |
| Discontinued operations                          | 338        | (1)          | (52)       | -            |
| Net income (loss)                                | \$ 22,126  | \$ (705,554) | \$ 3,487   | \$ (199,968) |
| Income (loss) available to common stockholders   | \$ 22,126  | \$ (713,037) | \$ 2,832   | \$ (200,668) |
| <b>Earnings per common share:</b>                |            |              |            |              |
| <b>Basic:</b>                                    |            |              |            |              |
| Income from continuing operations                | \$ 0.48    | \$ (15.90)   | \$ 0.07    | \$ (4.53)    |
| Discontinued operations                          | 0.01       | -            | -          | -            |
|  | \$ 0.48    | \$ (15.90)   | \$ 0.06    | \$ (4.53)    |
| <b>Diluted:</b>                                  |            |              |            |              |
| Income from continuing operations                | \$ 0.48    | \$ (15.90)   | \$ 0.06    | \$ (4.53)    |
| Discontinued operations                          | 0.01       | -            | -          | -            |
|  | \$ 0.48    | \$ (15.90)   | \$ 0.06    | \$ (4.53)    |
| <b>2007</b>                                      |            |              |            |              |
| Operating revenue                                | \$ 298,489 | \$ 259,967   | \$ 279,500 | \$ 282,239   |
| Income from continuing operations                | \$ 26,523  | \$ 11,848    | \$ 22,139  | \$ 19,819    |
| Discontinued operations                          | 128        | 43           | 352        | 147          |
| Net income                                       | \$ 26,651  | \$ 11,891    | \$ 22,491  | \$ 19,966    |
| <b>Earnings per common share:</b>                |            |              |            |              |
| <b>Basic:</b>                                    |            |              |            |              |
| Income from continuing operations                | \$ 0.58    | \$ 0.26      | \$ 0.48    | \$ 0.43      |
| Discontinued operations                          | -          | -            | 0.01       | -            |
|  | \$ 0.58    | \$ 0.26      | \$ 0.49    | \$ 0.44      |
| <b>Diluted:</b>                                  |            |              |            |              |
| Income from continuing operations                | \$ 0.58    | \$ 0.26      | \$ 0.48    | \$ 0.43      |
| Discontinued operations                          | -          | -            | 0.01       | -            |
|  | \$ 0.58    | \$ 0.26      | \$ 0.49    | \$ 0.44      |

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Results of operations for the second, third and fourth quarters of 2008 include non-cash impairment charges, net of deferred income taxes, of \$708,587,000, \$8,605,000 and \$176,530,000, respectively. Income taxes for the fourth quarter of 2008 include additional income tax expense of \$29,502,000 related to an increase in the valuation allowance for deferred tax assets.

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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 sheet of Lee Enterprises, Incorporated and subsidiaries as of September 28, 2008, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the 52-week period ended September 28, 2008. 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 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 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 audit provides a reasonable basis for our opinion.

In our opinion, 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, 2008, and the results of their operations and their cash flows for the 52-week period ended September 28, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, effective October 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 and note 7 to the consolidated financial statements, the Company has short-term obligations that cannot be satisfied by available funds and has incurred violations of debt covenants that subject the related principal amounts to acceleration, all of which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 7. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lee Enterprises, Incorporated's internal control over financial reporting as of September 28, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 31, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

We also have audited the adjustments described in Note 3 to the consolidated financial statements that were applied to restate the 2007 and 2006 consolidated financial statements to reflect the results of discontinued operations related to the 2008 divestiture. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2007 and 2006 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2007 and 2006 consolidated financial statements taken as a whole.

/s/ KPMG LLP

Chicago, Illinois

December 31, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders

Lee Enterprises, Incorporated and subsidiaries

Davenport, Iowa

We have audited, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 3 to the consolidated financial statements, the accompanying Consolidated Balance Sheet of Lee Enterprises, Incorporated and subsidiaries (the Company) as of September 30, 2007, and the related Consolidated Statements of Income and Comprehensive Income, Stockholders' Equity, and Cash Flows for the years ended September 30, 2007 and 2006 (the 2007 and 2006 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 3 to the consolidated financial statements are not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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, such 2007 and 2006 consolidated financial statements, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 3 to the consolidated financial statements, present fairly, in all material respects, the financial position of Lee Enterprises, Incorporated and subsidiaries at September 30, 2007, and the results of their operations and their cash flows for the years ended September 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations discussed in Note 3 to the consolidated financial statements and, accordingly, we do not express an opinion or any form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

As discussed in Notes 9 and 10 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which changed its

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method of accounting for pension and other post retirement benefits as of September 30, 2007.

Davenport, Iowa

November 29, 2007