

LEE ENTERPRISES, INC
Form 10-K
November 29, 2007
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2007

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.)

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

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(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 on the New York Stock Exchange on March 31, 2007: approximately \$1,285,192,000. 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

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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 October 31, 2007. Common Stock, \$2 par value, 40,057,223 shares and Class B Common Stock, \$2 par value, 6,131,857 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Lee Enterprises, Incorporated Definitive Proxy Statement to be filed in January 2008 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 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 are changes in advertising demand, newsprint prices, energy costs, interest rates, labor costs, legislative and regulatory rulings and other results of operations or financial conditions, difficulties in integration of acquired businesses or maintaining employee and customer relationships, increased capital and other costs and other risks detailed from time to time in the Company's publicly filed documents. The words may, will, would, could, believes, expects, anticipates, plans, projects, considers and similar expressions 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

References to 2007, 2006, 2005 and the like mean the fiscal years ended September 30.

ITEM 1. BUSINESS

Lee Enterprises, Incorporated, is a premier provider of local news, information and advertising in primarily midsize markets, with 51 daily newspapers and a joint interest in five others, rapidly growing online sites and more than 300 weekly newspapers and specialty publications in 23 states.

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

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

Certain aspects of these priorities are discussed below.

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The Company was founded in 1890, incorporated in 1950, and listed on the New York Stock Exchange in 1978. Before 2001, the Company also operated a number of network-affiliated and satellite television stations. In 2006, the Company sold the assets of its stand-alone publishing and commercial printing operations in Seattle and Spokane, Washington and Portland, Oregon.

HOWARD AND SIOUX CITY ACQUISITIONS

In 2002, the Company acquired 15 daily newspapers and a 50% interest in the Sioux City, Iowa, daily newspaper (SCN) by purchasing Howard Publications, Inc. (Howard). This acquisition was consistent with the strategy the Company announced in 2000 to buy daily newspapers with circulation of 30,000 or more. In 2002, the Company also acquired the remaining 50% of SCN. These acquisitions increased the Company's circulation by more than 75% and increased its revenue by nearly 50%. In February 2004, two daily newspapers acquired in the Howard acquisition were exchanged for daily newspapers in Burley, Idaho, and Elko, Nevada.

PULITZER ACQUISITION

In June 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 circulation by more than 50% to more than 1.6 million daily and 1.9 million Sunday, and revenue by more than 60%.

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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 St. Louis metropolitan area. St. Louis newspaper operations also include the Suburban Journals of Greater St. Louis, a group of 31 weekly newspapers and nine niche publications that focus on separate communities within the metropolitan area. In 2007, the Suburban Journals had average unduplicated circulation of approximately 0.7 million, resulting in the delivery of approximately 1.1 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 publish 12 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 2005 and 2006, the Company devoted substantial attention to the successful integration of Pulitzer into its business. The Company made significant and immediate changes to systems and other areas of operations. The Company also devoted resources and training to bring its successful selling strategies and tactics to Pulitzer. The Company believes the integration was successful, with minimal disruption to its business.

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.

An 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

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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.

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.

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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 related online operations. MNI conducts business under the trade name Capital Newspapers. The Company has a contract to furnish the editorial 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.

ADVERTISING

More than 77% of the Company's 2007 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, augmented by selective acquisitions. Acquisition efforts are focused on newspapers with daily circulation of 30,000 or more, as noted above and other publications and online businesses that increase the Company's operating revenue.

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 on print, broadcast and online advertising 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:

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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.

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.

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.

Online advertising consists of display, banner, classified or other advertising on websites associated and integrated with the Company's print publications.

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

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. These markets are 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.

The Company's year over year advertising results in 2007, 2006 and 2005 compare favorably to national statistics published by the Newspaper Association of America.

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 November 2006, the Company, in conjunction with several other major publishing organizations, announced a strategic alliance with Yahoo! Inc. (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 begun working 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 20 companies and approximately 400 daily newspapers across the United States.

In November 2007, the Company, along with several other major publishing organizations, announced a strategic alliance with Zillow.com in which the publishing consortium will offer its classified real estate advertising customer base the opportunity to also post listings in Zillow.com's national platform. In November 2007, the Company also announced it was acquiring a 10% interest in Kaango, LLC, the company that operates Kaango.com, an advanced online classified advertising site.

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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. In addition, the Company has a minority investment in a company which provides online editorial content and transactional and promotional opportunities.

Online businesses of the Company have experienced rapid growth over the last several years. Online advertising represented 7.4% of total advertising revenue in the month of September 2007, an increase from 4.7% in September 2006. Online page views increased 21.7% between September 2006 and September 2007.

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Based on independent research, the Company estimates that, in an average week, its newspapers and online sites reach approximately 71% of adults in its markets. In the St. Louis market, Scarborough Research estimates the *St. Louis Post Dispatch* and STLToday.com reach 60% 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 markets as summarized in the table below. The Company is reaching an increasingly larger share of the market through rapid online 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 18-34 | |
|------------------|------------|-------|-----------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| Print only | 50.2% | 49.9% | 40.3% | 37.1% |
| Print and online | 16.1 | 11.1 | 17.9 | 11.7 |
| Online only | 4.7 | 5.7 | 8.2 | 8.1 |
| Total reach | 71.0% | 66.7% | 66.4% | 56.9% |

Source: Lee Enterprises Tracking Survey, Wilkerson & Associates. October 2007 and 2006.
Margin of error +/-2.8%

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 the Newspaper Association of America data, nationwide daily newspaper circulation unit sales have decreased 17% cumulatively through 2006 since their peak in 1984 and Sunday circulation unit sales have decreased 15% since their peak in 1990. The number of daily newspapers declined 15% from 1984 to 2006. For the six months ended September 2007, the Company's daily circulation, which includes Pulitzer, TNI and MNI, as measured by the Audit Bureau of Circulations (ABC), or other independent organizations, declined 1.7%, and Sunday circulation declined 0.7%, significantly outperforming the industry as a whole. Since September 2001, the Company's daily and Sunday circulation have declined cumulatively by 4.4% and 3.6%, respectively. These changes represent average annual declines of 0.7% and 0.6%, 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. 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 checking 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.

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Audience competition exists in all markets, even from unpaid products, but is most significant in markets with competing 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.

Changes in telemarketing regulations first effective in 2004 reduced the Company's ability to obtain new subscribers using this channel. Other methods to attract and retain subscribers have been and remain in use. However, telemarketing has historically been the largest single source of new subscribers. Same property circulation starts obtained through the Company's marketing efforts declined 1% in 2007 and 2% in 2006 and 2005.

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

| Newspaper | Primary Website | Location | Paid Circulation ⁽¹⁾ | |
|---|----------------------|--|---------------------------------|------------------------|
| | | | Daily | Sunday |
| <i>St. Louis Post-Dispatch</i> ⁽²⁾ | stltoday.com | St. Louis, MO | 265,111 | 420,222 |
| <i>Arizona Daily Star</i> ⁽²⁾⁽³⁾ | azstarnet.com | Tucson, AZ | 100,910 | 151,995 |
| Capital Newspapers ⁽⁴⁾ | | | | |
| <i>Wisconsin State Journal</i> | madison.com | Madison, WI | 87,708 | 141,234 ⁽⁵⁾ |
| <i>The Capital Times</i> | madison.com | Madison, WI | 16,565 | - ⁽⁵⁾ |
| <i>Daily Citizen</i> | wiscnews.com/bdc | Beaver Dam, WI | 9,888 | - |
| <i>Portage Daily Register</i> | wiscnews.com/pdr | Portage, WI | 4,900 | - |
| <i>Baraboo News Republic</i> | wiscnews.com/blr | Baraboo, WI | 4,303 | - |
| <i>North County Times</i> ⁽⁶⁾ | nctimes.com | Oceanside and Escondido, CA | 86,852 | 90,000 |
| <i>The Times</i> ⁽⁶⁾ | nwitimes.com | Munster, Valparaiso, and Crown Point, IN | 83,054 | 90,768 |
| Lincoln Group | | | | |
| <i>Lincoln Journal Star</i> | journalstar.com | Lincoln, NE | 76,848 | 82,835 |
| <i>Columbus Telegram</i> | columbustelegram.com | Columbus, NE | 8,946 | 9,840 |
| <i>Fremont Tribune</i> | fremonttribune.com | Fremont, NE | 8,264 | - |
| <i>Beatrice Daily Sun</i> | beatricedailysun.com | Beatrice, NE | 7,708 | - |
| Quad-Cities Group | | | | |
| <i>Quad-City Times</i> | qctimes.com | Davenport, IA | 49,990 | 68,562 |
| <i>Muscatine Journal</i> | muscatinejournal.com | Muscatine, IA | 7,248 | - |
| <i>The Pantagraph</i> ⁽²⁾ | pantagraph.com | Bloomington, IL | 46,639 | 50,486 |
| <i>Billings Gazette</i> | billingsgazette.com | Billings, MT | 45,054 | 52,217 |
| <i>Sioux City Journal</i> ⁽⁶⁾ | siouxcityjournal.com | Sioux City, IA | 40,638 | 41,919 |
| <i>The Courier</i> ⁽⁶⁾ | wfcourier.com | Waterloo and Cedar Falls, IA | 39,794 | 50,405 |
| Central Illinois Newspaper Group | | | | |
| <i>Herald & Review</i> | herald-review.com | Decatur, IL | 32,609 | 47,309 |
| <i>Journal Gazette</i> ⁽⁶⁾ | jg-tc.com | Mattoon, IL | 9,668 | - |
| <i>Times-Courier</i> ⁽⁶⁾ | jg-tc.com | Charleston, IL | 6,166 | - |
| River Valley Newspaper Group | | | | |
| <i>La Crosse Tribune</i> | lacrossetribune.com | La Crosse, WI | 31,862 | 41,105 |
| <i>Winona Daily News</i> | winonadailynews.com | Winona, MN | 11,243 | 12,827 |
| <i>The Post-Star</i> ⁽⁶⁾ | poststar.com | Glens Falls, NY | 31,381 | 34,650 |
| <i>The Daily Herald</i> ⁽²⁾ | heraldextra.com | Provo, UT | 31,252 | 38,811 |
| <i>Casper Star-Tribune</i> ⁽⁶⁾ | trib.com | Casper, WY | 29,942 | 32,336 |
| Missoula Group | | | | |
| <i>Missoulian</i> | missoulian.com | Missoula, MT | 29,161 | 33,154 |
| <i>Ravalli Republic</i> | ravallinews.com | Hamilton, MT | 5,239 ⁽⁷⁾ | - |
| <i>Rapid City Journal</i> | rapidcityjournal.com | Rapid City, SD | 28,856 | 33,670 |
| <i>The Journal Times</i> | journaltimes.com | Racine, WI | 28,287 | 30,471 |
| <i>The Bismarck Tribune</i> | bismarcktribune.com | Bismarck, ND | 26,809 | 30,613 |
| <i>The Southern Illinoisan</i> | thesouthern.com | Carbondale, IL | 25,869 | 36,631 |

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|---|---------------------|----------------|--------|-----|--------|
| <i>The Daily News</i> ⁽⁶⁾ | tdn.com | Longview, WA | 21,905 | | 21,639 |
| Magic Valley Group | | | | | |
| <i>The Times-News</i> ⁽⁶⁾ | magicvalley.com | Twin Falls, ID | 20,526 | | 23,844 |
| <i>Elko Daily Free Press</i> ⁽⁸⁾ | elkodaily.com | Elko, NV | 6,070 | (7) | - |
| <i>South Idaho Press</i> ⁽⁸⁾ | southidahopress.com | Burley, ID | 3,807 | (7) | - |

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| Newspaper | Primary Website | Location | Paid Circulation ⁽¹⁾ | |
|--|------------------------|--------------------|---------------------------------|-----------|
| | | | Daily | Sunday |
| Central Coast Newspapers | | | | |
| <i>Santa Maria Times</i> ⁽²⁾ | santamariatimes.com | Santa Maria, CA | 19,589 | 19,700 |
| <i>The Lompoc Record</i> ⁽²⁾ | lompocrecord.com | Lompoc, CA | 5,641 | 5,737 |
| <i>Globe Gazette</i> | globegazette.com | Mason City, IA | 18,444 | 22,611 |
| <i>The Times and Democrat</i> ⁽⁶⁾ | thetandd.com | Orangeburg, SC | 17,113 | 17,201 |
| Mid-Valley News Group | | | | |
| <i>Albany Democrat-Herald</i> | democratherald.com | Albany, OR | 17,027 | 17,675 |
| <i>Corvallis Gazette-Times</i> | gazettetimes.com | Corvallis, OR | 11,768 | 11,951 |
| <i>Napa Valley Register</i> ⁽²⁾ | napavalleyregister.com | Napa, CA | 16,532 | 16,623 |
| <i>The Montana Standard</i> | mtstandard.com | Butte, MT | 14,732 | 14,572 |
| <i>Independent Record</i> | helenair.com | Helena, MT | 14,513 | 15,071 |
| <i>The Sentinel</i> ⁽⁶⁾ | cumberlink.com | Carlisle, PA | 13,846 | 14,817 |
| <i>The Sentinel</i> ⁽²⁾ | hanfordsentinel.com | Hanford, CA | 13,323 | 12,866 |
| <i>The World</i> ⁽²⁾ | theworldlink.com | Coos Bay, OR | 12,294 | - |
| <i>Arizona Daily Sun</i> ⁽²⁾ | azdailysun.com | Flagstaff, AZ | 11,127 | 12,110 |
| <i>The Citizen</i> ⁽⁶⁾ | auburnpub.com | Auburn, NY | 10,894 | 12,967 |
| <i>The Garden Island</i> ⁽²⁾ | kauaiworld.com | Lihue, HI | 9,646 | 9,779 |
| <i>Daily Chronicle</i> ⁽²⁾ | daily-chronicle.com | DeKalb, IL | 9,142 | 10,724 |
| <i>The Ledger Independent</i> ⁽⁶⁾ | maysville-online.com | Maysville, KY | 8,701 | - |
| <i>Daily Journal</i> ⁽²⁾ | dailyjournalonline.com | Park Hills, MO | 7,884 | 8,201 |
| <i>The Chippewa Herald</i> | chippewa.com | Chippewa Falls, WI | 6,775 | 6,948 |
| | | | 1,610,063 | 1,897,096 |

(1) Source: ABC: Six months ended September 2007, unless otherwise noted.

(2) Acquired in 2005.

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

(4) Owned by MNI.

(5) Combined edition.

(6) Acquired in 2002.

(7) Source: Company statistics.

(8) Acquired in 2004.

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The Company offers commercial printing services through the following entities:

| | Location |
|---|---------------------------|
| Selma Enterprises | Selma, California |
| William Street Press | Decatur, Illinois |
| Hawkeye Printing and Trico Communications | Davenport, Iowa |
| Platen Press | Butte, Montana |
| Farcountry Press | Helena, Montana |
| Journal Star Commercial Printing | Lincoln, Nebraska |
| Plaindealer Publishing | Tekamah, Nebraska |
| Triangle Press | Chippewa Falls, Wisconsin |
| Wingra Printing ⁽¹⁾ | Madison, Wisconsin |

(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 2006 and September 2007, the FOEX 30-pound newsprint price index declined 13.3%. Price fluctuations can have a significant effect on the results of operations. The Company has not entered into derivative contracts for newsprint. For additional information regarding supply of newsprint, see [Contractual Obligations](#) under Item 7, included herein. For the quantitative impacts of these fluctuations, see [Quantitative And Qualitative Disclosures About Market Risk](#) under Item 7A, included herein.

Table of Contents**EXECUTIVE TEAM**

The following table lists executive team members of the Company as of November 29, 2007:

| Name | Age | Service with the Company | Named to Current Position | Current Position |
|----------------------|-----|--------------------------------|---------------------------------|--|
| Mary E. Junck | 60 | June 1999 | January 2002 | Chairman, President and Chief Executive Officer |
| Joyce L. Dehli | 49 | August 1987 | February 2006 | Vice President News |
| Paul M. Farrell | 51 | May 2007 | May 2007 | Vice President Sales & Marketing |
| Nancy L. Green | 65 | December 2000 | September 2002 | Vice President Circulation |
| Karen J. Guest | 54 | July 2006 | July 2006 | Vice President Law and Chief Legal Officer |
| Michael R. Gullledge | 47 | October 1982 | May 2005 | Vice President Publishing |
| Daniel K. Hayes | 62 | September 1969 | September 2005 | Vice President Corporate Communications |
| Brian E. Kardell | 44 | January 1991 | August 2003 | Vice President Production and Chief Information Officer |
| Vytenis P. Kuraitis | 59 | August 1994 | January 1997 | Vice President Human Resources |
| Kevin D. Mowbray | 45 | September 1986 | November 2004 | Vice President Publishing |
| Gregory P. Schermer | 53 | February 1989 | November 1997 | Vice President Interactive Media |
| Carl G. Schmidt | 51 | May 2001 | May 2001 | Vice President, Chief Financial Officer and Treasurer |
| Greg R. Veon | 55 | 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.

Nancy L. Green was appointed Vice President Circulation in 2002 and named Publisher of *The Courier* in August 2004. From 2000 to 2002, she served as Director of Circulation Sales, Distribution and Marketing.

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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. Gullede was elected a Vice President Publishing in May 2005 and named Publisher of the *Billings Gazette* in October 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 30, 2007, the Company had approximately 9,250 employees, including approximately 2,300 part-time employees, exclusive of MNI and TNI. Full-time equivalent employees at September 30, 2007, totaled approximately 8,300. The Company considers its relationships with its employees to be good.

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Bargaining unit employees represent approximately 800, or 70%, 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. In 2007, the *St. Louis Post-Dispatch* executed a new agreement expiring in 2010, with the Graphic Communications International Union (GCIU) Local No. 6-505M which represents 13 employees and is currently in negotiations with the Machinist District No. 9, which represents 12 employees. The previous GCIU contract expired in September 2002. All *St. Louis Post-Dispatch* labor contracts contain no-strike clauses.

Approximately 150 employees in eight additional locations are represented by collective bargaining units. Contracts at four of these locations have expired and negotiations are ongoing.

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, seven of nine 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. The Company was also among the first to voluntarily record expense related to employee stock options.

At www.lee.net, one may access a wide variety of information, including news releases, Securities and Exchange Commission filings, financial statistics, annual reports, 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

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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 earning power of the business of the Company, or cause material changes in the Company's business, whether present or intended.

ITEM 1A. RISK FACTORS THAT COULD AFFECT OPERATING RESULTS

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" on page 1, 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.

OPERATING REVENUE

Advertising revenue in certain categories, or all categories, may decrease in the future. For example, print automotive classified advertising revenue declined in 2007 and 2006, primarily related to industry-wide issues affecting certain domestic auto manufacturers. Such decreases may not be offset by growth in advertising in other categories, such as online revenue, which has been rising significantly for the last several years. There can also be no assurance such online growth will continue. In addition, major retail store chains have experienced significant merger and acquisition activity over the last several years, effectively reducing the number of brand names under which the merged entities operate.

In 2007, print real estate classified advertising also suffered declines due to cyclical issues affecting the residential real estate market nationally. Such reductions may negatively impact future amounts of advertising revenue generated by the Company and are currently impacting certain retail advertising customers, such as furniture, electronics and home improvement retailers.

Circulation unit sales have been declining fractionally for several years. The possibility exists that future price increases may be delayed or reduced as a result of future declines in circulation unit sales. The Company is reaching an increasingly larger share of the market through rapid online growth, as well as through additional specialty and niche publications.

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

OPERATING EXPENSES

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.

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.

INTEREST EXPENSE

The Company has substantial debt, the majority of which 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.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has significant amounts of goodwill and identified intangible assets. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies", included herein, for additional information on the risks associated with such assets.

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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, 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 30, 2007 is as follows:

| <i>(Square Feet)</i> | Owned | Leased |
|----------------------|---------|--------|
| PD LLC | 755,000 | 52,000 |
| Suburban Journals | 121,000 | 48,000 |

The *Baraboo News Republic*, *Beatrice Daily Sun*, *Corvallis Gazette-Times*, *Daily Citizen*, *Journal Gazette*, *The Lompoc Record*, *Muscatine Journal*, *Ravalli Republic*, *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 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.

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 30, 2007.

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**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 New York Stock Exchange. 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 |
| STOCK PRICES | | | | |
| 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 |
| 2005 | | | | |
| High | \$ 48.85 | \$ 46.06 | \$ 43.68 | \$ 44.32 |
| Low | 44.87 | 42.70 | 39.82 | 39.90 |
| Closing | 46.08 | 43.40 | 40.09 | 42.48 |
| DIVIDENDS | | | | |
| 2007 | \$ 0.18 | \$ 0.18 | \$ 0.18 | \$ 0.18 |
| 2006 | 0.18 | 0.18 | 0.18 | 0.18 |
| 2005 | 0.18 | 0.18 | 0.18 | 0.18 |

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 30, 2007, the Company had 7,270 holders of Common Stock, including participants in the Company's employee stock purchase plans, and 1,395 holders of Class B Common Stock.

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During the three months ended September 30, 2007, the Company purchased shares of Common Stock, as noted in the table below, in transactions with participants in its 1990 Long-Term Incentive Plan. The transactions resulted from the withholding of shares to fund the exercise price and/or taxes related to the exercise of stock options or vesting of restricted Common Stock. The Company is not currently engaged in share repurchases related to a publicly announced plan or program.

| Month | Total Number of Shares Purchased | Average Price Per Share |
|-----------|----------------------------------|-------------------------|
| July | 113 | \$21.23 |
| September | 847 | 15.57 |
| Total | 960 | \$16.24 |

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On November 14, 2007, the Board of Directors declared a dividend in the amount of \$0.19 per share on the issued and outstanding Common Stock and Class B Common Stock of the Company, to be paid on January 2, 2008, to stockholders of record on December 3, 2007.

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, 2007 (with September 30, 2002 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.

Source: Standard & Poors

| | 2002 | 2003 | September 30 | | 2006 | 2007 |
|-------------------------------|-----------|-----------|--------------|-----------|----------|----------|
| | | | 2004 | 2005 | | |
| Lee Enterprises, Incorporated | \$ 100.00 | \$ 119.95 | \$ 146.01 | \$ 136.03 | \$ 82.73 | \$ 52.55 |
| Peer Group Index | 100.00 | 109.79 | 114.29 | 100.21 | 87.35 | 79.48 |
| S&P 500 Stock Index | 100.00 | 124.40 | 141.65 | 159.01 | 176.17 | 205.13 |

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 12 U.S. publicly traded companies with significant newspaper publishing operations (excluding the Company) and is weighted by market capitalization. The Peer Group Index includes Belo Corp., Dow Jones & Company, Inc., Gannett Co., Inc., Sun-Times Media Group, Inc., Journal Communications, Inc., Journal Register Company, The McClatchy Company, Media General, Inc., The New York Times Company, The E.W. Scripps Company, The Tribune Company and The Washington Post Company.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

Selected financial data is as follows:

| <i>(Thousands, Except Per Common Share Data)</i> | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|--------------|--------------|--------------|--------------|--------------|
| (1) | | | | | |
| OPERATING RESULTS | | | | | |
| Operating revenue | \$ 1,127,661 | \$ 1,128,648 | \$ 818,890 | \$ 643,277 | \$ 606,489 |
| Operating expenses, excluding depreciation and amortization | 855,324 | 849,288 | 614,111 | 466,866 | 442,911 |
| Depreciation and amortization | 93,589 | 96,070 | 59,249 | 43,930 | 41,903 |
| Equity in earnings of associated companies | 20,124 | 20,739 | 12,784 | 8,523 | 8,053 |
| Operating income | 198,872 | 204,029 | 158,314 | 141,004 | 129,728 |
| Financial income | 7,613 | 6,054 | 2,824 | 1,066 | 1,120 |
| Financial expense | (90,341) | (95,939) | (38,038) | (12,665) | (16,535) |
| Income from continuing operations | \$ 80,908 | \$ 71,136 | \$ 70,862 | \$ 82,973 | \$ 73,022 |
| Discontinued operations | 91 | (304) | 6,016 | 3,098 | 5,019 |
| Net income | \$ 80,999 | \$ 70,832 | \$ 76,878 | \$ 86,071 | \$ 78,041 |
| EARNINGS (LOSS) PER COMMON SHARE | | | | | |
| Basic: | | | | | |
| Continuing operations | \$ 1.77 | \$ 1.57 | \$ 1.57 | \$ 1.85 | \$ 1.65 |
| Discontinued operations | - | (0.01) | 0.13 | 0.07 | 0.11 |
| Net income | \$ 1.77 | \$ 1.56 | \$ 1.70 | \$ 1.92 | \$ 1.76 |
| Diluted: | | | | | |
| Continuing operations | \$ 1.77 | \$ 1.56 | \$ 1.56 | \$ 1.84 | \$ 1.64 |
| Discontinued operations | - | (0.01) | 0.13 | 0.07 | 0.11 |
| Net income | \$ 1.77 | \$ 1.56 | \$ 1.70 | \$ 1.91 | \$ 1.75 |
| Weighted average common shares: | | | | | |
| Basic | 45,671 | 45,421 | 45,118 | 44,792 | 44,316 |
| Diluted | 45,804 | 45,546 | 45,348 | 45,092 | 44,513 |
| Dividends per common share | \$ 0.72 | \$ 0.72 | \$ 0.72 | \$ 0.72 | \$ 0.68 |
| BALANCE SHEET INFORMATION (September 30) | | | | | |
| Total assets | \$ 3,260,963 | \$ 3,329,809 | \$ 3,445,200 | \$ 1,403,844 | \$ 1,421,377 |
| Debt, including current maturities ⁽²⁾ | 1,395,625 | 1,525,000 | 1,688,000 | 213,600 | 305,200 |
| Debt, net of cash and restricted cash and investments ⁽²⁾ | 1,284,565 | 1,420,302 | 1,599,397 | 205,590 | 294,136 |
| Stockholders equity | 1,086,442 | 990,625 | 936,410 | 876,843 | 802,156 |

(1) Includes four months of operations from the Pulitzer acquisition, which was consummated in June 2005.

(2) Principal amount, excluding fair value adjustments in 2007, 2006 and 2005.

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

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 2007. 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, and equity in earnings of associated companies, and operating cash flow margin (operating cash flow divided by operating revenue) are 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 and amortization and earnings from equity investments.

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

| <i>(Thousands)</i> | 2007 | Percent of Revenue | 2006 | Percent of Revenue | 2005 | Percent of Revenue |
|---|------------|-----------------------|------------|-----------------------|------------|-----------------------|
| Operating cash flow | \$ 272,337 | 24.2% | \$ 279,360 | 24.8% | \$ 204,779 | 25.0% |
| Less depreciation and amortization | 93,589 | 8.3 | 96,070 | 8.5 | 59,249 | 7.2 |
| Equity in earnings of associated companies | 20,124 | 1.8 | 20,739 | 1.8 | 12,784 | 1.6 |
| Operating income | \$ 198,872 | 17.6% | \$ 204,029 | 18.1% | \$ 158,314 | 19.3% |

Adjusted Income From Continuing Operations and Adjusted Earnings Per Common Share

Adjusted income from continuing operations and adjusted earnings per common share, which are defined as income from continuing operations and earnings per common share adjusted to exclude matters 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 information by identifying expenses and expense reductions that are not indicative of core business operating results and are of a substantially non-recurring nature.

Reconciliations of adjusted income from continuing operations and adjusted earnings per common share to income from continuing operations and earnings 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.

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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, revenues 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 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 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.

The 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.

The Company analyzes goodwill and other nonamortized intangible assets for impairment on an annual basis 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.

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.

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.

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.

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

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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 Income and Comprehensive Income 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.

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.

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 and Other Postretirement Plans*, which amends Statements 87, 88, 106 and 132(R). 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 changes in that funded status in the year in which the changes occur as a component of comprehensive income. The Company adopted the recognition and disclosure provisions of Statement 158 as of September 30, 2007. The adoption of Statement 158 increased accumulated other comprehensive income, net of income taxes, by \$40,912,000, increased pension assets by \$9,591,000, and reduced pension and postretirement benefit obligations by \$32,649,000 and \$23,540,000, respectively.

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 retained earnings, 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 Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which is effective for the Company in 2008. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement 109. Interpretation 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company will adopt Interpretation 48 effective in October 2007, with any cumulative effect of the adoption recorded as an adjustment to retained earnings. The Company has not completed its evaluation of the effects of Interpretation 48 on its Consolidated Financial Statements.

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

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anticipate that the implementation of Statement 157 will have a material impact on its financial position, results of operation, or cash flows. Subsequently, the FASB 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.

Table of Contents**CONTINUING OPERATIONS****2007 vs. 2006**

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

| <i>(Thousands, Except Per Common Share Data)</i> | 2007 | 2006 | Percent Change | |
|---|------------|------------|----------------|----------|
| | | | Total | Property |
| Advertising revenue: | | | | |
| Retail | \$ 459,132 | \$ 463,991 | (1.0)% | (1.1)% |
| National | 54,902 | 57,869 | (5.1) | (5.1) |
| Classified: | | | | |
| Daily newspapers: | | | | |
| Employment | 82,358 | 90,508 | (9.0) | (9.0) |
| Automotive | 55,437 | 60,953 | (9.0) | (9.0) |
| Real estate | 59,078 | 63,802 | (7.4) | (7.4) |
| All other | 39,616 | 39,217 | 1.0 | 1.0 |
| Other publications | 48,505 | 45,868 | 5.7 | 5.7 |
| Total classified | 284,994 | 300,348 | (5.1) | (5.1) |
| Online | 56,324 | 35,769 | 57.5 | 57.5 |
| Niche publications | 16,361 | 16,591 | (1.4) | (1.4) |
| Total advertising revenue | 871,713 | 874,568 | (0.3) | (0.3) |
| Circulation | 204,373 | 205,718 | (0.7) | (0.7) |
| Commercial printing | 16,609 | 17,265 | (3.8) | (1.9) |
| Online services and other | 34,966 | 31,097 | 12.4 | 9.5 |
| Total operating revenue | 1,127,661 | 1,128,648 | (0.1) | (0.2) |
| Compensation | 442,494 | 435,836 | 1.5 | 0.7 |
| Newsprint and ink | 112,483 | 120,191 | (6.4) | (4.7) |
| Other operating expenses | 296,116 | 280,018 | 5.7 | 6.0 |
| Curtailment gains | (3,731) | - | NM | NM |
| Early retirement programs | 7,962 | 8,654 | NM | NM |
| Transition costs | - | 4,589 | NM | NM |
| | 855,324 | 849,288 | 0.7 | 1.3 |
| Operating cash flow | 272,337 | 279,360 | (2.5) | (4.0) |
| Depreciation and amortization | 93,589 | 96,070 | (2.6) | (3.0) |
| Equity in earnings of associated companies | 20,124 | 20,739 | (3.0) | |
| Operating income | 198,872 | 204,029 | (2.5) | |
| Non-operating expense, net | (82,749) | (91,922) | (10.0) | |
| Income from continuing operations before income taxes | 116,123 | 112,107 | 3.6 | |
| Income tax expense | 34,146 | 39,740 | (14.1) | |
| Minority interest | 1,069 | 1,231 | (13.2) | |
| Income from continuing operations | \$ 80,908 | \$ 71,136 | 13.7% | |
| Earnings per common share: | | | | |
| Basic | \$ 1.77 | \$ 1.57 | 12.7% | |
| Diluted | 1.77 | 1.56 | 13.5 | |

Day changes can affect results in varying degrees. Sundays generate substantially more advertising and circulation revenue than any other day of the week. Enterprises owned before the Pulitzer acquisition, which account for approximately 61% of revenue in 2007, had one more Sunday of business activity in 2007 compared with 2006. The former Pulitzer operations use period accounting. As a result, their fiscal year ends on the last Sunday in September. These enterprises had 53 weeks (371 days) of business activity in 2007 compared with 52 weeks (364 days) in 2006. All other enterprises used calendar year accounting in 2007 and 2006. Beginning in 2008, all of the Company's enterprises will use period accounting. Because of the change the Company will have 364 days of business activity in 2008.

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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 \$2,855,000, or 0.3%, and same property advertising revenue decreased \$2,913,000, or 0.3%. On a combined basis, print and online retail advertising increased 0.5%. Same property print retail revenue decreased \$4,886,000, or 1.1%, in 2007. A 2.1% decrease in daily newspaper retail advertising lineage contributed to the decrease. Same property average retail rates, excluding preprint insertions, decreased 0.4% in 2007. Retail preprint insertion revenue increased 2.6%, partially offsetting lineage and rate declines. Online retail advertising increased 53.8% resulting in the 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 |
|-----------------------------------|------------|------------|----------------|
| Retail | \$ 459,259 | \$ 457,149 | 0.5% |
| Classified: | | | |
| Employment | \$ 117,688 | \$ 110,167 | 6.8% |
| Automotive | 73,040 | 77,490 | (5.7) |
| Real estate | 76,679 | 81,378 | (5.8) |
| Other | 73,586 | 73,783 | (0.3) |
| Total classified revenue | \$ 340,993 | \$ 342,818 | (0.5)% |

Same property print classified advertising revenue decreased \$15,382,000, 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 print employment advertising at the daily newspapers decreased 9.0% for the year on a same property basis. The Company's decreases in 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 7.4% in a weakening housing market nationally, which also negatively impacted the home improvement, furniture and electronics categories of retail revenue. Other daily newspaper print classified advertising increased 1.0% on a same property basis. Same property classified advertising rates decreased 2.9%, primarily due to decreases in employment and automotive rates.

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 |
|------------------------------|------|------|----------------|
|------------------------------|------|------|----------------|

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| | | | |
|------------|--------|--------|--------|
| Retail | 13,441 | 13,723 | (2.1)% |
| National | 678 | 778 | (12.9) |
| Classified | 16,208 | 16,925 | (4.2) |
| | 30,327 | 31,426 | (3.5)% |

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 \$2,969,000, or 5.1%, on a same property basis due to a 12.9% decline in lineage offset by a 6.1% increase 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 2007, 2006 and 2005 compare favorably to national statistics published by the Newspaper Association of America.

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Circulation and Other Revenue

Circulation revenue decreased \$1,345,000, or 0.7% in 2007, and same property circulation revenue decreased \$1,366,000, 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 1.7% for the six months ended September 2007, compared to the same period in the prior year, and Sunday circulation declined 0.7%, 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 1.3%, 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 rapid online growth, as well as through additional specialty and niche publications.

Same property commercial printing revenue decreased \$322,000, or 1.9%, in 2007. Same property online services and other revenue increased \$2,720,000, or 9.5%, in 2007.

Operating Expenses

Costs other than depreciation and amortization increased \$6,036,000, or 0.7%, in 2007, and increased \$10,300,000, or 1.3%, 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 \$6,658,000, or 1.5%, in 2007 and same property compensation expense increased 0.7%. 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. Such costs are expected to increase at a low single digit rate in 2008.

Newsprint and ink costs decreased \$7,708,000, or 6.4%, in 2007 due to lower newsprint prices and decreased usage. Costs decreased 4.7% on a same property basis and volume 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. Unit costs for newsprint are expected to rise in 2008. See Item 7A, *Commodities*, included herein.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation or amortization, increased \$16,098,000, or 5.7%, 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. Such costs are expected to increase at a low single digit rate in 2008.

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 are to be made in 2008, with the remainder due primarily to enhancements of pension and other postretirement benefits. The annual savings from the program is estimated to be \$4,000,000, beginning 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 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

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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 are comprised of costs directly related to the acquisition of Pulitzer that are separately identifiable and non-recurring, but not capitalizable under GAAP.

Results of Operations

Operating cash flow decreased 2.5% to \$272,337,000 in 2007 from \$279,360,000 in 2006, and decreased 4.0% 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 \$562,000, or 1.7%, and amortization expense decreased \$1,919,000, or 3.1%, in 2007.

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 non-cash amortization expense has no impact on the Company's cash flows or debt covenants.

In 2006, the Company also recorded a separate non-cash charge of \$5,526,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,939,000 is recorded in amortization expense and \$587,000 is 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.

Operating income decreased \$5,157,000, or 2.5%. Operating income margin decreased to 17.6% in 2007 from 18.1% due to a decrease in operating revenue and increase in operating expenses, as well as unusual costs (and cost reductions) in both years.

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 asset sales, 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. The Company believes, absent unusual tax matters, that its effective income tax rate in 2008 will be approximately 34.6%.

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As a result of all of the above, income from continuing operations totaled \$80,908,000 in 2007, an increase of 13.7% compared to \$71,136,000 in 2006. Earnings per diluted common share from continuing operations 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 \$1.82 in 2006.

| <i>(Thousands, Except Per Share Data)</i> | 2007 | | 2006 | |
|---|-----------|-----------|-----------|-----------|
| | Amount | Per Share | Amount | Per Share |
| Income from continuing operations, as reported | \$ 80,908 | \$ 1.77 | \$ 71,136 | \$ 1.56 |
| Adjustments to income from continuing operations: | | | | |
| Curtailment gains | (3,731) | | - | |
| Curtailment gains, TNI | (1,037) | | - | |
| Early retirement programs | 7,962 | | 8,654 | |
| Reduction in value of identified intangible assets | - | | 5,526 | |
| Transition costs | - | | 4,589 | |
| | 3,194 | | 18,769 | |
| Income tax benefit of adjustments, net of impact on minority interest | (1,406) | | (6,894) | |
| | 1,788 | 0.04 | 11,875 | 0.26 |
| Settlement (benefit) of federal and state tax matters | (6,880) | (0.15) | - | - |
| Income from continuing operations, as adjusted | \$ 75,816 | \$ 1.66 | \$83,011 | \$ 1.82 |

Table of Contents**2006 vs. 2005**

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

| <i>(Thousands, Except Per Common Share Data)</i> | 2006 | 2005 | Percent Change | |
|---|------------|------------|----------------|----------|
| | | | Total | Property |
| Advertising revenue: | | | | |
| Retail | \$ 463,991 | \$ 341,977 | 35.7% | 0.5% |
| National | 57,869 | 33,031 | 75.2 | (7.2) |
| Classified: | | | | |
| Daily newspapers: | | | | |
| Employment | 90,508 | 63,923 | 41.6 | 7.1 |
| Automotive | 60,953 | 49,320 | 23.6 | (10.2) |
| Real estate | 63,802 | 47,171 | 35.3 | 1.3 |
| All other | 39,217 | 29,200 | 34.3 | 1.8 |
| Other publications | 45,868 | 28,411 | 61.4 | 6.7 |
| Total classified | 300,348 | 218,025 | 37.8 | 1.1 |
| Online | 35,769 | 17,983 | 98.9 | 43.1 |
| Niche publications | 16,591 | 13,093 | 26.7 | 8.2 |
| Total advertising revenue | 874,568 | 624,109 | 40.1 | 1.7 |
| Circulation | 205,718 | 153,571 | 34.0 | (1.0) |
| Commercial printing | 17,265 | 14,766 | 16.9 | 0.3 |
| Online services and other | 31,097 | 26,444 | 17.6 | (1.3) |
| Total operating revenue | 1,128,648 | 818,890 | 37.8 | 1.1 |
| Compensation | 435,836 | 325,959 | 33.7 | 1.8 |
| Newsprint and ink | 120,191 | 79,331 | 51.5 | 8.7 |
| Other operating expenses | 280,018 | 190,768 | 46.8 | 5.5 |
| Early retirement program | 8,654 | 9,124 | NM | NM |
| Transition costs | 4,589 | 8,929 | NM | NM |
| | 849,288 | 614,111 | 38.3 | 3.9 |
| Operating cash flow | 279,360 | 204,779 | 36.4 | (5.0) |
| Depreciation and amortization | 96,070 | 59,249 | 62.1 | (1.8) |
| Equity in earnings of associated companies | 20,739 | 12,784 | 62.2 | |
| Operating income | 204,029 | 158,314 | 28.9 | |
| Non-operating expense, net | (91,922) | (46,834) | 96.3 | |
| Income from continuing operations before income taxes | 112,107 | 111,480 | 0.6 | |
| Income tax expense | 39,740 | 40,458 | (1.8) | |
| Minority interest | 1,231 | 160 | NM | |
| Income from continuing operations | \$ 71,136 | \$ 70,862 | 0.4% | |
| Earnings per common share: | | | | |
| Basic | \$ 1.57 | \$ 1.57 | - % | |
| Diluted | 1.56 | 1.56 | - | |

Sundays generate substantially more advertising and circulation revenue than any other day of the week. 2006 had the same number of Sundays as 2005.

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In June 2005, the Company acquired Pulitzer. Pulitzer published fourteen daily newspapers (the smallest of which was sold in 2006), including the *St. Louis Post-Dispatch*, and more than 100 weekly newspapers and specialty publications. Pulitzer also owns a 50% interest in TNI. The acquisition of Pulitzer increased the Company's circulation by more than 50% and revenue by more than 60%.

In total, acquisitions and divestitures accounted for \$450,341,000 of operating revenue in 2006 and \$147,643,000 of operating revenue in 2005.

Table of Contents**Advertising Revenue**

In 2006, total advertising revenue increased \$250,459,000, or 40.1%, and same property advertising revenue increased \$8,559,000, or 1.7%. Same property print retail revenue increased \$1,431,000, or 0.5%, in 2006. A 1.0% decrease in retail advertising lineage offset the increase. Same property average retail rates, excluding preprint insertions, increased 1.2% in 2006.

Same property print classified advertising revenue increased \$1,907,000, or 1.1%, in 2006. Higher rate employment advertising at the daily newspapers increased 7.1% for the year on a same property basis. The Company's increases in print employment classified advertising compare favorably to national survey amounts. The September 2006 Help Wanted Index, as calculated by the Conference Board, decreased 18.9% from the prior year level. Same property print automotive advertising decreased 10.2%, due to a 4.5% decrease in average automotive rates and a 6.0% decrease in lineage. Same property print real estate advertising increased 1.3% due to an increase in advertising of real estate for sale. Other daily newspaper print classified advertising increased 1.8% on a same property basis. Same property print classified advertising rates increased 1.0%, primarily due to an increase in employment rates offset by declines in automotive rates.

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> | 2006 | 2005 | Percent Change |
|------------------------------|--------|--------|----------------|
| Retail | 10,633 | 10,741 | (1.0)% |
| National | 492 | 580 | (15.2) |
| Classified | 11,929 | 11,976 | (0.4) |
| | 23,054 | 23,297 | (1.0)% |

Online advertising revenue increased 43.1% on a same property basis, due to rate increases, expanded use of the Company's online business model and cross-selling with the Company's print publications. Online classified advertising registered particularly strong growth. Advertising in niche publications increased 8.2% on a same property basis, due to new publications in existing markets and penetration of new and existing markets, offset by the loss of one significant publication in a larger market.

Circulation and Other Revenue

Circulation revenue increased \$52,147,000, or 34.0% in 2006, and same property circulation revenue decreased \$1,230,000, or 1.0%. The Company's total average daily newspaper circulation units, including Pulitzer, TNI and MNI, as measured by the ABC, or other independent organizations, declined 0.3% for the six months ended September 2006, compared to the same period in the prior year, and Sunday circulation declined 0.5%, significantly outperforming the industry as a whole. For the six months ended March 2006, total average daily circulation units, including Pulitzer, TNI and MNI, declined 0.6% and Sunday circulation decreased 1.0%, again outperforming the industry.

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Same property commercial printing revenue increased \$45,000, or 0.3%, in 2006. Same property online services and other revenue decreased \$314,000, or 1.3%, in 2006.

Operating Expenses and Results of Operations

Costs other than depreciation and amortization increased \$235,177,000, or 38.3%, in 2006, and increased \$17,728,000, or 3.9%, on a same property basis. In total, acquisitions and divestitures accounted for \$345,467,000 of operating expenses, excluding depreciation and amortization, in 2006 and \$155,404,000 in 2005.

Compensation expense increased \$109,877,000, or 33.7%, in 2006 due to costs of acquired businesses and a 1.8% increase in same property compensation expense. Normal salary adjustments and associated increases in payroll taxes and benefits account for the increase in same property costs. Same property full time equivalent employees declined 0.4% in 2006 from the prior year level.

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Newsprint and ink costs increased \$40,860,000, or 51.5%, in 2006 due to price increases and costs of acquired businesses, and increased 8.7% on a same property basis. Volume decreased 2.0% on a same property basis, due to migration to lighter weight paper and narrower page widths. Newsprint unit costs had been rising since late 2002.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation or amortization, increased \$89,250,000, or 46.8%, in 2006 and increased 5.5% on a same property basis. Costs associated with new niche publications and expenses to increase circulation using sources other than telemarketing also contributed to the growth in costs.

In 2006, the *St. Louis Post-Dispatch* concluded an 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 annual pretax savings from the program, net of positions filled, was estimated to be \$6,600,000 to \$7,000,000, with savings of \$6,575,000 in 2006. The cost totaled \$17,778,000 before income tax benefit, with \$8,654,000 recognized in 2006, and \$9,124,000 in 2005. Approximately \$7,000,000 of the cost represents 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 and \$8,929,000 in 2005. 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.

Operating cash flow increased 36.4% to \$279,360,000 in 2006 from \$204,779,000 in 2005, and decreased 5.0% on a same property basis. Operating cash flow margin decreased to 24.8% from 25.0% in the prior year reflecting the overall lower margin of the Pulitzer newspapers, transition costs related to the Pulitzer acquisition and the *St. Louis Post-Dispatch* early retirement program.

Depreciation expense increased \$10,149,000, or 42.7%, and amortization expense increased \$26,672,000, or 75.1%, in 2006, due primarily to the acquisition of Pulitzer.

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 \$5,526,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,939,000 was recorded in amortization expense and \$587,000 was recorded in equity in

earnings of TNI.

Equity in earnings in associated companies increased 62.2% in 2006 due to the inclusion of TNI for the full year, offset by a decrease in earnings of MNI. MNI results were reduced by the \$1,002,000 loss on the sale of its Shawano, Wisconsin daily newspaper. Operating income increased \$45,715,000, or 28.9%. Operating income margin decreased to 18.1% in 2006 from 19.3% due to the inclusion of Pulitzer results, early retirement and transition costs and the reduction in value of intangible assets noted above.

Non-Operating Income and Expense

Financial expense increased \$57,901,000, or 152.2%, to \$95,939,000 due to the full year effect of increased debt and associated financing costs as a result of the Pulitzer acquisition and higher interest rates, partially offset by debt reduction of \$163,000,000 funded by cash generated from operations and sales of assets. In 2006, the Company wrote off certain other investments which resulted in a loss before income taxes of \$2,037,000. In 2005, the Company refinanced its then existing debt as a result of the Pulitzer acquisition, which resulted in a one-time loss before income taxes from early extinguishment of debt of \$11,181,000.

Table of Contents**Overall Results**

Income taxes were 35.4% of income from continuing operations before income taxes in 2006 and 36.3% in 2005.

As a result of all of the above, income from continuing operations totaled \$71,136,000 in 2006, an increase of 0.4% compared to \$70,862,000 in 2005. Earnings per diluted common share from continuing operations were \$1.56 in both 2006 and 2005.

Excluding unusual costs, as detailed in the table below, diluted earnings per common share, as adjusted, were \$1.82 in 2006, compared to \$1.94 in 2005.

| <i>(Thousands, Except Per Share Data)</i> | 2006 | | 2005 | |
|---|-----------|-----------|-----------|-----------|
| | Amount | Per Share | Amount | Per Share |
| Income from continuing operations, as reported | \$ 71,136 | \$1.56 | \$ 70,862 | \$1.56 |
| Adjustments to income from continuing operations: | | | | |
| Early retirement program | 8,654 | | 9,124 | |
| Reduction in value of identified intangible assets | 5,526 | | - | |
| Transition costs | 4,589 | | 8,929 | |
| Loss on extinguishment of debt | - | | 11,181 | |
| | 18,769 | | 29,234 | |
| Income tax benefit of adjustments, net of impact on minority interest | (6,894) | | (11,954) | |
| | 11,875 | 0.26 | 17,280 | 0.38 |
| Income from continuing operations, as adjusted | \$ 83,011 | \$1.82 | \$ 88,142 | \$1.94 |

DISCONTINUED OPERATIONS

Revenue from discontinued operations in 2007, 2006 and 2005 was \$114,000, \$41,104,000 and \$42,297,000, respectively. Income (loss) from discontinued operations before income taxes was \$(16,000) in 2007, \$7,803,000 in 2006 and \$9,911,000 in 2005.

In September 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.

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

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities of continuing operations was \$168,912,000 in 2007, \$197,161,000 in 2006 and \$151,686,000 in 2005. Increased income from continuing operations in 2007 and 2006 was accompanied by an increase in depreciation and amortization. Losses related to financing activities influenced 2005 results and 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.

Investing Activities

Cash required for investing activities totaled \$38,709,000 in 2007, \$42,683,000 in 2006 and \$1,272,309,000 in 2005. Capital spending totaled \$34,567,000 in 2007 and \$32,544,000 in 2006 and accounted for substantially all of the usage of funds in 2007 and 2006. Pulitzer, other acquisitions and capital expenditures accounted for substantially all of the usage of funds in 2005, offset by proceeds from sales of securities.

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The Company anticipates that funds necessary for capital expenditures, which are expected to total approximately \$31,000,000 in 2008, and other requirements, will be available from internally generated funds, availability under its existing Credit Agreement or, if necessary, by accessing the capital markets.

Financing Activities

In 2006, the Company entered into an amended and restated credit agreement (Credit Agreement) with a syndicate of financial institutions. The Credit Agreement provides 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 provides 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 amends and replaces a \$1,550,000,000 credit agreement (Old Credit Agreement) consummated in 2005. Interest rate margins under the Credit Agreement are generally lower than under the Old Credit Agreement. Other conditions of the Credit Agreement are substantially the same as the Old Credit Agreement.

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio (5.75:1 at September 30, 2007) and minimum interest expense coverage ratio of 2.5:1. None of the covenants included in the Credit Agreement is considered by the Company to be restrictive to normal operations or historical amounts of stockholder dividends. At September 30, 2007, the Company is in compliance with such covenants.

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 2007 met required repayments related to its 2006 sales transactions.

In 2005, upon consummation of the Old Credit Agreement, the Company borrowed \$1,462,000,000. The proceeds were used to consummate the acquisition of Pulitzer, to repay existing indebtedness of the Company, as discussed more fully below, and to pay related fees and expenses.

In connection with the execution of the Old Credit Agreement, the Company redeemed all of the \$52,000,000 outstanding indebtedness under its then existing credit agreement and the existing senior notes of the Company under a Note Purchase Agreement, dated as of March 18, 1998 totaling \$102,000,000. Refinancing of existing debt of the Company resulted in a pretax loss of \$11,181,000.

In 2005, the Company executed interest rate swaps in the notional amount of \$350,000,000 with a forward starting date of November 30, 2005. The interest rate swaps have terms of 2 to 5 years, carry interest rates from 4.2% 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 2007, interest rate swaps in the notional amount of \$150,000,000 expire.

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In October 2007, the Company executed interest rate collars in the notional amount of \$150,000,000 with a forward starting date of November 30, 2007. 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.

In 2005, the Company filed a Form S-3 shelf registration statement (Shelf) with the SEC, which has been declared effective. The Shelf gives the Company the flexibility to issue and publicly distribute various types of securities, including preferred stock, common stock, secured or unsecured debt securities, purchase contracts and units consisting of any combination of such securities, from time to time, in one or more offerings, up to an aggregate amount of \$500,000,000.

The Shelf enables the Company to sell securities quickly and efficiently when market conditions are favorable or financing needs arise. Net proceeds from the sale of any securities may be used for general

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corporate purposes, including repayment or refinancing of debt, working capital, capital expenditures, acquisitions or the repurchase of common stock, subject to conditions of existing debt agreements.

Cash required by financing activities totaled \$160,934,000 in 2007, \$191,930,000 in 2006, and provided \$1,112,035,000 of funds in 2005. Debt reduction and dividends accounted for the majority of the usage of funds in 2007 and 2006. The annual dividend was \$0.72 per share in 2007, 2006 and 2005. Borrowing to fund the Pulitzer acquisition and refinance existing debt accounted for substantially all of the funds provided in 2005.

Discontinued Operations and Other Matters

Cash provided by discontinued operations totaled \$22,093,000, \$38,547,000 and \$8,121,000 in 2007, 2006 and 2005, respectively. Cash proceeds from the sales of discontinued operations and cash generated from operations were the primary sources of funds in 2007 and 2006. Cash generated from operations was the primary source of funds in 2005.

Cash and cash equivalents decreased \$8,638,000 in 2007, increased \$1,095,000 in 2006, and decreased \$467,000 in 2005.

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 to the Consolidated Financial Statements, included herein.

INFLATION

The Company has not been significantly impacted by general inflationary pressures over the last several years. The Company anticipates that changing costs of newsprint, its basic raw material, may impact future operating costs. Fuel 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

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

(Thousands of Dollars)

| Nature of Obligation | Payments (or Commitments) Due by Year | | | | |
|-----------------------------------|---------------------------------------|-------------|------------|------------|-------------|
| | Total | Less Than 1 | 1-3 | 3-5 | More Than 5 |
| Long-term debt (principal amount) | \$ 1,395,625 | \$ 62,250 | \$ 614,750 | \$ 718,625 | \$ - |
| Operating lease obligations | 20,618 | 3,832 | 5,836 | 3,641 | 7,309 |
| Financial expense ⁽¹⁾ | 43,107 | 24,633 | 18,474 | - | - |
| Capital expenditure commitments | 4,803 | 4,803 | - | - | - |
| | \$ 1,464,153 | \$ 95,518 | \$ 639,060 | \$ 722,266 | \$ 7,309 |
| Newsprint (metric tons) | 49,925 | 39,550 | 10,375 | - | - |

(1) Financial expense excludes interest on floating rate debt. Based on interest rates and the principal amount of floating rate debt at September 30, 2007, including debt subject to interest rate swaps and collars described below, annual interest on floating rate debt is expected to total approximately \$64,000,000 in 2008.

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

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are subject to numerous future events and assumptions. The Company's estimate of cash requirements for these obligations in 2008 is approximately \$4,610,000.

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.

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 securities with maturities no later than May 2010, after which time all restrictions on such funds lapse. 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 the London Interbank Offered Rate (LIBOR). A 100 basis point increase to LIBOR would decrease income from continuing operations before income taxes on an annualized basis by approximately \$7,396,000, based on \$739,625,000 of floating rate debt outstanding at September 30, 2007, after consideration of the interest rate swaps described below, and excluding debt of MNI. Such interest rates may also decrease.

In 2005, the Company executed interest rate swaps in the notional amount of \$350,000,000 with a forward starting date of November 30, 2005. The interest rate swaps have terms of 2 to 5 years, carry interest rates from 4.2% 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 November 2007, interest rate swaps in the notional amount of \$150,000,000 expire.

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In October 2007, the Company executed interest rate collars in the notional amount of \$150,000,000 with a forward starting date of November 30, 2007. 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.

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.

At September 30, 2007, after consideration of the interest rate swaps described above, approximately 53% of the principal amount of the Company's debt is subject to floating interest rates.

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 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. Newsprint prices, which had been declining since September 2006, have been stable since June 2007. In July 2007, several major newsprint manufacturers announced a price increase of \$25 per metric ton on newsprint, effective for deliveries in November 2007. In November 2007, several major newsprint manufacturers announced an additional

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price increase of \$60 per metric ton on newsprint. The increase, as announced, is expected to be staged in equal amounts over three months commencing with deliveries in January 2008. The final extent of changes in price, if any, is subject to negotiation between such manufacturers and the Company.

A \$10 per metric ton newsprint price increase would result in an annualized reduction in income before income taxes of approximately \$1,639,000 based on anticipated consumption in 2008, excluding consumption of MNI and TNI. Such prices may also decrease.

In October 2007, Abitibi-Consolidated Inc. and Bowater Inc. announced consummation of a merger of the two companies. The merger significantly increases the market share of the combined company from that of the individual companies and is expected to create substantial operating efficiencies. The Company acquired newsprint and specialty paper products from both Abitibi-Consolidated Inc and Bowater Inc. At the present time, the impact on pricing of products sold to the Company as a result of the merger cannot be determined.

SENSITIVITY TO CHANGES IN VALUE

The estimate that follows is intended 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 calculation is not intended to represent the actual loss in fair value that the Company expects to incur. The estimate does not consider favorable changes in market rates. The position included in the calculation is fixed rate debt, the principal amount of which totals \$306,000,000 at September 30, 2007.

The estimated maximum potential one-year loss in fair value from a 100 basis point movement in interest rates on market risk sensitive investment instruments outstanding at September 30, 2007, is approximately \$4,657,000. There is no impact on reported results from such changes in interest rates.

Changes in the value of interest rate swaps and 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

None.

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 30, 2007, 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 30, 2007.

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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 30, 2007. 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 30, 2007.

Deloitte & Touche 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

November 29, 2007

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

and Treasurer
November 29, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders

Lee Enterprises, Incorporated and subsidiaries

Davenport, Iowa

We have audited the internal control over financial reporting of Lee Enterprises, Incorporated and subsidiaries (the Company) as of September 30, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of

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Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Financial Statements as of and for the year ended September 30, 2007 of the Company and our report dated November 29, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* as of September 30, 2007.

/s/ DELOITTE & TOUCHE LLP

Davenport, Iowa

November 29, 2007

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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 2008, 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 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 2008, 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 2008, 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, RELATED TRANSACTIONS
AND DIRECTOR INDEPENDENCE**

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2008, 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 2008, 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 Balance Sheets September 30, 2007 and 2006

Consolidated Statements of Income and Comprehensive Income Years ended September 30, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity Years ended September 30, 2007, 2006 and 2005

Consolidated Statements of Cash Flows Years ended September 30, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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 29th day of November 2007.

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 29th day of November 2007.

Signature

/s/ Richard R. Cole
Richard R. Cole

Director

/s/ Nancy S. Donovan
Nancy S. Donovan

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

/s/ Gordon D. Prichett
Gordon D. Prichett

Director

/s/ Gregory P. Schermer

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Gregory P. Schermer

Vice President Interactive Media,
and Director

/s/ Mark B. Vittert
Mark B. Vittert

Director

Table of Contents**EXHIBIT INDEX**

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) |
| 2.2 * | Acquisition Agreement by and among Lee Enterprises, Incorporated, Howard Publications, Inc., Howard Energy Co., Inc. and the stockholders of Howard Publications, Inc. named therein dated February 11, 2002 and First Amendment thereto dated March 29, 2002 (Exhibit 2.1 to Form 8-K filed on April 2, 2002) |
| 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) |
| 3.1.2a * | 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 * | Rights Agreement, dated as of May 7, 1998, between Lee Enterprises, Incorporated and The First Chicago Trust Company of New York, which includes the 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 (Exhibit 1.1 to Current Report on Form 8-A dated May 26, 1998, filed on May 26, 1998) |
| 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 Fiscal Quarter Ended December 31, 2005) |
| 10.2 * | 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) |
| 10.3 * | 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) |
| 10.4 * | |

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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)

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| Number | Description |
|-------------|---|
| 10.5 * | 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) |
| 10.6 * | 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) |
| 10.7 * | St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended on November 23, 2004 (Exhibit 10.8 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.8 * | Pulitzer Inc. Guaranty Agreement, dated as of May 1, 2000 as amended on August 7, 2000, November 23, 2004 and June 3, 2005 (Exhibit 10.9 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.9 * | Non-Confidentiality Agreement, dated as of May 1, 2000 (Exhibit 10.10 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.10 +* | 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) |
| 10.11.1a +* | Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (effective as of October 1, 1999, as amended November 16, 2006) (Appendix B to Schedule 14A Definitive Proxy Statement for 2006) |
| 10.11.2a +* | 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) |
| 10.11.3a +* | 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) |
| 10.12 +* | Lee Enterprises, Incorporated Amended and Restated 1996 Stock Plan for Non-Employee Directors (Exhibit A to Schedule 14A Definitive Proxy Statement for 2003) |
| 10.13 +* | Lee Enterprises, Incorporated Supplementary Benefit Plan (Exhibit 10.4 to Form 10-K for the Fiscal Year Ended September 30, 2002) |
| 10.14 * | 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) |
| 10.15 +* | Form of Employment Agreement for Lee Enterprises, Incorporated Executive Officers Group (Exhibit 10 to Form 10-K for the Fiscal Year Ended September 30, 1998) |
| 10.16 +* | Form of Indemnification Agreement for Lee Enterprises, Incorporated Directors and Executive Officers Group (Exhibit 10 to Form 10-K for the Fiscal Year Ended September 30, 1998) |
| 10.17 +* | Lee Enterprises, Incorporated 2005 Incentive Compensation Program (Appendix A to Schedule 14A Definitive Proxy Statement for 2005) |

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| Number | Description |
|----------|--|
| 10.18 +* | 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) |
| 21 | Subsidiaries and associated companies |
| 23 | 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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| | September 30 | |
|--|--------------|--------------|
| <i>(Thousands, Except Per Share Data)</i> | 2007 | 2006 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ - | \$ 8,638 |
| Accounts receivable, less allowance for doubtful accounts: 2007 \$10,363; 2006 \$11,313 | 119,477 | 115,353 |
| Receivable from associated companies | 1,563 | 1,563 |
| Receivable from sales of discontinued operations | - | 20,700 |
| Inventories | 14,251 | 19,271 |
| Deferred income taxes | 7,343 | 11,079 |
| Assets of discontinued operations | - | 342 |
| Other | 6,338 | 7,466 |
| Total current assets | 148,972 | 184,412 |
| Investments: | | |
| Associated companies | 191,975 | 198,266 |
| Restricted cash and investments | 111,060 | 96,060 |
| Other | 20,749 | 20,825 |
| Total investments | 323,784 | 315,151 |
| Property and equipment: | | |
| Land and improvements | 31,804 | 31,778 |
| Buildings and improvements | 191,080 | 181,517 |
| Equipment | 316,824 | 301,162 |
| Construction in process | 14,559 | 13,260 |
| | 554,267 | 527,717 |
| Less accumulated depreciation | 227,048 | 200,465 |
| Property and equipment, net | 327,219 | 327,252 |
| Goodwill | 1,514,357 | 1,498,830 |
| Other intangible assets | 920,682 | 980,912 |
| Other | 25,949 | 23,252 |
| Total assets | \$ 3,260,963 | \$ 3,329,809 |

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

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| | September 30 | |
|--|--------------|--------------|
| | 2007 | 2006 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 62,250 | \$ 35,375 |
| Accounts payable | 39,485 | 38,129 |
| Compensation and other accrued liabilities | 96,233 | 58,457 |
| Income taxes payable | 7,971 | 22,634 |
| Dividends payable | 6,703 | 6,581 |
| Unearned revenue | 38,915 | 38,624 |
| Liabilities of discontinued operations | - | 523 |
| Total current liabilities | 251,557 | 200,323 |
| Long-term debt, net of current maturities | 1,346,630 | 1,510,459 |
| Pension obligations | 2,302 | 38,420 |
| Postretirement and postemployment benefit obligations | 72,236 | 100,231 |
| Other retirement and compensation obligations | 11,711 | 27,364 |
| Deferred income taxes | 481,565 | 454,315 |
| Minority interest | 7,291 | 6,274 |
| Other | 1,229 | 1,798 |
| Total liabilities | 2,174,521 | 2,339,184 |
| Stockholders equity: | | |
| Serial convertible preferred stock, no par value; authorized 500 shares; none issued | - | - |
| Common Stock, \$2 par value; authorized 120,000 shares; issued and outstanding: | | |
| 2007 39,979 shares; | 79,958 | 78,974 |
| 2006 39,487 shares | | |
| Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding: | | |
| 2007 6,208 shares; | 12,416 | 12,788 |
| 2006 6,394 shares | | |
| Additional paid-in capital | 132,090 | 123,738 |
| Retained earnings | 819,786 | 771,947 |
| Accumulated other comprehensive income | 42,192 | 3,178 |
| Total stockholders equity | 1,086,442 | 990,625 |
| Total liabilities and stockholders equity | \$ 3,260,963 | \$ 3,329,809 |

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME***(Thousands, Except Per Common Share Data)*

| | 2007 | 2006 | 2005 |
|---|------------|------------|------------|
| Operating revenue: | | | |
| Advertising | \$ 871,713 | \$ 874,568 | \$ 624,109 |
| Circulation | 204,373 | 205,718 | 153,571 |
| Other | 51,575 | 48,362 | 41,210 |
| Total operating revenue | 1,127,661 | 1,128,648 | 818,890 |
| Operating expenses: | | | |
| Compensation | 442,494 | 435,836 | 325,959 |
| Newsprint and ink | 112,483 | 120,191 | 79,331 |
| Other operating expenses | 296,116 | 280,018 | 190,768 |
| Depreciation | 33,341 | 33,903 | 23,754 |
| Amortization of intangible assets | 60,248 | 62,167 | 35,495 |
| Curtailment gains | (3,731) | - | - |
| Early retirement programs | 7,962 | 8,654 | 9,124 |
| Transition costs | - | 4,589 | 8,929 |
| Total operating expenses | 948,913 | 945,358 | 673,360 |
| Equity in earnings of associated companies | 20,124 | 20,739 | 12,784 |
| Operating income | 198,872 | 204,029 | 158,314 |
| Non-operating income (expense): | | | |
| Financial income | 7,613 | 6,054 | 2,824 |
| Financial expense | (90,341) | (95,939) | (38,038) |
| Loss on early extinguishment of debt | - | - | (11,181) |
| Other, net | (21) | (2,037) | (439) |
| Total non-operating expense, net | (82,749) | (91,922) | (46,834) |
| Income from continuing operations before income taxes | 116,123 | 112,107 | 111,480 |
| Income tax expense | 34,146 | 39,740 | 40,458 |
| Minority interest | 1,069 | 1,231 | 160 |
| Income from continuing operations | 80,908 | 71,136 | 70,862 |
| Discontinued operations: | | | |
| Income from discontinued operations, net of income tax effect | - | 4,900 | 6,016 |
| Gain (loss) on disposition, net of income tax effect | 91 | (5,204) | - |
| Net income | 80,999 | 70,832 | 76,878 |
| Other comprehensive income (loss), net | (1,898) | 1,674 | 1,504 |
| Comprehensive income | \$ 79,101 | \$ 72,506 | \$ 78,382 |
| Earnings (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | \$ 1.77 | \$ 1.57 | \$ 1.57 |
| Discontinued operations | - | (0.01) | 0.13 |
| Net income | \$ 1.77 | \$ 1.56 | \$ 1.70 |
| Diluted: | | | |
| Continuing operations | \$ 1.77 | \$ 1.56 | \$ 1.56 |
| Discontinued operations | - | (0.01) | 0.13 |
| Net income | \$ 1.77 | \$ 1.56 | \$ 1.70 |
| Dividends per common share | \$ 0.72 | \$ 0.72 | \$ 0.72 |

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

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

| <i>(Thousands)</i> | 2007 | Amount 2006 | 2005 | 2007 | Shares 2006 | 2005 |
|--|--------------|----------------|------------|--------|----------------|---------|
| Common Stock: | \$ 78,974 | \$ 76,818 | \$ 74,056 | 39,487 | 38,409 | 37,028 |
| Balance, beginning of year | | | | | | |
| Conversion from Class B Common Stock | 372 | 1,380 | 2,210 | 186 | 690 | 1,105 |
| Shares issued | 708 | 884 | 580 | 354 | 442 | 290 |
| Shares reacquired | (96) | (108) | (28) | (48) | (54) | (14) |
| Balance, end of year | 79,958 | 78,974 | 76,818 | 39,979 | 39,487 | 38,409 |
| Class B Common Stock: | | | | | | |
| Balance, beginning of year | 12,788 | 14,168 | 16,378 | 6,394 | 7,084 | 8,189 |
| Conversion to Common Stock | (372) | (1,380) | (2,210) | (186) | (690) | (1,105) |
| Balance, end of year | 12,416 | 12,788 | 14,168 | 6,208 | 6,394 | 7,084 |
| Additional paid-in capital: | | | | | | |
| Balance, beginning of year | 123,738 | 115,464 | 100,537 | | | |
| Reclassification from unearned compensation | - | (5,505) | - | | | |
| Stock option expense | 2,144 | 2,678 | 2,807 | | | |
| Amortization of restricted Common Stock | 5,199 | 5,425 | - | | | |
| Income tax benefit (expense) of stock options exercised | (686) | (33) | 749 | | | |
| Shares issued | 1,695 | 5,709 | 11,371 | | | |
| Balance, end of year | 132,090 | 123,738 | 115,464 | | | |
| Unearned compensation: | | | | | | |
| Balance, beginning of year | - | (5,505) | (3,913) | | | |
| Reclassification to additional paid-in-capital | - | 5,505 | - | | | |
| Restricted Common Stock issued | - | - | (6,215) | | | |
| Restricted Common Stock canceled | - | - | 45 | | | |
| Amortization | - | - | 4,578 | | | |
| Balance, end of year | - | - | (5,505) | | | |
| Retained earnings: | | | | | | |
| Balance, beginning of year | 771,947 | 733,961 | 689,785 | | | |
| Net income | 80,999 | 70,832 | 76,878 | | | |
| Cash dividends | (33,160) | (32,846) | (32,702) | | | |
| Balance, end of year | 819,786 | 771,947 | 733,961 | | | |
| Accumulated other comprehensive income: | | | | | | |
| Balance, beginning of year | 3,178 | 1,504 | - | | | |
| Unrealized gain (loss) on interest rate exchange agreements | (3,796) | 2,527 | 2,707 | | | |
| Unrealized gain (loss) on available-for-sale securities | 716 | 121 | (230) | | | |
| Adoption of FASB Statement 158 for pension and postretirement benefits | 65,780 | - | - | | | |
| Deferred income taxes, net | (23,686) | (974) | (973) | | | |
| Balance, end of year | 42,192 | 3,178 | 1,504 | | | |
| Total stockholders equity | \$ 1,086,442 | \$ 990,625 | \$ 936,410 | 46,187 | 45,881 | 45,493 |

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

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|--|------------------|------------------|--------------------|
| Cash provided by operating activities: | | | |
| Net income | \$ 80,999 | \$ 70,832 | \$ 76,878 |
| Results of discontinued operations | 91 | (304) | 6,016 |
| Income from continuing operations | 80,908 | 71,136 | 70,862 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations: | | | |
| Depreciation and amortization | 93,589 | 96,070 | 59,249 |
| Stock compensation expense | 7,193 | 7,693 | 7,879 |
| Accretion of debt fair value adjustment | (7,579) | (7,190) | (2,385) |
| Loss on early extinguishment of debt | - | - | 11,181 |
| Distributions less than earnings of associated companies | (792) | (482) | (1,288) |
| Increase (decrease) in deferred income taxes | (6,309) | (29,178) | 165 |
| Change in operating assets and liabilities, net of acquisitions: | | | |
| Decrease (increase) in receivables | (6,411) | 5,547 | (5,681) |
| Decrease (increase) in inventories and other | 5,470 | 2,859 | (3,897) |
| Increase (decrease) in accounts payable, accrued expenses and unearned revenue | 18,428 | (7,904) | 5,519 |
| Increase (decrease) in pension, postretirement and post employment benefits | (3,314) | 10,178 | 6,939 |
| Change in income taxes receivable or payable | (14,504) | 42,060 | (595) |
| Other | 2,233 | 6,372 | 3,738 |
| Net cash provided by operating activities of continuing operations | 168,912 | 197,161 | 151,686 |
| Cash provided by (required for) investing activities of continuing operations: | | | |
| Purchases of marketable securities | (90,005) | (70,415) | (13,038) |
| Sales of marketable securities | 78,018 | 68,043 | 67,199 |
| Purchases of property and equipment | (34,567) | (32,544) | (24,096) |
| Acquisitions, net | (1,065) | (4,245) | (1,299,738) |
| Increase in restricted cash | (1,165) | (11,916) | (6,847) |
| Other | 10,075 | 8,394 | 4,211 |
| Net cash required for investing activities of continuing operations | (38,709) | (42,683) | (1,272,309) |
| Cash provided by (required for) financing activities of continuing operations: | | | |
| Payments on long-term debt | (196,375) | (218,000) | (338,600) |
| Proceeds from long-term debt | 67,000 | 55,000 | 1,507,000 |
| Financing costs | - | (2,814) | (28,855) |
| Cash dividends paid | (33,038) | (32,671) | (32,361) |
| Purchases of Common Stock | (1,099) | (1,260) | (548) |
| Other, primarily issuance of Common Stock | 2,578 | 7,815 | 5,399 |
| Net cash provided by (required for) financing activities of continuing operations | (160,934) | (191,930) | 1,112,035 |
| Net cash provided by (required for) discontinued operations: | | | |
| Operating activities | (780) | 5,517 | 8,808 |
| Investing activities | 22,873 | 33,030 | (687) |
| Net increase (decrease) in cash and cash equivalents | (8,638) | 1,095 | (467) |
| Cash and cash equivalents: | | | |
| Beginning of year | 8,638 | 7,543 | 8,010 |
| End of year | \$ - | \$ 8,638 | \$ 7,543 |

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lee Enterprises, Incorporated, is a premier provider of local news, information and advertising in primarily midsize markets, with 51 daily newspapers and a joint interest in five 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

In June 2005, the Company acquired Pulitzer Inc. (Pulitzer). The acquisition has a significant impact on the Consolidated Financial Statements.

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).

References to 2007, 2006, 2005 and the like mean the fiscal year ended September 30.

The former Pulitzer operations use period accounting. As a result their fiscal year ends on the last Sunday in September. These enterprises had 53 weeks (371 days) of business activity in 2007 compared to 52 weeks (364 days) in 2006. All other enterprises used calendar year accounting in 2007, 2006 and 2005. Beginning in 2008 all of the Company's enterprises will use period accounting. Because of the change the Company will have 364 days of business activity in 2008.

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.

Principles of Consolidation

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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.

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

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.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****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 30, 2007 and 2006 are less than replacement cost by \$3,320,000 and \$4,556,000, respectively.

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

| <i>(Thousands)</i> | September 30 | |
|---------------------|--------------|-----------|
| | 2007 | 2006 |
| First-in, first-out | \$ 5,414 | \$ 10,099 |
| Last-in, first-out | 4,383 | 5,193 |
| | \$ 9,797 | \$ 15,292 |

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.

Property and Equipment

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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 | 1 20 |

The Company capitalizes interest as a component of the cost of constructing major facilities. At September 30, 2007, capitalized interest was not significant.

Beginning in 2006, 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.

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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 | 2 15 |
| Customer lists | 3 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 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.

The 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.

The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis, or more frequently if impairment indicators are present.

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.

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

Advertising costs 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 liability method, whereby deferred income tax assets are recognized for deductible temporary differences and loss carryforwards and deferred income tax liabilities

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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 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 \$7,395,000 at September 30, 2007 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 Income and Comprehensive Income for all years presented. Gains are recognized when realized.

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.

Acquisition of Pulitzer

On June 3, 2005, the Company and LP Acquisition Corp., an indirect, wholly-owned subsidiary of the Company (the Purchaser), consummated an Agreement and Plan of Merger (the Merger Agreement) dated as of January 29, 2005 with Pulitzer. The Merger Agreement provided for the Purchaser to be merged with and into Pulitzer (the Merger), with Pulitzer as the surviving corporation. Each share of Pulitzer's Common Stock and Class B Common Stock outstanding immediately prior to the effective time of the Merger was converted into the right to receive from the Company or the Purchaser in cash, without

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interest, an amount equal to \$64 per share. Pulitzer published fourteen daily newspapers, including the *St. Louis Post-Dispatch*, and more than 100 weekly newspapers and specialty publications. Pulitzer also owns a 50% interest in TNI. See Note 4. The Merger was consistent with the Company's announced strategy to buy newspapers with circulation of 30,000 or more.

The Merger effected a change of control of Pulitzer. At the effective time of the Merger and as a result of the Merger, Pulitzer became an indirect, wholly-owned subsidiary of the Company.

The unaudited pro forma condensed consolidated income statement information for 2005, set forth below, presents the results of operations as if the acquisition of Pulitzer had occurred at the beginning of that year and is not necessarily indicative of future results or actual results that would have been achieved had the acquisition occurred as of the beginning of such year. Pro forma results for 2005 include \$29,544,000 of early retirement, transition and debt extinguishment costs related to the acquisition. The amounts in the table below are adjusted for the divestitures of the Pacific Northwest Properties and the daily newspaper in Rhinelander, Wisconsin. See Note 3. Other acquisitions described below are excluded as the amounts are not significant.

(Thousands, Except Per Common Share Data) (Unaudited)

| | 2005 |
|---|--------------|
| Operating revenue | \$ 1,121,081 |
| Income from continuing operations | 67,345 |
| Earnings per common share from continuing operations: | |
| Basic | \$ 1.49 |
| Diluted | 1.49 |

The \$1,461,585,000 purchase price of Pulitzer, all of which was paid in cash, included approximately \$11,200,000 of fees and expenses, and was originally allocated as follows. The original purchase price includes assets and liabilities of the Rhinelander, Wisconsin daily newspaper. See Notes 3 and 6.

(Thousands)

| | |
|---|--------------|
| Current assets | \$ 305,432 |
| Restricted cash and investments | 73,560 |
| Property and equipment | 140,532 |
| Long-term investments | 207,937 |
| Goodwill | 922,396 |
| Intangible and other assets | 623,827 |
| Total assets acquired | 2,273,684 |
| Current liabilities | 55,125 |
| Long-term debt | 337,512 |
| Pension, postretirement and postemployment benefits | 118,480 |
| Deferred income taxes | 274,394 |
| Other long-term liabilities | 26,588 |
| | \$ 1,461,585 |

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Incremental goodwill was recorded as a result of the Company's acquisition of Pulitzer as the purchase price exceeded the fair value of tangible and identified intangible assets acquired. Such goodwill is not deductible for income tax purposes. Future tax deductible goodwill recorded by Pulitzer as a result of prior transactions is approximately \$585,500,000.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Acquired intangible assets, excluding those of TNI, consist of the following:

| <i>(Thousands)</i> | Amount | Weighted-Average Amortization Period (Years) |
|--|-----------|--|
| Amortizable intangible assets: | | |
| Customer lists | \$516,730 | 18 |
| Newspaper subscriber lists | 49,902 | 9 |
| | 566,632 | 17 |
| Nonamortized intangible assets: | | |
| Mastheads | 53,118 | |
| | \$619,750 | |

In 2006 and 2005, the Company incurred transition costs of \$4,589,000 and \$8,929,000, respectively, in connection with the acquisition of Pulitzer.

Other Acquisitions

In 2005, the Company purchased two specialty publications at a cost of \$309,000, made a final working capital payment of \$301,000 related to a specialty publication purchased in 2004 and exchanged an internet service provider business for a weekly newspaper. In 2005, the Company also purchased eight specialty publications at a cost of \$3,908,000 and received final working capital payments of \$78,000 from purchased specialty publications. In 2005, INN purchased an Internet advertisement design business at a cost of \$200,000.

In 2006, the Company purchased a web-hosting business and national advertising network at a cost of \$3,800,000 from PowerOne Media, LLC (PowerOne), in which the Company and MNI owned minority interests 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.

In 2007, the Company purchased a minority interest in an online employment application from PowerOne 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. These acquisitions did not have a material effect on the Consolidated Financial Statements.

3 DISCONTINUED OPERATIONS

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In 2006, the Company sold several stand-alone publishing and commercial printing operations in Seattle and Spokane, Washington, and Portland, Oregon, a twice weekly newspaper in Oregon (collectively the Pacific Northwest Properties), 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.

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

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Results of discontinued operations consist of the following:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|--|---------|----------|----------|
| Operating revenue | \$114 | \$41,104 | \$42,297 |
| Income (loss) from discontinued operations | \$ (16) | \$ 7,803 | \$ 9,911 |
| Gain (loss) on sale of discontinued operations | 156 | (7,854) | - |
| Income tax expense, net | 49 | 253 | 3,895 |
| | \$ 91 | \$ (304) | \$ 6,016 |

Assets and liabilities of discontinued operations consist of the following:

| <i>(Thousands)</i> | September 30, 2006 |
|-----------------------------|--------------------|
| Current assets | \$ 88 |
| Property and equipment, net | 113 |
| Intangible and other assets | 141 |
| Total assets | \$ 342 |
| Current liabilities | \$ 523 |

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

| | 2007 | 2006 | 2005 |
|--|-------|----------|-------|
| Computed expected income tax expense (benefit) | 35.0% | (35.0)% | 35.0% |
| State income taxes, net of federal tax benefit | - | (3.9) | 4.3 |
| Other, primarily goodwill basis differences | - | (457.2) | - |
| | 35.0% | (496.1)% | 39.3% |

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.

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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:

| <i>(Thousands)</i> | September 30 | |
|---------------------------------------|--------------|-----------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | \$ 12,894 | \$ 14,810 |
| Investments and other assets | 19 | 10 |
| Total assets | \$ 12,913 | \$ 14,820 |
| LIABILITIES AND MEMBERS EQUITY | | |
| Current liabilities | \$ 6,327 | \$ 7,211 |
| Members equity | 6,586 | 7,609 |
| Total liabilities and members equity | \$ 12,913 | \$ 14,820 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Summarized results of TNI (2005 from the June 3, 2005 date of acquisition of Pulitzer) are as follows:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|---|------------|------------|-----------|
| Operating revenue | \$ 117,658 | \$ 121,223 | \$ 36,986 |
| Operating expenses, excluding depreciation and amortization | 81,066 | 83,485 | 26,218 |
| Operating income | \$ 36,592 | \$ 37,738 | \$ 10,768 |
| Company's 50% share of operating income | \$ 18,296 | \$ 18,869 | \$ 5,384 |
| Less amortization of intangible assets | 6,339 | 5,987 | 1,644 |
| Equity in earnings of TNI | \$ 11,957 | \$ 12,882 | \$ 3,740 |

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 Income and Comprehensive Income. These amounts totaled \$1,434,000, \$2,049,000 and \$672,000 in 2007, 2006 and 2005, respectively.

At September 30, 2007, the carrying value of the Company's 50% investment in TNI is \$166,678,000. The difference between the Company's carrying value and its 50% share of the members' equity of TNI relates principally to goodwill of \$85,273,000, and other identified intangible assets of \$78,666,000, 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 \$6,339,000 in each of the five years ending September 2012.

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.

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:

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| <i>(Thousands)</i> | September 30 | |
|--|--------------|-----------|
| | 2007 | 2006 |
| ASSETS | | |
| Current assets | \$ 21,869 | \$ 24,238 |
| Investments and other assets | 34,397 | 36,506 |
| Property and equipment, net | 13,295 | 12,126 |
| Total assets | \$ 69,561 | \$ 72,870 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities, excluding debt | \$ 13,285 | \$ 13,184 |
| Debt, including current maturities | 2,642 | 8,014 |
| Other liabilities | 3,040 | 2,660 |
| Stockholders equity | 50,594 | 49,012 |
| Total liabilities and stockholders equity | \$ 69,561 | \$ 72,870 |

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Summarized results of MNI are as follows:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|---|------------|------------|------------|
| Operating revenue | \$ 111,968 | \$ 121,541 | \$ 122,021 |
| Operating expenses, excluding depreciation and amortization | 81,793 | 91,572 | 87,429 |
| Operating income | 25,871 | 25,129 | 29,504 |
| Net income | 16,334 | 15,714 | 18,088 |
| Company's 50% share of net income | \$ 8,167 | \$ 7,857 | \$ 9,044 |

Accounts receivable from associated companies 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 \$10,636,000, \$10,425,000, and \$10,164,000, in 2007, 2006, and 2005, respectively.

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 30 | |
|------------------------|--------------|-----------|
| | 2007 | 2006 |
| Company's share of: | | |
| Stockholders' equity | \$ 25,297 | \$ 24,506 |
| Undistributed earnings | 25,047 | 24,256 |

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 30, 2007 and 2006, and consist of the following:

| <i>(Thousands)</i> | September 30 | |
|-------------------------|--------------|-----------|
| | 2007 | 2006 |
| Amortized cost | \$ 89,979 | \$ 77,419 |
| Gross unrealized gains | 605 | 52 |
| Gross unrealized losses | (1) | (161) |
| Fair value | \$ 90,583 | \$ 77,310 |

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Proceeds from the sale of such securities total \$78,018,000 in 2007, and \$68,043,000 in 2006, resulting in no gross realized gains or losses and \$67,199,000 in 2005 resulting in gross realized gains of \$84,000 and gross realized losses of \$10,000.

The amortized cost and fair value of marketable securities as of September 30, 2007, 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 Cost | Fair Value |
|---------------------------------------|-------------------|---------------|
| Due in one year or less | \$ 35,118 | \$ 35,235 |
| Due after one year through five years | 54,861 | 55,348 |
| | \$ 89,979 | \$ 90,583 |

Table of Contents**NOTES TO CONSOLIDATED 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> | 2007 | 2006 |
|----------------------------------|--------------|--------------|
| Goodwill, beginning of year | \$ 1,498,830 | \$ 1,499,622 |
| Goodwill related to acquisitions | 15,527 | (792) |
| Goodwill, end of year | \$ 1,514,357 | \$ 1,498,830 |

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 30 | |
|---|--------------|------------|
| | 2007 | 2006 |
| Nonamortized intangible assets: | | |
| Mastheads | \$ 73,746 | \$ 73,746 |
| Amortizable intangible assets: | | |
| Customer and newspaper subscriber lists | 1,073,142 | 1,073,125 |
| Less accumulated amortization | 226,274 | 166,240 |
| | 846,868 | 906,885 |
| Noncompete and consulting agreements | 28,658 | 28,678 |
| Less accumulated amortization | 28,590 | 28,397 |
| | 68 | 281 |
| | \$ 920,682 | \$ 980,912 |

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 non-cash amortization expense has no impact on the Company's cash flows or debt covenants.

In 2006, the Company also recorded a separate non-cash charge of \$5,526,000 to reduce the value of nonamortized masthead intangible assets of Pulitzer, of which \$4,939,000 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 2012 is estimated to be \$59,705,000, \$59,179,000, \$59,098,000, \$58,319,000, and \$57,896,000, 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 Credit Agreement provides 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 provides the Company with the right,

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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 amends and replaces a \$1,550,000,000 credit agreement (the Old Credit Agreement) consummated in 2005. Interest rate margins under the Credit Agreement are generally lower than under the Old Credit Agreement. Other conditions of the Credit Agreement are substantially the same as the Old Credit Agreement.

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 described more fully below. The Credit Agreement is 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.

Debt under the A Term Loan and revolving credit facility bear 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 is 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 is 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% (0.75% at September 30, 2007) depending, in each instance, upon the Company's leverage ratio at such time. All loans at September 30, 2007 are Eurodollar-based.

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 beginning in 2006. 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 2007 and 2006 are \$44,375,000 and \$24,000,000, respectively. The Company repaid the B Term Loan in full in 2006.

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 2007 met required repayments related to the Company's 2006 sales transactions.

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. These financial covenants include a maximum total leverage ratio (5.75:1 at September 30, 2007) and minimum interest expense coverage ratio of 2.5:1. None of the covenants included in the Credit Agreement is considered by the Company to be restrictive to normal operations or historical amounts of stockholder dividends. At September 30, 2007, the Company is in compliance with such covenants.

In 2005, upon consummation of the Old Credit Agreement, the Company borrowed \$1,462,000,000. The proceeds were used to consummate the acquisition of Pulitzer, to repay certain existing indebtedness of the Company, as discussed more fully below, and to pay related fees and expenses.

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In connection with the execution of the Old Credit Agreement, the Company redeemed, as of June 3, 2005, all of the \$52,000,000 outstanding indebtedness under its then existing credit agreement and, as of June 6, 2005, the existing senior notes of the Company under a Note Purchase Agreement dated as of March 18, 1998 totaling \$102,000,000. Refinancing of existing debt of the Company resulted in a loss before income taxes of \$11,181,000.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Pulitzer Notes**

In conjunction with its formation, PD LLC borrowed \$306,000,000 (Pulitzer Notes) from a group of institutional lenders (the Lenders). 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 Lenders. 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 30, 2007, the Company is in compliance with such covenants. 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 \$111,060,000 at September 30, 2007. 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 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 Lenders.

Debt consists of the following:

| <i>(Thousands)</i> | September 30 | | Interest Rate(s) |
|----------------------------------|--------------|--------------|----------------------|
| | 2007 | 2006 | September 30 2007 |
| Credit Agreement: | | | |
| A Term Loan | \$ 881,625 | \$ 926,000 | 6.10-6.26% |
| Revolving credit facility | 208,000 | 293,000 | 5.89-6.10 |
| Pulitzer Notes: | | | |
| Principal amount | 306,000 | 306,000 | 8.05 |
| Unaccreted fair value adjustment | 13,255 | 20,834 | |
| | 1,408,880 | 1,545,834 | |
| Less current maturities | 62,250 | 35,375 | |
| | \$ 1,346,630 | \$ 1,510,459 | |

Aggregate maturities of debt for each of the five years ending September 2012 are \$62,250,000, \$448,500,000, \$166,250,000, \$261,250,000, and \$457,375,000, respectively.

8 INTEREST RATE EXCHANGE AGREEMENTS

In 2005, the Company executed interest rate swaps in the notional amount of \$350,000,000 with a forward starting date of November 30, 2005. The interest rate swaps have terms of two to five years, carry interest rates from 4.2% 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. At September 30, 2007 and 2006, the Company recorded an asset of \$1,438,000 and \$5,234,000, 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.

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In October 2007, the Company executed interest rate collars in the notional amount of \$150,000,000 with a forward starting date of November 30, 2007. 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 30, 2007, after consideration of the interest rate swaps described above, approximately 53% of the principal amount of the Company's debt is subject to floating interest rates.

In 2005, the Company terminated fixed-to-floating rate interest rate swaps with a notional amount of \$150,000,000 previously executed by Pulitzer. The swaps were accounted for as fair value hedges. The Company received cash of \$2,100,000 upon termination.

The Company's interest rate exchange agreements consist of the following:

| <i>(Thousands)</i> | | | | September 30 2007 Fair Value |
|-------------------------------------|-------------------|-------------------|------------|------------------------------------|
| Notional Amount | Start Date | Maturity Date | Rate(s) | |
| VARIABLE TO FIXED RATE SWAPS | | | | |
| \$ 75,000 | November 30, 2005 | November 30, 2007 | 4.195% | \$ 174 |
| 75,000 | November 30, 2005 | November 30, 2007 | 4.200 | 173 |
| 75,000 | November 30, 2005 | November 30, 2008 | 4.290 | 356 |
| 50,000 | November 30, 2005 | November 30, 2009 | 4.315 | 279 |
| 50,000 | November 30, 2005 | November 30, 2009 | 4.325 | 269 |
| 25,000 | November 30, 2005 | November 30, 2010 | 4.395 | 187 |
| \$350,000 | | | | \$ 1,438 |
| COLLARS | | | | |
| \$ 75,000 | November 30, 2007 | November 30, 2009 | 3.53-5.00% | - |
| 75,000 | November 30, 2007 | November 30, 2009 | 3.61-5.00 | - |
| \$150,000 | | | | - |

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.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The cost components of the Company's pension plans (2005 from the June 3, 2005 date of acquisition of Pulitzer) are as follows:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|--|------------|----------|----------|
| Service cost for benefits earned during the year | \$ 1,909 | \$ 5,532 | \$ 2,229 |
| Interest cost on projected benefit obligation | 9,172 | 9,191 | 2,950 |
| Expected return on plan assets | (12,827) | (12,637) | (4,212) |
| Amortization of net gain | (1,355) | - | - |
| Amortization of prior service cost | (93) | - | - |
| Curtailment gains | (3,865) | (102) | - |
| Early retirement program benefits (see Note 19) | 3,869 | 4,523 | 4,650 |
| Net periodic pension cost (benefit) | \$ (3,190) | \$ 6,507 | \$ 5,617 |

Net periodic pension cost (benefit) of \$(2,136,000), \$605,000, and \$202,000 is allocated to TNI in 2007, 2006 and 2005, respectively.

Changes in benefit obligations and plan assets are as follows:

| <i>(Thousands)</i> | 2007 | 2006 |
|---|------------|------------|
| Benefit obligation, beginning of year | \$ 168,172 | \$ 186,480 |
| Service cost | 1,909 | 5,532 |
| Interest cost | 9,172 | 9,191 |
| Actuarial loss (gain) | 985 | (27,959) |
| Benefits paid | (10,813) | (9,493) |
| Change in plan provisions | (1,591) | - |
| Curtailment gains | (3,865) | (102) |
| Early retirement program benefits | 3,869 | 4,523 |
| Benefit obligation, end of year | 167,838 | 168,172 |
| Fair value of plan assets, beginning of year: | 161,764 | 157,285 |
| Actual return on plan assets | 25,383 | 13,972 |
| Benefits paid | (10,813) | (9,493) |
| Employer contributions | 845 | - |
| Fair value of plan assets, June 30 measurement date | 177,179 | 161,764 |
| Funded status - benefit obligation in excess of (less than) plan assets | (9,341) | 6,408 |
| Contributions made after measurement date | (130) | (845) |
| Unrecognized net actuarial gain | - | 30,526 |
| Net amount recognized in the Consolidated Balance Sheets | \$ (9,471) | \$ 36,089 |

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

September 30

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| <i>(Thousands)</i> | 2007 | 2006 |
|--|----------|--------|
| Other non-current assets | \$ 9,591 | \$ - |
| Pension obligations | 120 | 36,089 |
| Accumulated other comprehensive income (before income tax benefit) | 42,240 | - |

Amounts recognized in accumulated other comprehensive income are as follows:

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

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The Company expects to recognize \$133,000 and \$1,697,000 of unrecognized prior service benefit and unrecognized net actuarial gain, respectively, in net periodic pension cost in 2008.

The accumulated benefit obligation for the plans are \$161,701,000 and \$156,654,000 at September 30, 2007 and 2006, respectively. 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 \$10,791,000, \$10,791,000 and \$10,620,000, respectively, at September 30, 2007.

Assumptions

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

| | September 30 | |
|-------------------------------|--------------|-------|
| | 2007 | 2006 |
| Discount rate | 5.75% | 5.75% |
| Rate of compensation increase | 4.0 | 4.0 |

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

| | 2007 | 2006 | 2005 |
|--|-------|------|------|
| Discount rate | 5.75% | 5.0% | 5.0% |
| Expected long-term return on plan assets | 8.0 | 8.5 | 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:

| | Actual Allocation September 30 |
|--|-----------------------------------|
| | |

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| Asset Class | Policy Allocation | 2007 | 2006 |
|-------------------|-------------------|------|------|
| Equity securities | 65 to 70% | 71% | 70% |
| Debt securities | 30 to 35 | 29 | 30 |

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.

Cash Flows

Based on its forecast at September 30, 2007, the Company expects to make no contributions to its pension trust in 2008.

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

(Thousands)

| | |
|-----------|-----------|
| 2008 | \$ 10,919 |
| 2009 | 10,755 |
| 2010 | 10,854 |
| 2011 | 11,027 |
| 2012 | 11,391 |
| 2013-2017 | 64,136 |

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 \$2,695,000 and \$2,853,000 at September 30, 2007 and 2006, 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 \$597,000 in 2007, \$679,000 in 2006 and \$228,000 in 2005.

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.

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Effective September 30, 2007 the Company adopted the recognition and disclosure provisions of Statement 158. 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 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 (2005 from the June 3, 2005 date of acquisition of Pulitzer) are as follows:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|--|----------|----------|----------|
| Service cost for benefits earned during the year | \$ 2,099 | \$ 3,377 | \$ 1,107 |
| Interest cost on projected benefit obligation | 6,932 | 6,588 | 2,196 |
| Expected return on plan assets | (2,189) | (2,071) | (690) |
| Amortization of net gain | (101) | - | - |
| Amortization of prior service cost | (175) | - | - |
| Curtailment gain | (1,940) | - | - |
| Early retirement program benefits | 386 | 660 | 450 |
| Net periodic postretirement benefit cost | \$ 5,012 | \$ 8,554 | \$ 3,063 |

Changes in benefit obligations and plan assets are as follows:

| <i>(Thousands)</i> | 2007 | 2006 |
|---|------------|------------|
| Benefit obligation, beginning of year | \$ 127,133 | \$ 134,977 |
| Service cost | 2,099 | 3,377 |
| Interest cost | 6,932 | 6,588 |
| Actuarial gain | (10,410) | (12,418) |
| Benefits paid, net of premiums received | (6,160) | (6,051) |
| Change in plan provisions | (3,027) | - |
| Curtailment gain | 801 | - |
| Medicare Part D subsidies | 524 | - |
| Early retirement program benefits | 386 | 660 |
| Benefit obligation, end of year | 118,278 | 127,133 |
| Fair value of plan assets, beginning of year | 45,789 | 44,187 |
| Actual return on plan assets | 1,645 | 1,602 |
| Employer contributions | 3,087 | 6,051 |
| Benefits paid | (5,636) | (6,051) |
| Fair value of plan assets, June 30 measurement date | 44,885 | 45,789 |
| Funded status - benefit obligation in excess of plan assets | 73,393 | 81,344 |
| Unrecognized net actuarial gain | - | 13,665 |
| Funding changes made after measurement date | (191) | 1,123 |
| Net amount recognized in the Consolidated Balance Sheets | \$ 73,202 | \$ 96,132 |

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

| <i>(Thousands)</i> | September 30 | |
|--|--------------|--------|
| | 2007 | 2006 |
| Current portion of benefit obligation | \$ 4,610 | \$ - |
| Postretirement benefit obligations | 68,592 | 96,132 |
| Accumulated other comprehensive income (before income tax benefit) | 23,540 | - |

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Amounts recognized in accumulated other comprehensive income are as follows:

| <i>(Thousands)</i> | September 30, 2007 |
|------------------------------------|--------------------|
| Unrecognized net actuarial gain | \$ 20,688 |
| Unrecognized prior service benefit | 2,852 |
| | \$ 23,540 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company expects to recognize \$233,000 and \$633,000 of unrecognized prior service benefit and unrecognized net actuarial gain, respectively, in net periodic postretirement benefit cost in 2008.

Assumptions

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

| | September 30 | |
|--|--------------|-------|
| | 2007 | 2006 |
| Discount rate | 5.75% | 5.75% |
| Expected long-term return on plan assets | 5.0 | 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:

| | 2007 | 2006 | 2005 |
|--|-------|------|------|
| Discount rate | 5.75% | 5.0% | 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 30 | |
|---|--------------|----------|
| | 2007 | 2006 |
| Health care cost trend rates | 8.0% | 9.0-9.5% |
| 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 2007:

| <i>(Thousands)</i> | One Percentage | |
|--|----------------|-------------------|
| | Increase | Point Decrease |
| Effect on net periodic postretirement benefit cost | \$ 1,296 | \$ (1,052) |
| Effect on postretirement benefit obligation | 13,927 | (11,694) |

Plan Assets

The weighted-average asset allocation of the Company's postretirement fund at September 30, 2007 and 2006, 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.

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

Cash Flows

Based on its forecast at September 30, 2007, the Company expects to contribute \$4,610,000 to its postretirement plans in 2008.

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 Payments | Less Medicare Part D Subsidy | Net Payments |
|--------------------|-------------------|---------------------------------------|-----------------|
| 2008 | \$ 7,190 | \$ (580) | \$ 6,610 |
| 2009 | 7,640 | (610) | 7,030 |
| 2010 | 7,860 | (630) | 7,230 |
| 2011 | 8,060 | (650) | 7,410 |
| 2012 | 8,190 | (680) | 7,510 |
| 2013-2017 | 39,910 | (4,000) | 35,910 |

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 \$3,644,000 and \$4,099,000 at September 30, 2007 and 2006, respectively.

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 \$24,716,000 in 2007, \$25,112,000 in 2006, and \$22,022,000 in 2005.

In conjunction with the acquisition of Pulitzer, an existing supplemental executive benefit retirement plan (SERP) was amended and converted into an individual account plan. An account was established for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 is credited to each account at an annual rate of 5.75%. The SERP, as amended, will be liquidated on or about May 1, 2008, or earlier upon a change of control of the Company, at which time each participant will receive a lump sum payment equal to the balance in his account. Retired participants will continue to receive annuity payments until the liquidation of the SERP. At September 30, 2007 and 2006, the Company's liability under the SERP totals \$18,140,000 and \$18,527,000, respectively.

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.

In 1998, the Board of Directors adopted a Shareholder Rights Plan (Plan). Under the Plan, the Board 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.

Rights become exercisable only in the event that any person or group of affiliated persons becomes a holder of 20% 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 20% 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 20% position is acquired and prior to the acquisition of a 50% position, the Board of Directors may require, in whole or in part, each outstanding Right (other than Rights held by the acquiring person or group of affiliated persons) to be exchanged for one share of Common Stock or one one-thousandth of a share of Series A Preferred Stock. The Rights may be redeemed at a price of \$0.001 per Right at any time prior to their expiration in May 2008.

13 STOCK OWNERSHIP PLANS

Total stock compensation expense is \$7,193,000, \$7,693,000, and \$7,879,000, in 2007, 2006, and 2005, respectively.

Stock Options

The Company has reserved 2,087,687 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> | 2007 | 2006 | 2005 |
|---------------------------------|-------|-------|------|
| Under option, beginning of year | 939 | 981 | 921 |
| Granted | 304 | 177 | 140 |
| Exercised | (1) | (113) | (76) |
| Canceled | (47) | (106) | (4) |
| Under option, end of year | 1,195 | 939 | 981 |
| Exercisable, end of year | 749 | 627 | 608 |

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Weighted average prices of stock options are as follows:

| | 2007 | 2006 | 2005 |
|---------------------------|----------|----------|----------|
| Granted | \$ 28.72 | \$ 39.56 | \$ 47.64 |
| Exercised | 21.50 | 32.94 | 30.28 |
| Under option, end of year | 35.61 | 37.96 | 37.76 |

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 | 2005 |
|-------------------------|--------|--------|---------|
| Dividend yield | 2.5% | 1.7% | 1.5% |
| Volatility | 18.7% | 21.7% | 24.3% |
| Risk-free interest rate | 4.5% | 4.4% | 3.6% |
| Expected life (years) | 4.7 | 4.7 | 4.7 |
| Estimated fair value | \$5.16 | \$8.74 | \$11.00 |

A summary of stock options outstanding at September 30, 2007 is as follows:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------------|-----------------------|---|---------------------------------------|-----------------------|---------------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$25 to 30 | 368,175 | 7.7 | \$ 28.52 | 74,825 | \$ 27.73 |
| 30 to 35 | 215,391 | 5.1 | 32.51 | 215,391 | 32.51 |
| 35 to 40 | 328,434 | 5.9 | 37.31 | 226,138 | 36.30 |
| 40 to 45 | 155,101 | 5.9 | 43.22 | 155,101 | 43.22 |
| 45 to 50 | 127,753 | 7.0 | 47.63 | 78,024 | 47.62 |
| | 1,194,854 | 6.4 | \$ 35.61 | 749,479 | \$ 36.97 |

Total unrecognized compensation expense for unvested stock options at September 30, 2007 is \$1,683,000, which will be recognized over a weighted average period of 1.4 years.

The exercise of stock options in 2007, 2006 and 2005 resulted in cash proceeds of \$28,000, \$3,711,000, and \$2,289,000, respectively, and income tax benefits of \$3,000, \$215,000 and \$427,000, respectively.

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The intrinsic value of stock options exercised in 2007, 2006, and 2005 is \$7,000, \$552,000, and \$1,094,000, respectively. The aggregate intrinsic value of options outstanding and exercisable at September 30, 2007, 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:

| <i>(Thousands of Shares)</i> | 2007 | 2006 | 2005 |
|--------------------------------|-------|------|------|
| Outstanding, beginning of year | 335 | 279 | 219 |
| Granted | 197 | 165 | 116 |
| Vested | (106) | (88) | (54) |
| Forfeited | (10) | (21) | (2) |
| Outstanding, end of year | 416 | 335 | 279 |

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

| | 2007 | 2006 | 2005 |
|--------------------------------|----------|----------|----------|
| Outstanding, beginning of year | \$ 43.91 | \$ 44.98 | \$ 38.00 |
| Granted | 28.73 | 40.73 | 47.59 |
| Vested | 45.24 | 41.79 | 35.53 |
| Forfeited | 34.94 | 42.03 | 39.90 |
| Outstanding, end of year | 36.60 | 43.91 | 44.98 |

The fair value of restricted Common Stock vested in 2007, 2006 and 2005 is \$3,004,000, \$3,466,000, and \$2,565,000, respectively.

Total unrecognized compensation expense for unvested restricted Common Stock as of September 30, 2007 is \$5,867,000, which will be recognized over a weighted average period of 1.4 years.

At September 30, 2007, 892,833 shares are available for granting of stock options or issuance of restricted Common Stock.

Stock Purchase Plans

The Company has 420,000 shares of Common Stock available for issuance pursuant to the Company's Employee Stock Purchase Plan (ESPP). April 30, 2008 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 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 and 2005, computed using the Black-Scholes option-pricing model, are \$6.53 and \$8.43, respectively.

In 2007, 2006, and 2005 employees purchased 121,000, 131,000, and 89,000 shares, respectively, under the ESPP at a price of \$22.48 in 2007, \$26.11 in 2006, and \$35.11 in 2005. The market value on the purchase date was \$26.18 in 2007, \$30.80 in 2006, and \$41.51 in 2005.

The Company also has 81,000 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 25,000, 23,000 and 5,600 shares, respectively, at a weighted average price of \$19.47 in 2007, \$25.67 in 2006 and \$36.11 in 2005 under the SPP. The weighted average market values on the purchase dates in 2007, 2006 and 2005 are \$22.91, \$30.20, and \$42.48 respectively.

14 INCOME TAXES

Income tax expense (benefit) consists of the following:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|-------------------------|------------------|------------------|------------------|
| Current: | | | |
| Federal | \$ 36,623 | \$ 61,270 | \$ 35,979 |
| State | 3,881 | 9,175 | 5,851 |
| Deferred | (6,309) | (30,452) | 2,523 |
| | \$ 34,195 | \$ 39,993 | \$ 44,353 |
| Continuing operations | \$ 34,146 | \$ 39,740 | \$ 40,458 |
| Discontinued operations | 49 | 253 | 3,895 |
| | \$ 34,195 | \$ 39,993 | \$ 44,353 |

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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 before income taxes. The reasons for these differences are as follows:

| | 2007 | 2006 | 2005 |
|--|-------|-------|-------|
| Computed expected income tax expense | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 3.0 | 3.0 | 3.3 |
| Net income of associated companies taxed at dividend rates | (2.0) | (2.0) | (2.3) |
| Domestic production deduction | (0.8) | (0.8) | - |
| Resolution of tax matters | (5.9) | (0.3) | - |
| Other | 0.1 | 0.5 | 0.3 |
| | 29.4% | 35.4% | 36.3% |

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

| | September 30 | |
|--|--------------|--------------|
| (Thousands) | 2007 | 2006 |
| Deferred income tax liabilities: | | |
| Property and equipment | \$ (52,232) | \$ (55,504) |
| Equity in undistributed earnings of affiliates | (2,041) | (2,073) |
| Investment in Tucson newspaper partnership | (62,284) | (67,593) |
| Identified intangible assets | (420,027) | (412,967) |
| | \$ (536,584) | \$ (538,137) |
| Deferred income tax assets: | | |
| Accrued compensation | \$ 19,468 | \$ 15,719 |
| Allowance for doubtful accounts and losses on loans | 5,228 | 5,334 |
| Pension and postretirement benefits | 32,307 | 65,265 |
| Long-term debt and interest rate exchange agreements | (397) | 2,707 |
| State operating loss carryforwards | 12,708 | 12,291 |
| Other | 4,483 | 5,876 |
| | 73,797 | 107,192 |
| Valuation allowance | (11,435) | (12,291) |
| Net deferred income tax liabilities | \$ (474,222) | \$ (443,236) |

Net deferred income tax liabilities are classified as follows:

| | September 30 | |
|-------------------------------------|--------------|--------------|
| (Thousands) | 2007 | 2006 |
| Current assets | \$ 7,343 | \$ 11,079 |
| Non-current liabilities | (481,565) | (454,315) |
| Net deferred income tax liabilities | \$ (474,222) | \$ (443,236) |

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At September 30, 2007, the Company has approximately \$305,042,000 of operating loss carryforwards for state tax purposes that expire between 2008 and 2027. Such loss carryforwards result in a deferred income tax asset of \$12,708,000 at September 30, 2007, of which \$11,435,000 is offset by a valuation allowance.

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 and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short

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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 \$10,648,000, consisting primarily of the Company's 17% ownership of the nonvoting common stock of TCT and 5.0% interest in Cardinals Holdings LLC, are carried at cost. The fair value of floating rate debt approximates the carrying amount. The fair value of the Company's fixed rate debt follows and is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

| <i>(Thousands)</i> | September 30 | |
|--------------------|--------------|------------|
| | 2007 | 2006 |
| Carrying amount | \$ 319,255 | \$ 326,834 |
| Fair value | 316,913 | 321,234 |

16 EARNINGS PER COMMON SHARE

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

| <i>(Thousands, Except Per Common Share Data)</i> | 2007 | 2006 | 2005 |
|--|-----------|-----------|-----------|
| Income (loss) applicable to common stock: | | | |
| Continuing operations | \$ 80,908 | \$ 71,136 | \$ 70,862 |
| Discontinued operations | 91 | (304) | 6,016 |
| Net income | \$ 80,999 | \$ 70,832 | \$ 76,878 |
| Weighted average Common Shares | 46,088 | 45,763 | 45,394 |
| Less non-vested restricted Common Stock | 417 | 342 | 276 |
| Basic average Common Shares | 45,671 | 45,421 | 45,118 |
| Dilutive stock options and restricted Common Stock | 133 | 125 | 230 |
| Diluted average Common Shares | 45,804 | 45,546 | 45,348 |
| Earnings (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | \$ 1.77 | \$ 1.57 | \$ 1.57 |
| Discontinued operations | - | (0.01) | 0.13 |
| Net income | \$ 1.77 | \$ 1.56 | \$ 1.70 |
| Diluted: | | | |
| Continuing operations | \$ 1.77 | \$ 1.56 | \$ 1.56 |
| Discontinued operations | - | (0.01) | 0.13 |
| Net income | \$ 1.77 | \$ 1.56 | \$ 1.70 |

For 2007, 2006 and 2005, the Company had 1,128,000, 842,500, and 177,500 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 per common share.

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

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|---|-----------|-----------|----------|
| Balance, beginning of year | \$ 11,313 | \$ 9,365 | \$ 6,153 |
| Additions charged to expense | 5,807 | 7,260 | 2,470 |
| Reserves of businesses acquired or sold | - | - | 5,008 |
| Deductions from reserves | (6,757) | (5,312) | (4,266) |
| Balance, end of year | \$ 10,363 | \$ 11,313 | \$ 9,365 |

18 OTHER INFORMATION

Compensation and other accrued liabilities consist of the following:

| <i>(Thousands)</i> | September 30 2007 | September 30 2006 |
|-------------------------------------|----------------------|----------------------|
| Compensation | \$ 31,165 | \$ 23,670 |
| Retirement and stock purchase plans | 33,501 | 11,856 |
| Interest | 14,790 | 7,584 |
| Other | 16,777 | 15,347 |
| | \$ 96,233 | \$ 58,457 |

Cash payments are as follows:

| <i>(Thousands)</i> | 2007 | 2006 | 2005 |
|------------------------------|-----------|------------|-----------|
| Interest | \$ 86,767 | \$ 101,018 | \$ 28,879 |
| Income taxes, net of refunds | 55,693 | 28,403 | 42,187 |

19 COMMITMENTS AND CONTINGENT LIABILITIES**Newsprint**

The Company has contracts for the purchase of 49,925 metric tons of newsprint, at market prices, from three suppliers through December 2009.

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 2012 and thereafter are \$3,832,000, \$3,385,000, \$2,451,000, \$2,116,000, \$1,525,000 and \$7,309,000, respectively. Total operating lease expense is \$5,540,000, \$5,380,000, and \$3,513,000, in 2007, 2006, and 2005, respectively.

Capital Commitments

At September 30, 2007, the Company had construction and equipment purchase commitments totaling approximately \$4,803,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

***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 \$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 substantially all of which are to be 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 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.

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 governing PD LLC (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. Herald's 5% interest is reported as minority interest in the Consolidated Statements of Income and Comprehensive Income. 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.

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. On May 1, 2010, Herald will have a one-time right 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. 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.

Upon termination of PD LLC and DS LLC, which will be on May 1, 2015 (unless Herald exercises the redemption right 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. 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

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sale of PD LLC and DS LLC's assets for their fair market value at that time. Herald's share of such gain or 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 above, if any, and the liquidation amount (based on certain assumptions), exceeds \$325,000,000.

The actual amount payable to Herald either on May 1, 2010, or 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

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newspaper properties. While the amount of such payment cannot be predicted with certainty, the Company currently estimates (assuming a 5% annual growth rate in Herald's capital accounts, no special distribution as described above and consistent newspaper property valuation multiples) that the amount of such payment would not exceed \$100,000,000. The redemption of Herald's interest in PD LLC either on May 1, 2010 or upon termination of PD 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 the related depreciation and amortization deductions.

In the event the transactions effected 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 2005, the Company was advised that the IRS, in the course of examining the 2000 consolidated federal income tax return in which Herald was included, requested certain information and documents relating to the transactions effectuated in connection with the formation of the Venture and the Initial Distribution. The Company participated in the formulation of Herald's response to this IRS request for information and documents. In 2006, the IRS concluded its examination without adjustment related to the Venture and the Initial Distribution. The Company considers the matter closed. The related statute of limitations expires in December 2007.

Income Taxes

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 Income and Comprehensive Income 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.

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 \$6,880,000 in 2007.

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

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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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2006, the FASB issued Statement 158, which amends Statements 87, 88, 106 and 132(R). 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 changes in that funded status in the year in which the changes occur as a component of comprehensive income. The Company adopted the recognition and disclosure provisions of Statement 158 as of September 30, 2007. The adoption of Statement 158 increased accumulated other comprehensive income, net of income taxes, by \$40,912,000, increased pension assets by \$9,591,000 and reduced pension and postretirement benefit obligations by \$32,649,000 and \$23,540,000, respectively.

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 retained earnings, 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 Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which is effective for the Company in 2008. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement 109. Interpretation 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company will adopt Interpretation 48 effective in October 2007, with any cumulative effect of the adoption recorded as an adjustment to retained earnings. The Company has not completed its evaluation of the effects of Interpretation 48 on its Consolidated Financial Statements.

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. Subsequently, the FASB 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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| <i>(Thousands, Except Per Common Share Data)</i> | Quarter | | | |
|--|------------|------------|------------|------------|
| | 1st | 2nd | 3rd | 4th |
| 2007 | | | | |
| Operating revenue | \$ 300,490 | \$ 261,660 | \$ 281,375 | \$ 284,136 |
| Income from continuing operations | \$ 26,689 | \$ 11,945 | \$ 22,310 | \$ 19,964 |
| Discontinued operations | (38) | (54) | 181 | 2 |
| Net income | \$ 26,651 | \$ 11,891 | \$ 22,491 | \$ 19,966 |
| Earnings per common share: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ 0.59 | \$ 0.26 | \$ 0.49 | \$ 0.44 |
| Discontinued operations | - | - | - | - |
| Net income | \$ 0.58 | \$ 0.26 | \$ 0.49 | \$ 0.44 |
| Diluted: | | | | |
| Income from continuing operations | \$ 0.58 | \$ 0.26 | \$ 0.49 | \$ 0.44 |
| Discontinued operations | - | - | - | - |
| Net income | \$ 0.58 | \$ 0.26 | \$ 0.49 | \$ 0.44 |
| 2006 | | | | |
| Operating revenue | \$ 292,245 | \$ 266,190 | \$ 290,544 | \$ 279,669 |
| Income from continuing operations | \$ 21,394 | \$ 13,438 | \$ 21,319 | \$ 14,985 |
| Discontinued operations | 1,370 | 997 | 1,398 | (4,069) |
| Net income | \$ 22,764 | \$ 14,435 | \$ 22,717 | \$ 10,916 |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ 0.47 | \$ 0.30 | \$ 0.47 | \$ 0.33 |
| Discontinued operations | 0.03 | 0.02 | 0.03 | (0.09) |
| Net income | \$ 0.50 | \$ 0.32 | \$ 0.50 | \$ 0.24 |
| Diluted: | | | | |
| Income from continuing operations | \$ 0.47 | \$ 0.30 | \$ 0.47 | \$ 0.33 |
| Discontinued operations | 0.03 | 0.02 | 0.03 | (0.09) |
| Net income | \$ 0.50 | \$ 0.32 | \$ 0.50 | \$ 0.24 |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders

Lee Enterprises, Incorporated and subsidiaries

Davenport, Iowa

We have audited the accompanying Consolidated Balance Sheets of Lee Enterprises, Incorporated and subsidiaries (the Company) as of September 30, 2007 and 2006, and the related Consolidated Statements of Income and Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the three years in the period ended September 30, 2007. 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 Consolidated Financial Statements present fairly, in all material respects, the financial position of Lee Enterprises, Incorporated and subsidiaries at September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of September 30, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 29, 2007, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Davenport, Iowa

November 29, 2007