

LEE ENTERPRISES, INC
Form 10-Q
August 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 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 or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices)

(563) 383-2100

(Registrant's telephone number, including area code)

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

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 Exchange Act). Yes No

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As of June 30, 2007, 39,936,554 shares of Common Stock and 6,249,093 shares of Class B Common Stock of the Registrant were outstanding.

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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 including the Company Annual Report on Form 10-K for the year ended September 30, 2006. The words "may," "will," "would," "could," "believes," "expects," "anticipates," "intends," "plans," "projects," 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 FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

<i>(Thousands, Except Per Common Share Data)</i>	Three Months Ended		Nine Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Operating revenue:				
Advertising	\$218,910	\$226,000	\$ 651,892	\$ 658,216
Circulation	49,917	51,644	152,307	154,134
Other	12,548	12,900	39,326	36,629
Total operating revenue	281,375	290,544	843,525	848,979
Operating expenses:				
Compensation	107,898	108,338	330,578	328,654
Newsprint and ink	27,077	30,766	85,412	89,437
Depreciation	7,993	8,578	25,032	24,617
Amortization of intangible assets	15,067	19,330	45,207	47,101
Other operating expenses	73,243	69,852	218,785	207,228
Curtailment gains	-	-	(3,731)	-
Early retirement program	-	-	-	8,654
Transition costs	-	1,677	-	2,830
Total operating expenses	231,278	238,541	701,283	708,521
Equity in earnings of associated companies	4,517	4,847	16,327	16,167
Operating income	54,614	56,850	158,569	156,625
Non-operating income (expense):				
Financial income	2,491	1,579	5,522	4,545
Financial expense	(22,027)	(23,567)	(68,006)	(71,298)
Other, net	(21)	-	(21)	-
Total non-operating expense, net	(19,557)	(21,988)	(62,505)	(66,753)
Income before income taxes	35,057	34,862	96,064	89,872
Income tax expense	12,376	13,177	33,945	32,829
Minority interest	371	369	1,175	892
Income from continuing operations	22,310	21,316	60,944	56,151
Discontinued operations, net	181	1,401	89	3,765
Net income	22,491	22,717	61,033	59,916
Other comprehensive income (loss), net	384	1,179	(453)	4,255
Comprehensive income	\$ 22,875	\$ 23,896	\$ 60,580	\$ 64,171
Earnings per common share:				
Basic:				
Continuing operations	\$0.49	\$0.47	\$1.34	\$1.24
Discontinued operations	-	0.03	-	0.08
Net income	\$0.49	\$0.50	\$1.34	\$1.32
Diluted:				
Continuing operations	\$0.49	\$0.47	\$1.33	\$1.23
Discontinued operations	-	0.03	-	0.08
Net income	\$0.49	\$0.50	\$1.33	\$1.32

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Dividends per common share	\$0.18	\$0.18	\$0.54	\$0.54
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The accompanying Notes are an integral part of the Consolidated Financial Statements.

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30	September 30
<i>(Thousands, Except Per Share Data)</i>	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,221	\$ 8,638
Accounts receivable, net	110,765	115,353
Receivable from associated companies	-	1,563
Receivable from sales of discontinued operations	-	20,700
Inventories	12,784	19,271
Assets of discontinued operations	-	342
Other	18,806	18,545
Total current assets	151,576	184,412
Investments	214,078	219,091
Restricted cash and investments	107,310	96,060
Property and equipment, net	321,591	327,252
Goodwill	1,500,464	1,498,830
Other intangible assets, net	935,708	980,912
Other	20,502	23,252
Total assets	\$3,251,229	\$3,329,809
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 47,500	\$ 35,375
Accounts payable	33,368	38,129
Compensation and other accrued liabilities	81,714	58,457
Income taxes payable	13,831	22,634
Dividends payable	6,675	6,581
Unearned revenue	40,168	38,624
Liabilities of discontinued operations	-	523
Total current liabilities	223,256	200,323
Long-term debt, net of current maturities	1,394,187	1,510,459
Pension obligations	32,216	38,420
Postretirement and postemployment benefit obligations	99,486	100,231
Deferred items	459,022	481,679
Other	8,833	8,072
Total liabilities	2,217,000	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:		
June 30, 2007 39,937 shares;		
September 30, 2006 39,487 shares	79,874	78,974
Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding:		
June 30, 2007 6,249 shares;		
September 30, 2006 6,394 shares	12,498	12,788
Additional paid-in capital	131,009	123,738
Retained earnings	808,123	771,947
Accumulated other comprehensive income	2,725	3,178
Total stockholders equity	1,034,229	990,625
Total liabilities and stockholders equity	\$3,251,229	\$3,329,809
The accompanying Notes are an integral part of the Consolidated Financial Statements.		

LEE ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	June 30	
<i>(Thousands)</i>	2007	2006
Cash provided by (required for) operating activities:		
Net income	\$ 61,033	\$ 59,916
Results of discontinued operations	89	3,765
Income from continuing operations	60,944	56,151
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	70,239	71,718
Stock compensation expense	5,655	5,924
Amortization of debt fair value adjustment	(5,647)	(5,356)
Distributions greater (less) than current earnings of associated companies	(49)	(44)
Other, net	(7,025)	29,884
Net cash provided by operating activities of continuing operations	124,117	158,277
Cash provided by (required for) investing activities of continuing operations:		
Purchases of property and equipment	(20,623)	(19,644)
Purchases of marketable securities	(78,084)	(42,288)
Sales of marketable securities	52,483	50,056
Decrease (increase) in restricted cash	15,008	(18,664)
Acquisitions, net	(768)	(4,235)
Other, net	7,741	5,256
Net cash required for investing activities of continuing operations	(24,243)	(29,519)
Cash provided by (required for) financing activities of continuing operations:		
Proceeds from long-term debt	49,000	21,000
Payments on long-term debt	(147,500)	(128,000)
Common stock transactions, net	2,081	6,408
Cash dividends paid	(24,763)	(24,474)
Financing costs	(200)	(2,814)
Net cash required for financing activities of continuing operations	(121,382)	(127,880)
Net cash provided by (required for) discontinued operations:		
Operating activities	(782)	4,361
Investing activities	22,873	(101)
Net increase in cash and cash equivalents	583	5,138
Cash and cash equivalents:		
Beginning of period	8,638	7,543
End of period	\$ 9,221	\$ 12,681

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

LEE ENTERPRISES, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 BASIS OF PRESENTATION

The Consolidated Financial Statements included herein are unaudited. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the Company) as of June 30, 2007 and its results of operations and cash flows for the periods presented. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2006 Annual Report on Form 10-K.

Because of acquisitions, divestitures, seasonal and other factors, the results of operations for the three months and nine months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, except for its 50% interest in Madison Newspapers, Inc. (MNI), 83% interest in INN Partners, L.C. (INN), 95% interest in St. Louis Post-Dispatch LLC (PD LLC) and STL Distribution Services LLC (DS LLC), and 50% interest in TNI Partners (TNI).

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

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

2 ACQUISITIONS AND DIVESTITURES

All acquisitions are accounted for as purchases and, accordingly, the results of operations since the respective dates of acquisition are included in the Consolidated Financial Statements. These acquisitions did not have a material effect on the Consolidated Financial Statements.

In 2007, the Company purchased a minority interest in an online employment application from PowerOne Media, LLC (PowerOne), in which the Company and MNI own minority interests, at a cost of \$118,000. In 2007, PowerOne was dissolved. In 2007, the Company purchased several newspaper distribution businesses at a cost of \$1,634,000. Of which \$984,000 was included in accounts payable at June 30, 2007.

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

In September 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, and a daily newspaper in Rhinelander, Wisconsin. The Company received \$33,198,000 in September 2006 and recorded a receivable of \$20,700,000, which was collected in 2007. In October 2006, the Company sold a weekly newspaper in Oregon. The transactions resulted in an after tax loss of \$5,204,000, which was recorded in discontinued operations in 2006.

Results of discontinued operations consist of the following:

(Thousands)	Three Months Ended		Nine Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Operating revenue	\$ -	\$10,762	\$114	\$30,866
Income from discontinued operations	\$ -	\$ 2,279	\$ (16)	\$ 6,123
Gain on sale of discontinued operations	279	-	153	-
Income tax expense (benefit), net	98	878	48	2,358
	\$181	\$ 1,401	\$ 89	\$ 3,765

3 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 sites and specialty publications. TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspapers and other media. Each newspaper is solely responsible for its own news and editorial content. Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

Summarized results of TNI are as follows:

(Thousands)	Three Months Ended		Nine Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Operating revenue	\$28,483	\$30,051	\$91,394	\$92,606
Operating expenses, excluding depreciation and amortization	20,133	20,935	60,956	63,184
Operating income	\$ 8,350	\$ 9,116	\$30,438	\$29,422
Company's 50% share of operating income	\$ 4,175	\$ 4,558	\$15,219	\$14,711
Less amortization of intangible assets	1,585	1,937	4,754	4,402
Equity in earnings of TNI	\$ 2,590	\$ 2,621	\$10,465	\$10,309

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 \$401,000 and \$511,000 in the three months ended June 30, 2007 and 2006, respectively, and \$1,213,000 and \$1,457,000 in the nine months ended June 30, 2007 and 2006, respectively.

In January 2007 defined pension benefits for certain TNI employees were frozen at the current levels. As a result, TNI recognized a curtailment gain of \$2,074,000 in January 2007. See Note 7.

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 sites. Net income or loss of MNI (after income taxes) is allocated equally to the Company and The Capital Times Company. MNI conducts its business under the trade name Capital Newspapers.

Summarized results of MNI are as follows:

(Thousands)	Three Months Ended		Nine Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Operating revenue	\$27,829	\$31,043	\$84,365	\$90,938
Operating expenses, excluding depreciation and amortization	20,563	22,652	62,262	68,189
Depreciation and amortization	1,139	1,218	3,415	3,758
Operating income	6,127	7,173	18,688	18,991
Net income	3,854	4,452	11,724	11,716

Company's 50% share of net income \$ 1,927 \$ 2,226 \$ 5,862 \$ 5,858
 Debt of MNI totaled \$1,340,000 and \$8,014,000 at June 30, 2007 and September 30, 2006, 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.

4 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying value of goodwill are as follows:

(Thousands)	Nine Months Ended
	June 30, 2007
Goodwill, beginning of period	\$1,498,830
Goodwill related to acquisitions	1,634
Goodwill, end of period	\$1,500,464

Identified intangible assets consist of the following:

(Thousands)	June 30	September 30
	2007	2006
Nonamortized intangible assets:		
Mastheads	\$ 73,746	\$ 73,746
Amortizable intangible assets:		
Customer and newspaper subscriber lists	1,073,125	1,073,125
Less accumulated amortization	211,284	166,240
	861,841	906,885
Noncompete and consulting agreements	28,678	28,678
Less accumulated amortization	28,557	28,397
	121	281
	\$ 935,708	\$ 980,912

Annual amortization of intangible assets for each of the five years ending June 2012 is estimated to be \$59,949,000, \$59,185,000, \$59,135,000, \$58,565,000 and \$57,976,000, respectively.

5 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 borrowings 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 (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 Inc. (Pulitzer), a wholly-owned subsidiary of the Company, 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 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 June 30, 2007) depending, in each instance, upon the Company's leverage ratio at such time. All loans at June 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 September 2006. In addition to the scheduled payments, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. The Company repaid the B Term Loan in full in 2006.

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 June 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 June 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. The Company expects to repay approximately \$12,600,000 of the A Term Loan in 2007 related to its 2006 sales transactions.

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 (the Guaranty Agreement) with the Lenders. In turn, pursuant to an Indemnity Agreement dated May 1, 2000 (the 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 The Herald Publishing Company LLC (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 June 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 a minimum reserve

balance consisting of cash and investments in U.S. government securities, totaling approximately \$107,310,000 at June 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 11.

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, or reduce the amount of interest to be paid, to the Lenders.

Debt consists of the following:

(Thousands)	June 30 2007	September 30 2006	Interest Rate(s) June 30, 2007
Credit Agreement:			
A Term Loan	\$ 902,500	\$ 926,000	6.10-6.11%
Revolving credit facility	218,000	293,000	6.07-6.11
Pulitzer Notes:			
Principal amount	306,000	306,000	8.05
Unaccreted fair value adjustment	15,187	20,834	
	1,441,687	1,545,834	
Less current maturities	47,500	35,375	
	\$ 1,394,187	\$ 1,510,459	

Aggregate maturities of debt during the five years ending June 2012 are \$47,500,000, \$448,500,000, \$142,500,000, \$237,500,000 and \$550,500,000, respectively.

6 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 June 30, 2007 and September 30, 2006, the Company recorded an asset of \$4,616,000 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.

At June 30, 2007, \$721,000 of the asset amount noted above is related to interest rate swaps with a notional amount of \$150,000,000 that expire in November 2007.

At June 30, 2007, after consideration of the interest rate swaps described above, approximately 54% of the principal amount of the Company's debt is subject to floating interest rates.

7 PENSION, POSTRETIREMENT AND POSTEMPLOYMENT DEFINED BENEFIT 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.

In addition, 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.

The Company uses a June 30 measurement date for all of its pension and postretirement medical plan obligations.

The net periodic cost (benefit) components of the Company's pension and postretirement medical plans are as follows:

(Thousands)	Pension Plans			
	Three Months Ended June 30		Nine Months Ended June 30	
	2007	2006	2007	2006
Service cost for benefits earned during the period	\$ 389	\$ 1,287	\$ 1,519	\$ 4,131
Interest cost on projected benefit obligation	2,283	2,289	6,890	6,867
Expected return on plan assets	(3,231)	(3,112)	(9,598)	(9,384)
Amortization of net gain	(375)	-	(982)	-
Amortization of prior service cost	(24)	-	(70)	-
Special termination benefits	-	-	-	4,523
Curtailment gains	-	-	(3,865)	(102)
	\$ (958)	\$ 464	\$ (6,106)	\$ 6,035

(Thousands)	Postretirement Medical Plans			
	Three Months Ended June 30		Nine Months Ended June 30	
	2007	2006	2007	2006
Service cost for benefits earned during the period	\$ 501	\$ 844	\$ 1,597	\$ 2,533
Interest cost on projected benefit obligation	1,719	1,647	5,213	4,941
Expected return on plan assets	(554)	(518)	(1,636)	(1,554)
Amortization of net gain	(28)	-	(74)	-
Amortization of prior service cost	(58)	-	(116)	-
Special termination benefits	-	-	-	659
Curtailment gain	-	-	(1,940)	-
	\$ 1,580	\$ 1,973	\$ 3,044	\$ 6,579

\$ (71,000), \$ 151,000, \$ (2,065,000) and \$ 453,000 of net periodic pension cost (benefit) for the three months and nine months ended June 30, 2007 and 2006, respectively, is allocated to TNI.

Based on its forecast at June 30, 2007, the Company expects to contribute \$130,000 to its pension trust and \$3,000,000 to its postretirement medical plans in 2007.

2007 Curtailments

In January 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 3.

In January 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.

8 INCOME TAXES

The provision for income taxes includes deferred taxes and is based upon estimated annual effective tax rates in the tax jurisdictions in which the Company operates.

9 EARNINGS PER COMMON SHARE

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

<i>(Thousands, Except Per Share Data)</i>	Three Months Ended June 30		Nine Months Ended June 30	
	2007	2006	2007	2006
Income applicable to Common Stock:				
Continuing operations	\$22,310	\$21,316	\$60,944	\$56,151
Discontinued operations	181	1,401	89	3,765
Net income	\$22,491	\$22,717	\$61,033	\$59,916
Weighted average common shares				
Continuing operations	46,139	45,836	46,053	45,721
Less non-vested restricted Common Stock	424	348	415	341
Basic average common shares	45,715	45,488	45,638	45,380
Dilutive stock options and restricted Common Stock	172	114	138	129
Diluted average common shares	45,887	45,602	45,776	45,509
Earnings per common share:				
Basic:				
Continuing operations	\$0.49	\$0.47	\$1.34	\$1.24
Discontinued operations	-	0.03	-	0.08
Net income	\$0.49	\$0.50	\$1.34	\$1.32
Diluted:				
Continuing operations	\$0.49	\$0.47	\$1.33	\$1.23
Discontinued operations	-	0.03	-	0.08
Net income	\$0.49	\$0.50	\$1.33	\$1.32
Dividends per common share	\$0.18	\$0.18	\$0.54	\$0.54

For the three months ended June 30, 2007 and 2006, the Company has 1,174,000 and 918,000 weighted average shares, respectively, subject to issuance under its stock option plan that have no intrinsic value and are not considered in the computation of diluted earnings per common share. For the nine months ended June 30, 2007 and 2006, the weighted average shares not considered in the computation of diluted earnings per common share are 1,113,000 and 628,000, respectively.

10 STOCK OWNERSHIP PLANS**Stock Options**

A summary of activity related to the Company's stock option plan is as follows:

<i>(Thousands, Except Per Share Data)</i>	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, September 30, 2006	939	\$37.96		
Granted	304	28.72		
Exercised	(1)	21.50		
Cancelled	(36)	40.07		
Outstanding, June 30, 2007	1,206	\$35.58	6.7	-
Exercisable, June 30, 2007	749	\$36.97	5.4	-

Options to purchase 959,000 shares of Common Stock with a weighted average exercise price of \$37.96 per share were outstanding at June 30, 2006.

Total unrecognized compensation expense for unvested stock options as of June 30, 2007 is \$2,009,000, which will be recognized over a weighted average period of 1.7 years.

Restricted Common Stock

The following table summarizes restricted Common Stock activity during the nine months ended June 30, 2007:

<i>(Thousands, Except Per Share Data)</i>	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 30, 2006	335	\$43.91
Granted	197	28.73
Vested	(103)	45.37
Forfeited	(5)	35.47
Outstanding, June 30, 2007	424	\$36.59

The fair value of restricted Common Stock vested during the nine months ended June 30, 2007 totaled \$2,961,000.

Total unrecognized compensation expense for unvested restricted Common Stock as of June 30, 2007 is \$7,265,000, which will be recognized over a weighted average period of 1.7 years.

11 COMMITMENTS AND CONTINGENT LIABILITIES**Capital Commitments**

At June 30, 2007, the Company had construction and equipment purchase commitments totaling approximately \$10,007,000.

St. Louis Post-Dispatch Early Retirement Programs

In August 2007, the Company announced that the *St. Louis Post-Dispatch* has offered voluntary early retirement incentives that, to the extent accepted, will result in an adjustment of staffing levels. The incentives include enhanced pension benefits and lump sum

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cash payments based on continuous service. The total cost is estimated to be up to \$8,000,000 before income tax benefit and will be recognized in the three months ending September 30, 2007.

Up to \$3,000,000 of the estimated cost represents cash payments, with the remainder due primarily to enhancements of pension benefits.

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 cost totaled \$17,778,000 before income tax benefit, with \$9,124,000 recognized in 2005, \$8,373,000 recognized in the three months ended December 31, 2005 and \$281,000 recognized in the three months ended March 31, 2006. Approximately \$7,000,000 of the cost represented cash payments made, with the remainder due primarily to enhancements of pension and other postretirement 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 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 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. 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.

In the event the transactions effectuated in connection with either the formation of the Venture and the Initial Distribution or the organization of DS LLC are recharacterized by the Internal Revenue Service (IRS) as a taxable sale by Herald, with the result in either case that the tax basis of PD LLC's assets increases and Herald is required to recognize taxable income as a result of such recharacterization, Herald generally will be entitled to receive a special distribution from PD LLC in an amount that corresponds, approximately, to the present value of the after tax benefit to the members of PD LLC of the tax basis increase. The adverse financial effect of any such special distribution to Herald on PD LLC (and thus Pulitzer and the Company) will be partially offset by the current and deferred tax benefits arising as a consequence of the treatment of the transactions effectuated in connection with the formation of the Venture and the Initial Distribution or the organization of DS LLC as a taxable sale by Herald. In 2005, the Company was advised that the IRS, in the course of examining the 2000 consolidated federal income tax return in which Herald Inc. 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 Inc.'s response to this IRS request for information and documents. In 2006, the IRS concluded its examination without adjustment related to the Venture or the Initial Distribution and the Company considers the matter closed. The related statute of limitations expires in December 2007.

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 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 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 Company further believes that it will be able to finance such payment either from available cash reserves or by accessing the capital markets. 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.

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 primary issues in audits currently in process or being contested relate to the appropriate determination of gains, and allocation to the various taxing authorities thereof, on businesses sold in 2001. The Company may also be subject to claims for transferee income tax liability related to businesses acquired in 2000. 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.

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. The related statute of limitations expires in December 2007.

Litigation

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.

12 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which is effective for fiscal years beginning after December 15, 2006. 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 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 fiscal years beginning after November 15, 2007. 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.

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. Statement 158 is effective at the end of 2007. Had Statement 158 been adopted at September 30, 2006, the Company's assets would have increased and liabilities would have decreased in the aggregate amount of \$44,191,000, less the related income tax effect, and stockholders' equity would have increased by \$44,191,000, less the related income tax effect. Actual adjustments have not been determined as the related actuarial computations have not been performed.

Statement 158 will also require the Company to change its measurement date from June 30 to September 30, beginning in 2008. 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 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 fiscal years beginning after November 15, 2007. The Company has not completed its evaluation on the effect of Statement 159 on its Consolidated Financial Statements.

Item 2. 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 the three months and nine months ended June 30, 2007. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and the Company's 2006 Annual Report on Form 10-K.

NON-GAAP FINANCIAL MEASURES

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) represent non-GAAP financial measures that are used in the analysis below. The Company believes that operating cash flow and the related margin percentage are useful measures of evaluating its financial performance because of their focus on the Company's results from operations before depreciation, amortization and earnings of equity investments. The Company also believes that these measures are several of the alternative financial measures of performance used by investors, lenders, rating agencies and financial analysts to estimate the value of a company and evaluate its ability to meet debt service requirements.

A reconciliation of operating cash flow and operating cash flow margin to operating income, the most directly comparable measure under accounting principles generally accepted in the United States of America (GAAP), is included in the table below:

<i>(Thousands)</i>	Three Months Ended June 30, 2007	Percent of Revenue	Three Months Ended June 30, 2006	Percent of Revenue
Operating cash flow	\$73,157	26.0%	\$79,911	27.5%
Depreciation and amortization	23,060	8.2	27,908	9.6
Equity in earnings of associated companies	4,517	1.6	4,847	1.7
Operating income	\$54,614	19.4%	\$56,850	19.6%
	Nine Months Ended June 30, 2007	Percent of Revenue	Nine Months Ended June 30, 2006	Percent of Revenue
<i>(Thousands)</i>				
Operating cash flow	\$212,481	25.2%	\$212,176	25.0%
Depreciation and amortization	70,239	8.3	71,718	8.4
Equity in earnings of associated companies	16,327	1.9	16,167	1.9
Operating income	\$158,569	18.8%	\$156,625	18.4%

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, represent non-GAAP financial measures that are used in the analysis below. The Company believes the use of adjusted income from continuing operations and adjusted earnings per common share provide meaningful supplemental information to investors and financial analysts with which to evaluate its financial performance by excluding matters that may not be indicative of its core business operating results and are of a substantially non-recurring nature. The Company also believes that both management and investors benefit from referring to these non-GAAP financial measures in assessing the Company's performance and in forecasting and analyzing future periods that are not likely to include the adjusted items. References to these non-GAAP measures should not, however, be considered a substitute for income from continuing operations and earnings per common share presented in accordance with GAAP.

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 information for an understanding of changes in its revenue and operating expenses. Same property comparisons exclude TNI and MNI. The Company owns 50% of TNI and also owns 50% of the capital stock of MNI, both of which are reported using the equity method of accounting. Same property comparisons also exclude corporate office costs.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its results of operations and financial condition 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, including those related to intangible assets and income taxes. 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.

The Company's critical accounting policies include the following:

- Goodwill and other intangible assets
- Pension, postretirement and postemployment benefit plans
- Income taxes
- Revenue recognition
- Uninsured risks

Additional information regarding these critical accounting policies can be found under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2006 Annual Report on Form 10-K and the Notes to Consolidated Financial Statements, included herein.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes*, which is effective for fiscal years beginning after December 15, 2006. 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 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 fiscal years beginning after November 15, 2007. 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.

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. Statement 158 is effective at the end of 2007. Had Statement 158 been adopted at September 30, 2006, the Company's assets would have increased and liabilities would have decreased in the aggregate amount of \$44,191,000, less the related income tax effect, and stockholders' equity would have increased by \$44,191,000, less the related income tax effect. Actual adjustments have not been determined as the related actuarial computations have not been performed.

Statement 158 will also require the Company to change its measurement date from June 30 to September 30, beginning in 2008. 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 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 fiscal years beginning after November 15, 2007. The Company has not completed its evaluation on the effect of Statement 159 on its Consolidated Financial Statements.

EXECUTIVE OVERVIEW

The Company directly, and through its ownership of associated companies, publishes 56 daily newspapers in 23 states and more than 300 weekly, classified and specialty publications, along with associated and integrated online services. 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 April 2002, the Company acquired ownership of 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 July 2002, the Company 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 two daily newspapers in Burley, Idaho and Elko, Nevada.

In June 2005, the Company acquired Pulitzer. Pulitzer published 14 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. The acquisition of Pulitzer increased the Company's circulation by more than 50% to almost 1.7 million daily and more than 1.9 million Sunday, and revenue, on an annualized basis, by more than 60%. In 2006, the Company sold the assets of *The Daily News* in Rhinelander, Wisconsin, the smallest of these newspapers.

In 2006, the Company sold the assets of its publishing and commercial printing operations in Seattle and Spokane, Washington and Portland, Oregon.

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

- Grow revenue creatively and rapidly;
- Emphasize strong local news;
- Accelerate online innovation;
- Increase circulation, readership and online audience;
- Nurture employee development and achievement; and
- Exercise careful cost control.

Certain aspects of these priorities are discussed below.

More than 77% of the Company's revenue is derived from advertising. The Company's strategies are to increase its share of local advertising through increased sales pressure in its existing markets and, over time, to increase its audience and circulation unit sales 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.

Decreases in advertising and total revenue in the three months ended June 30, 2007 more than offset decreases in operating expenses (including depreciation and amortization) and resulted in lower operating cash flow and operating income. Decreased financial expense and income tax expense offset the above and resulted in higher income from continuing operations. Unusual costs in the prior year impacted results.

Decreases in advertising and total revenue in the nine months ended June 30, 2007 were more than offset by decreases in operating expenses (including depreciation and amortization) resulting in higher operating cash flow, operating income and income from continuing operations. Unusual costs in the prior year and unusual cost reductions in the current year impacted results.

THREE MONTHS ENDED JUNE 30, 2007

Results from continuing operations, as reported in the Consolidated Financial Statements, are summarized below:

<i>(Thousands, Except Per Share Data)</i>	Three Months Ended June 30		Percent Change	
	2007	2006	Total	Same Property
Advertising revenue:				
Retail	\$ 112,577	\$ 118,017	(4.6)%	(4.6)%
National	11,975	13,862	(13.6)	(13.6)
Classified:				
Daily newspapers:				
Employment	21,275	23,994	(11.3)	(11.3)
Automotive	14,008	15,964	(12.3)	(12.3)
Real estate	15,104	16,506	(8.5)	(8.5)
All other	10,842	10,813	0.3	0.3
Other publications	12,603	12,371	1.9	1.9
Total classified	73,832	79,648	(7.3)	(7.3)
Online	16,200	10,051	61.2	61.2
Niche publications	4,326	4,422	(2.2)	(2.2)
Total advertising revenue	218,910	226,000	(3.1)	(3.1)
Circulation				
Commercial printing	4,309	4,600	(6.3)	(4.3)
Online services and other	8,239	8,300	(0.7)	1.6
Total operating revenue	281,375	290,544	(3.2)	(3.1)
Compensation				
Newsprint and ink	27,077	30,766	(12.0)	(10.2)
Other operating expenses	73,243	69,852	4.9	5.2
Transition costs	-	1,677	NM	NM
Total operating expenses, excluding depreciation and amortization	208,218	210,633	(1.1)	(0.2)
Operating cash flow	73,157	79,911	(8.5)	(9.9)
Depreciation and amortization	23,060	27,908	(17.4)	(17.9)
Equity in earnings of associated companies	4,517	4,847	(6.8)	
Operating income	54,614	56,850	(3.9)	
Non-operating expense, net	(19,557)	(21,988)	(11.1)	
Income from continuing operations before income taxes	35,057	34,862	0.6	
Income tax expense	12,376	13,177	(6.1)	
Minority interest	371	369	0.5	
Income from continuing operations	\$ 22,310	\$ 21,316	4.7%	
Earnings per common share:				
Basic	\$ 0.49	\$ 0.47	4.3%	
Diluted	0.49	0.47	4.3	

Day exchanges in the quarter can affect results in varying degrees. Sundays normally generate more advertising revenue than any other day of the week. The former Pulitzer newspapers use period accounting and were not affected by day exchanges.

In total, 2006 acquisitions and divestitures accounted for \$953,000 of operating revenue and \$857,000 of operating expenses, other than depreciation and amortization, in the three months ended June 30, 2007. Acquisitions and divestitures accounted for \$1,235,000 of operating revenue and \$1,154,000 of operating expenses, other than depreciation and amortization, in the three months ended June 30, 2006. For the three months ended June 30, 2007, total same property operating revenue decreased \$8,887,000, or 3.1%.

Advertising Revenue

Same property advertising revenue decreased \$7,085,000, or 3.1%, for the three months ended June 30, 2007.

On a combined basis, print and online retail advertising decreased 2.8% and classified advertising decreased 2.1% during the three months ended June 30, 2007.

Same property print retail revenue decreased \$5,434,000, or 4.6%. The same property average retail rate, excluding preprint insertions, decreased 1.3%. Same property preprint insertion revenue increased 1.4%.

Same property print classified advertising revenue decreased \$5,818,000, or 7.3%, for the three months ended June 30, 2007. Higher margin employment advertising in the Company's daily newspapers decreased 11.3% on a same property basis, and same property real estate classified revenue decreased 8.5%, in a soft housing market nationally, which also negatively impacted retail revenue. Same property automotive classified advertising decreased 12.3% amid a continuing industry-wide decline. Same property average classified rates decreased 4.0%.

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

(Thousands of Inches)	Three Months Ended June 30		Percent Change
	2007	2006	
Retail	3,323	3,539	(6.1)%
National	163	193	(15.5)
Classified	4,184	4,408	(5.1)
	7,670	8,140	(5.8)%

Online advertising increased \$6,149,000, or 61.2%, on a same property basis, due to rate increases and expanded cross-selling with the Company's print publications. In addition, the Company began selling online employment advertising on Yahoo! Hot Jobs during the second quarter of 2007. Advertising in niche publications decreased 2.2% on a same property basis.

Circulation and Other Revenue

Same property circulation revenue decreased \$1,724,000, or 3.3%, in the current year quarter. The Company's unaudited average daily newspaper circulation units, including TNI and MNI, decreased 1.3% and Sunday circulation decreased 2.3% for the three months ended June 2007, compared to the prior year. 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 \$192,000, or 4.3%. Same property online services and other revenue increased \$114,000, or 1.6%.

Operating Expenses and Results of Operations

Same property compensation expense decreased \$784,000, or 0.7%, in the current year quarter. Same property full-time equivalent employees decreased 0.6%.

In August 2007, the Company announced that the *St. Louis Post-Dispatch* has offered voluntary early retirement incentives that, to the extent accepted, will result in an adjustment of staffing levels. The incentives include enhanced pension benefits and lump sum cash payments based on continuous service. The total cost is estimated to be up to \$8,000,000 before income tax benefit and will be recognized in the three months ending September 30, 2007. Up to \$3,000,000 of the estimated cost represents cash payments, with the remainder due primarily to enhancements of pension benefits. The annual pretax savings from the program, net of positions filled, is estimated to be up to \$3,000,000 per year beginning in 2008.

Same property newsprint and ink costs decreased \$3,111,000, or 10.2%, in the current year quarter due to newsprint price decreases and a decrease in usage. Newsprint prices, which had been increasing since the

summer of 2002, began to decrease in September 2006. Such costs may continue to decline for the remainder of the fiscal year. Same property newsprint volume decreased 6.5% due to migration to lighter weight paper and narrower page widths.

Same property other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint and ink, depreciation or amortization, increased \$3,487,000, or 5.2%, in the current year quarter. 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 continue to rise, but at a lower rate of growth, for the remainder of the fiscal year.

Transition costs related to the acquisition of Pulitzer totaled \$1,677,000 for the three months ended June 30, 2006. Such costs are not included in same property comparisons. 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.

Operating cash flow declined 8.5% to \$73,157,000 in the current year quarter from \$79,911,000 in the prior year. Operating cash flow margin decreased to 26.0% from 27.5% in the prior year quarter due to a 9.9% decrease in same property operating cash flow. Same property operating cash flow margin decreased to 27.5%, from 29.6% in the prior year quarter.

Depreciation and amortization expense decreased \$4,856,000, or 17.9%, on a same property basis. 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 was decreased from approximately 21 years to 17 years. In the third quarter of 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 associated companies.

Equity in earnings of associated companies decreased to \$4,517,000 in the current year quarter, compared to \$4,847,000 in the prior year quarter.

Operating income decreased 3.9% to \$54,614,000. Operating income margin decreased to 19.4% from 19.6%.

Nonoperating Income and Expense

Financial income increased \$912,000 due to increased earnings in cash and investments. Financial expense decreased \$1,540,000 due to lower levels of debt, partially offset by higher interest rates.

Overall Results

The Company's effective income tax rate decreased to 35.3% from 37.8% in the prior year quarter. The Company believes, absent unusual tax settlements, that its effective income tax rate in 2007 will approximate the rate for the three months ended June 30, 2007.

As a result of all of the above, earnings per diluted common share increased 4.3% to \$0.49 per share from \$0.47 per share in the prior year quarter.

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Excluding unusual costs as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.49 for the three months ended June 30, 2007, compared to \$0.58 in the prior year quarter.

<i>(Thousands, Except Per Share Data)</i>	Three Months Ended June 30			
	2007		2006	
	Amount	Per Share	Amount	Per Share
Income from continuing operations, as reported	\$22,310	\$0.49	\$21,316	\$0.47
Adjustments to income from continuing operations:				
Reduction in value of intangible assets	-		5,526	
Transition costs	-		1,677	
	-		7,203	
Income tax (benefit) of adjustments, net	-		(1,984)	
	-	-	5,219	0.11
Income from continuing operations, as adjusted	\$22,310	\$0.49	\$26,535	\$0.58

NINE MONTHS ENDED JUNE 30, 2007

Results from continuing operations, as reported in the Consolidated Financial Statements, are summarized below:

<i>(Thousands, Except Per Share Data)</i>	Nine Months Ended June 30		Percent Change	
	2007	2006	Total	Same Property
Advertising revenue:				
Retail	\$ 346,518	\$ 353,550	(2.0)%	(2.0)%
National	42,831	45,641	(6.2)	(6.2)
Classified:				
Daily newspapers:				
Employment	60,992	66,859	(8.8)	(8.8)
Automotive	41,190	44,750	(8.0)	(8.0)
Real estate	43,856	46,854		