LEE ENTERPRISES

PUBLISHING • BROADCASTING • ONLINE

1999 Annual Report

Lee Enterprises is a diversified media company employing 6,100 people in more than 100 business enterprises located primarily in the Midwest, West, Pacific Northwest and Southwestern United States.

The company is headquartered in Davenport, Iowa, and is strategically organized to:

- *Be a major provider of local and niche information to our customers.*
- *Provide results for our advertisers; and*
- *Expand into markets that provide growth opportunities.*

Lee's core businesses include 21 daily newspapers, nine network-affiliated television stations, seven satellite stations, more than 80 weekly newspapers and classified, shopper or specialty publications, and a division for commercial printing.

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Corporate Directory

General Office

Lee Enterprises, Incorporated
215 N. Main Street
Davenport, Iowa 52801-1924
(319) 383-2100
www.lee.net

Securities Market

The New York Stock Exchange
Trading Symbol: LEE

Online information: *www.lee.net*

At *www.lee.net* you may access the latest news and shareholder information, including monthly statistics, quarterly reports and Form 10-K for fiscal 1999, as filed with the SEC. You may request a printed copy of quarterly reports or Form 10-K by writing to or calling corporate headquarters.

Transfer Agent and Registrar

EquiServe Trust Company
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 446-2617 (Inside the United States)
(201) 324-0498 (Outside the United States)

Website: *www.equiserve.com*

For access to your account via the Internet you may visit *http://gateway.equiserve.com*

General Counsel

Lane & Waterman
220 N. Main Street, Suite 600
Davenport, Iowa 52801

Auditors

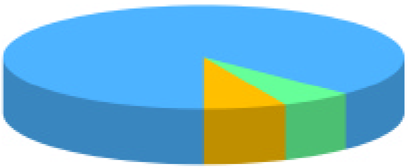
McGladrey & Pullen, LLP
220 N. Main Street, Suite 900
Davenport, Iowa 52801

Annual Meeting

The annual meeting of shareholders will be held in the Company's General Office, 400 Putnam Building, 215 North Main Street, Davenport, Iowa, at 9:00 a.m. in the second floor conference room on Tuesday, January 25, 2000.

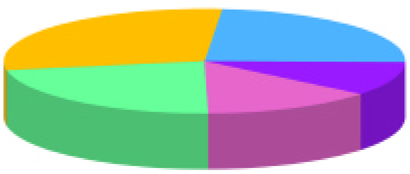
Sources and Uses of Cash

Year Ended September 30, 1999



Sources

Operations	$ 97,852
Decreased Cash Balances	6,405
All Other	7,043
Total	**$ 111,300**



Uses

Purchase property & equipment . .	$ 32,431
Pay Cash Dividends	26,623
Purchase Lee Stock	11,830
Acquisitions	15,416
Pay Debt	25,000
Total	**$ 111,300**

Two-Year Summary Highlights

Lee Enterprises, Incorporated, and Subsidiaries

(In Thousands Except Per Share Data)	**1999**	1998	% Change
For The Year			
Operating revenue	**$ 536,333**	$ 517,293	3.7%
Income before interest, taxes, depreciation and amortization (EBITDA)	**156,488**	150,423	4.0
Operating income	**116,740**	112,847	3.4
Net income	**67,973**	62,233	9.2
At Year End			
Assets	**$ 679,513**	$ 660,585	2.9%
Debt, including current maturities	**204,625**	219,481	(6.8)
Stockholders' equity	**354,329**	319,759	10.8
Per Share			
Diluted earnings per share	**$ 1.52**	$ 1.37	10.9%
Dividends	**0.60**	0.56	7.1
Return			
EBITDA as a percent of revenue	**29.2%**	29.1%	0.3%
Net income as a percent of revenue	**12.7%**	12.0%	5.8%

A Message to Shareholders, Employees and Friends

Richard D. Gottlieb
President and
Chief Executive Officer

As you have come to expect in this first paragraph, Lee Enterprises once again achieved record revenue and earnings in 1999.

As you also have come to expect in this annual message, our company remains focused, nonetheless, on long-term growth, not short-term gains.

For those two reasons combined, 1999 was a good and important year for Lee, with unprecedented change for the better throughout our company.

If you consider the year only from a consolidated financial viewpoint, it was less than picture perfect but, still, pretty good. You wouldn't jump for joy, but it was pretty good. Net income increased 9.2 percent and diluted earnings per share increased nearly 11.0 percent.

Inside the segments, you will see a contrast. In publishing, revenue grew 5.8 percent and earnings before interest, income taxes, depreciation and amortization (EBITDA) grew 9.3 percent. The broadcasting segment had a difficult year, however. Revenue declined 2.8 percent, and EBITDA declined 13.4 percent.

There is much more to the story, so please read on. When you look deeper, I think you'll see the reasons for my enthusiasm for how we finished 1999 and how we enter 2000.

New leadership

First — as we say in our newsrooms, I don't want to bury the lead. The single most important outcome of 1999 is that we have formed outstanding new leadership teams both at the top and throughout our company.

Our businesses, like most everywhere, are changing rapidly, and what worked so very well yesterday may not work at all tomorrow. No matter how good we think we are, and no matter how good we have been in the past, we have to get better, much better. Our publishers and general managers know that, but I called on them last spring to re-examine absolutely everything they do and make big changes, not small, to add more value for customers, employees and shareholders. Less than two weeks later, I was able to announce that I had taken my own advice. I went out and recruited

Income tax expense for the years ended September 30, 1999, 1998 and 1997 is different from the amount computed by applying the U.S. federal income tax rate to income before income taxes. The reasons for these differences are as follows:

	% of Pretax Income		
	1999	1998	1997
Computed "expected" income tax expense	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**3.9**	3.9	4.4
Net income of associated companies taxed at dividend rates	**(2.7)**	(2.6)	(2.4)
Goodwill amortization	**1.6**	1.7	1.7
Other	**(1.6)**	(0.2)	(0.7)
	36.2%	37.8%	38.0%

Foreign taxes are not material.

Net deferred tax liabilities consist of the following components as of September 30, 1999, 1998, and 1997:

	1999	1998	1997
		(In Thousands)	
Deferred tax liabilities:			
Property and equipment	**$ 8,863**	$ 8,334	$ 9,409
Equity in undistributed earnings of affiliates	**1,267**	1,096	903
Deferred gain on sale of broadcast properties	**3,308**	3,308	3,308
Identifiable intangible assets	**34,163**	32,653	32,319
Other	**2,831**	2,981	3,334
	$50,432	$ 48,372	$ 49,273
Deferred tax assets:			
Accrued compensation	**$ 8,309**	$ 7,747	$ 7,950
Receivable allowance	**1,060**	728	1,976
Loss carryforwards acquired	**5,588**	6,774	7,961
Capital loss carryforward	**7,591**	8,121	8,425
Other	**1,708**	1,745	2,135
	$24,256	$ 25,115	$ 28,447
Less, valuation allowance	**13,179**	15,325	15,325
	$11,077	$ 9,790	$ 13,122
	$39,355	$ 38,582	$ 36,151

The components giving rise to the net deferred tax liabilities described above have been included in the accompanying balance sheets as of September 30, 1999, 1998, and 1997 as follows:

	1999	1998	1997
		(In Thousands)	
Current assets	**$ 5,595**	$ 5,038	$ 6,392
Noncurrent liabilities	**(44,950)**	(43,620)	(42,543)
	$(39,355)	$(38,582)	$(36,151)

The Company provided a valuation allowance due to limitations imposed by the tax laws on the Company's ability to realize the benefit of capital loss and net operating loss carryforwards. During the year ended September 30, 1999, $2,146,000 of the valuation allowance was transferred to the tax contingency which is included in income taxes payable with no effect on tax expense. As of September 30, 1999, the Company had a net operating loss carryforward of approximately $14,146,000, which will expire in varying amounts from 2003 to 2010.

Note 10. *Fair Value of Financial Instruments*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

The carrying amounts of cash and cash equivalents, temporary investments, receivables, and accounts payable approximate fair value because of the short maturity of those instruments. The carrying value of other investments consisting of debt and equity securities in a deferred compensation trust are carried at fair value based upon quoted market prices, a $2,500,000 investment in debt and equity securities in Ad One (a 7.14% interest) is carried at cost which approximates fair market value and $3,818,000 of equity securities, consisting primarily of the Company's 17% ownership of the nonvoting common stock of The Capital Times Company, are carried at cost, as the fair value is not readily determinable.

The fair value of the Company's debt 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. The estimated fair values of the Company's debt instruments are as follows:

	Carrying Amount	*Fair Value*
	(In Thousands)	
September 30:		
1999	$ 204,625	$ 202,047
1998	219,481	245,784
1997	203,735	204,603

Note 11. *Earnings Per Share*

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

	September 30,		
	1999	1998	1997
	(In Thousands Except Per Share Data)		
Numerator:			
Income applicable to common shares:			
Income from continuing operations	**$ 67,973**	$ 62,233	$ 62,745
Income from discontinued operations	—	—	1,485
	$ 67,973	$ 62,233	$ 64,230
Denominator:			
Basic weighted-average common shares outstanding	**44,273**	44,829	46,393
Dilutive effect of employee stock options	**588**	728	850
Diluted outstanding shares	**44,861**	45,557	47,243
Basic earnings per share:			
Income from continuing operations	**$ 1.54**	$ 1.39	$ 1.35
Income from discontinued operations	—	—	.03
Net income	**$ 1.54**	$ 1.39	$ 1.38
Diluted earnings per share:			
Income from continuing operations	**$ 1.52**	$ 1.37	$ 1.33
Income from discontinued operations	—	—	.03
Net income	**$ 1.52**	$ 1.37	$ 1.36

"As I look out across our company, I see many, many dozens of highly capable leaders with the right values, energy, skill, creativity and customer focus."

as president of the broadcast group, he recruited a successor, Colleen Brown, with a mandate to improve our television operations. She has done exactly that. She joined us a year ago, and by the time she succeeded Gary in July, she had made leadership changes at five of our nine network-affiliated stations, created a unified direction, cross-pollinated our best thinking and put strong sales leadership in place to take advantage of our rapidly rising news ratings.

Other members of our top operating team, along with Mary, Phil, Randy, Greg and Colleen, are Larry Bloom, senior vice president for finance and chief financial officer; Gregory Schermer, vice president for interactive media; and Vytenis Kuraitis, vice president for human resources.

As I look across our company, I see many, many dozens of highly capable leaders with the right values, energy, skill, creativity and customer focus. Our collective future has never been in better hands.

Publishing

Exclusive of acquisitions, advertising revenue rose 5.1 percent, and costs other than depreciation and amortization rose 1 percent. EBITDA increased 9.3 percent, and EBITDA as a percent of revenue increased from 32.6 percent to 33.7 percent.

On a proforma basis, local advertising inches grew 3.5 percent, and classified advertising inches grew 7.1 percent. Circulation units declined 2.0 percent, following slight growth the year before. Readership and circulation growth are key objectives for 2000.

For our alternative publications, the year was tougher, as a result of an unfavorable economy for our agricultural publications, sluggish advertising revenue in some markets, investments at our larger classified and weekly publications, and increased costs for improved employee benefits. We believe the investments have positioned our alternative publications well going into 2000.

Our clustering/regionalization strategy in and around growth markets continues to guide our decisions on acquisitions.

In 1999, we purchased the *Ravalli Republic*, a 5,200-daily newspaper in Hamilton, Montana, to complement our operations in western Montana. To the north, we also purchased two weekly newspapers, the *Hungry Horse News* in Columbia Falls and the *Whitefish Pilot* in Whitefish.

To complement our operations in the Pacific

Northwest, we purchased *Nickel* classified publications in Medford and Klamath Falls, Oregon, and at Redding, California. We also purchased Spokane Print and Mail, which operates two classified publications and provides full-service printing and direct-mail services.

To complement our operations in eastern Nebraska, we acquired the *Beatrice Daily Sun*, an 8,700 daily, through a trade of assets with Liberty Group Publishing. Liberty received *The Ottumwa Courier* in Iowa and the *Kewanee Star Courier* in Illinois. Liberty also received two weeklies in Illinois, the *Times Record* in Aledo and the *Henry County Advertizer* in Geneseo. In addition to the *Beatrice Sun*, Lee received $9.3 million in cash.

This trade, which was closed on October 1, 1999, will strengthen Lee's position in one of our most dynamic markets. It will take advantage of the $32 million printing facility under construction at the *Lincoln Journal Star*, and it will provide other operating efficiencies and regional marketing opportunities. Nonetheless, the trade pulled very hard at our heartstrings.

Lee had operated *The Ottumwa Courier* since 1890, when A.W. Lee purchased it as the first paper in what eventually would become Lee Enterprises. In Kewanee, Lee had owned the *Star Courier* since 1926, and three of Lee's former presidents began their careers there. Although we believe the trade is in the best interest of Lee Enterprises and, ultimately, the affected properties and the people in them, we arrived at the decision only after long reflection and with a measure of sadness.

Also as part of our clustering strategy, we sold our classified publications in Prescott, Arizona, as they did not fit with other regional operations.

At Albany and Corvallis, Oregon, where the *Democrat-Herald* and *Gazette Times* created a new regional Sunday newspaper a year ago, the benefits from clustering continue to add value for both customers and shareholders. For example, The Associated Press Sports Editors rated the *Mid-Valley Sunday* sports section among the top 10 best in the country, for circulation size. The Oregon Newspaper Publishers Association chose the *Mid-Valley Sunday* sports section as the best in the state, regardless of size. The collaboration extends throughout the operations, and support functions have been centralized to reduce costs and provide better service.

The same process is taking place at the *La Crosse Tribune* in Wisconsin and the nearby *Winona Daily News* in Minnesota. Although the daily products continue to serve the distinctive needs of the two communities, the newspapers have formed a strategic business unit and have merged many support operations, including financial services, human resources and even the newsroom copy desk. Last summer, they completed development of a joint production and distribution facility, the main component of a $3.5 million project to facilitate regional efficiencies.

Similar approaches are under way for our

newspapers at Davenport and Muscatine, Iowa, as well as at Missoula and Hamilton, Montana, and Lincoln and Beatrice, Nebraska.

All of our daily newspapers have begun converting to a narrower page size, which we believe will become the new industry standard. Our new width will be 12.5 inches, one inch narrower. Even after the cost of converting our presses, that one inch will reduce our newsprint expense by nearly a million dollars in 2000. At *The Bismarck Tribune* in North Dakota and at the *Southern Illinoisan* in Carbondale, our first papers to convert, customers have responded favorably to the handier new size, as have customers at other newspapers around the country. All of our conversions will be completed by next fall.

We will need the savings. After a year of favorable prices, suppliers announced a 10.7 percent increase in October, and there have been projections for another increase this spring.

All of our daily newspapers also have launched aggressive process improvement programs, using methods developed by the Newspaper Association of America's Partners 2000 initiative, which Lee helped pioneer at the *Billings Gazette* in Montana. Each paper has identified targets and set goals for streamlining internal processes in order to improve value for customers. For example, the *Lincoln Journal Star* has set goals for reducing the number of steps in advertising sales and design, with goals for improving accuracy, speed, customer satisfaction and, ultimately, an increase in total active accounts.

In order to help increase readership and circulation, we have renewed our company-wide emphasis on strong local journalism. Each newspaper still charts its own course on how best to serve local readers, but our editors have begun developing joint visions for excellence, including a statement of principles for quality journalism.

Broadcasting

Despite a challenging year, our broadcasting segment has renewed itself and is entering 2000 in an excellent position to take advantage of its expense controls, upgraded equipment, improved sales focus, growth in ratings and strong new teams.

For the year, total revenue declined 2.8 percent and cash costs increased 1.5 percent, resulting in a decrease of 13.4 percent in EBITDA.

I'm not going to dance around this: We needed to fix many things. But we also were affected — disproportionately more than our peers — by the off-year decline in political advertising. We happen to be located in markets where political advertising produces greater ebbs and flows from year to year. This results in severe swings in revenue, which makes year-to-year comparisons difficult. Nonetheless, during the fourth quarter our stations finished strong and were able to offset $1.7 million of political advertising last year

"Newspapers as we know them are going to remain necessary and successful for a long, long time."

through improved local, regional and national advertising results.

For speed of change, Colleen and her team have set an excellent example for all of us in Lee. Within the last year, they have put strong, new teams into place. They have established new standards for excellence in sales, news, community service and engineering. They have created a strong new vision for collaboration, innovation and best practices. And they have raised audience ratings steadily and, in some cases, significantly.

As an example of innovation, our management team at KOIN in Portland, Oregon, saved our company millions of dollars in capital expense by spearheading a project with other stations to build a joint new tower. The tower, which has been erected on land owned by KOIN, was necessary to accommodate the new, federally mandated digital broadcasting standard.

Our relationship with the television networks continues to evolve as they seek ways to share programming costs and improve network profitability through reductions in station compensation. They are also experimenting with alternative distribution channels. We expect this trend to continue but we also believe the over-the-air broadcast system will continue to be the most powerful model for many years to come. The recently enacted satellite transmission legislation strengthens the position of local network affiliates in the market, as satellite services will be required to broadcast our signals instead of distant network signals.

We also believe that there will be ways to use the digital spectrum to fund a portion of the investment required for high-definition TV.

Online

Overall, we spent more than $4 million on Internet activities during 1999, including investments in our International Newspaper Network and Internet Broadcasting Systems partnerships. The ventures had revenue in excess of $1.3 million. Revenues are expected to double in 2000, and we again will invest all of the proceeds and more in market development for these ventures. We also invested $2.5 million for a 7.14 percent ownership in the AdOne Classified Network.

At the start of fiscal 1999, the number of page views for all the web pages in Lee totaled only 3 million a month. By the end of the year, owing both to the growth of the Internet and to our expanded offerings, the page views had

"We will continue to succeed to the extent that we focus not on our own success but rather on the success of our customers and our communities."

risen to 13 million a month. Revenue from our own sites doubled in 1999 to $2 million, and our plan calls for it to double again in 2000. Development costs totaled $3 million.

Newspapers as we know them are going to remain necessary and successful for a long, long time. But, as each day goes by, the Internet becomes more important in the way all of us communicate, get information and do business. It represents a fundamental shift that cannot be met by any strategy other than a full embrace.

At the center of our full embrace is our customers. While we want to protect our classifieds, of course, our real goal is to use the Internet to add value, strengthening the well-earned dominance of the printed page. AdOne will join us with a national network of classifieds, providing better results for our advertising customers and more options for our classified readers.

It's the same with e-commerce: As we make our web sites more integral to our communities and as we provide better e-commerce solutions for our customers, we build on the value our newspapers already provide. Whether in print or online, we intend to remain the leading source for information in our communities.

That, essentially, is our strategy: A full embrace. It will continue to cost us money, but the money will be well spent.

You can access all of our web sites through the Lee home page at *www.lee.net*. You also can see the latest news releases, employee newsletters and a wide range of financial information, including stock quotes, SEC filings, monthly statistics and quarterly reports. Please take a look at all of our sites and give us feedback.

In closing…

For most of fiscal 1999, I was privileged to serve as chairman of the Newspaper Association of America, giving me a unique perspective on the health and the future of the industry.

I can assure you without hesitation that both are rock solid.

Newspapers are strong. They are very, very strong. Americans buy more than 56 million newspapers every day, and an average of 2.33 people read each copy. Six out of 10 adults read a paper every day, and almost seven out of 10 read one on Sunday. Nothing else reaches

so many people on a regular basis. In the past 50 years we've seen the rise of television, cable, specialty publications, direct mail and the Internet. Yet still — *STILL* — newspapers are within 10 percentage points of the market share they held when Harry Truman was in the White House.

Some people see newspapers as frozen in time, unable or unwilling to fill new needs. They think it's only a matter of a few years before new technology makes us irrelevant, before we lack a critical mass of readers, before we lose our bases of advertisers. They think we are dinosaurs waiting to go extinct.

They are wrong.

What they fail to understand is simply this: Newspapers have always changed, are changing now and will continue to change in order to meet changing needs of customers and communities.

That's why newspapers remain the most important medium, by far, in the lives of most people — and that's why the same will be true far into the next century and beyond.

I do not, by any means, reserve my enthusiasm only for newspapers. Our online segment becomes more important by the day, and there are exciting futures ahead as well for classified publications, weekly newspapers, shoppers and alternative publications. Broadcasting is entering even more exhilarating times, with an unfolding array of breathtaking opportunities through digital transmission and other new technologies. These are all terrific businesses that promise to keep getting better.

Our success won't happen without plenty of effort, certainly. More than ever, we will need innovation, dedication, customer-focused leadership and, especially, the higher calling that we have heard so clearly and often throughout history.

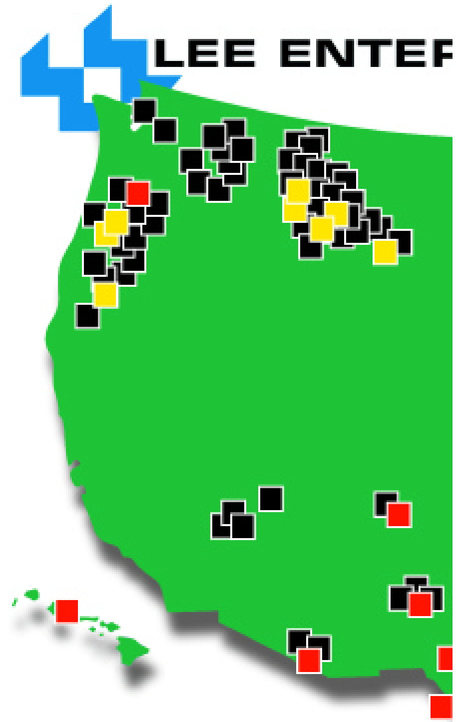
Let me say that another way:

For newspapers, television stations and all of Lee's operations, we will continue to succeed to the extent that we focus not on our own success but rather on the success of our customers and our communities. When we serve them in continually better ways, we coincidentally will earn our own rewards, as well as preserve our destiny.

Here's to our place in a great new year, a great new century and a great new millennium.

Richard D. Gottlieb
President and
Chief Executive Officer

Operations and Markets



Broadcasting

Arizona

KGUN-9 (ABC)
Tucson
www.kgun.com

Hawaii

KGMB-9 (CBS)
Honolulu
www.kgmb.com

Kansas

KSNG-11 (NBC)
Garden City
www.ksn.com

KSNC-2 (NBC)
Great Bend
www.ksn.com

KSNK-8 (NBC)
Oberlin
www.ksn.com

KSNT-27 (NBC)
Topeka
www.ksnt.com

KSNW-3 (NBC)
Wichita
www.ksnw.com

Nebraska

KMTV-3 (CBS)
Omaha, Nebraska
www.kmtv.com

New Mexico

KRQE-13 (CBS)
Albuquerque
www.cbssouthwest.com

KREZ-6 (CBS)
Durango, Colorado /
Farmington, New Mexico
www.cbssouthwest.com

KBIM-10 (CBS)
Roswell
www.cbssouthwest.com

Oregon

KOIN-6 (CBS)
Portland
www.koin.com

Texas

KMAZ-48 (Telemundo)
El Paso

West Virginia

WSAZ-3 (NBC)
Huntington/Charleston
www.wsaz.com

Daily Newspapers

Illinois

Southern Illinoisan
Carbondale,
Daily: 26,066 Sunday: 34,300

TMC: 35,100
www.southernillinoisan.com

Herald & Review, Decatur
Daily: 36,845 Sunday: 45,470
TMC: 22,000
www.herald-review.com

Iowa

Quad-City Times, Davenport
Daily: 53,869 Sunday: 76,145
TMC: 28,000
www.qctimes.com

Globe-Gazette, Mason City
Daily: 20,232 Sunday: 24,566
TMC: 5,773
www.globegazette.com

Muscatine Journal
Daily: 8,459 TMC: 16,944
www.muscatinejournal.com

Minnesota

Winona Daily News
Daily: 12,259 Sunday: 12,967
TMC: 11,261
www.winonadailynews.com

Montana

Billings Gazette
Daily: 48,977 Sunday: 55,078
TMC: 14,832
www.billingsgazette.com

The Montana Standard, Butte
Daily: 15,075 Sunday: 15,292
www.montanastandard.com

Independent Record, Helena
Daily: 13,532 Sunday: 14,544
TMC: 6,500
www.helenair.com

Missoulian, Missoula
Daily: 32,031 Sunday: 37,818
TMC: 15,460
www.missoulian.com

Ravalli Republic, Hamilton
Daily: 5,200
TMC: 16,000

Nebraska

Beatrice Daily Sun
Daily: 8,700
www.beatricedailysun.com

Lincoln Journal Star
Daily: 75,201 Sunday: 83,392
www.journalstar.com

North Dakota

The Bismarck Tribune
Daily: 30,290 Sunday: 32,942
TMC: 34,600
www.ndonline.com

Oregon

Democrat-Herald, Albany
Daily: 21,391
Mid-Valley Sunday: 34,910 [1]
TMC: 16,500
www.mvonline.com

Ashland Daily Tidings
Daily: 4,885 TMC: 5,975
www.dailytidings.com

Corvallis Gazette-Times
Daily: 13,160
Mid-Valley Sunday: 34,910 [1]
TMC: 16,500
www.mvonline.com

South Dakota

Rapid City Journal
Daily: 32,226 Sunday: 33,471
TMC: 15,027
www.rapidcityjournal.com

Wisconsin

La Crosse Tribune
Daily: 32,112 Sunday: 40,217
TMC: 21,270
www.lacrossetribune.com

Wisconsin State Journal [2]
Madison

Daily: 87,340 Sunday: 159,597
TMC: 44,480
www.madison.com

The Journal Times, Racine
Daily: 31,912 Sunday: 33,043
TMC: 29,050
www.journaltimes.com

Weekly Newspapers

Iowa

Bettendorf News
Circulation: 2,600

Montana

Big Fork Eagle
Circulation: 4,500
www.bigforkeagle.com

Hungry Horse News,
Columbia Falls
Circulation: 7,000
www.hungryhorsenews.com

Whitefish Pilot
Circulation: 4,000
www.whitefishpilot.com

Nebraska

The Plattsmouth Journal
Circulation: 5,000/twice-wk

Burt County Plaindealer
Tekamah
Circulation: 2,000

North Dakota

Mandan News
Mandan
Circulation: 1,900
www.finderads.com

Oregon

Cottage Grove Sentinel
Cottage Grove
Circulation: 4,500
www.cgsentinel.com

The Outlook
Gresham
Circulation: 8,800
www.theoutlookonline.com

Lebanon Express
Lebanon
Circulation: 3,500
www.mvonline.com

Newport News-Times
Newport
Circulation: 13,950
www.newportnewstimes.com

Sandy Post
Sandy
Circulation: 2,000

The Springfield News
Springfield
Circulation: 11,000/twice-wk
www.springfieldnews.com

Wisconsin

Business First, Madison [2]
Circulation: 10,000
www.business-first.net

Sun Prairie News, Madison [2]
Circulation: 10,900

Classified, Shopper and Specialty Publications

Arizona

Cars & Trucks
Tucson
Circulation: 17,000/bi-wk
www.wheeldeals.com

Dandy Dime
Tucson
Circulation: 28,500
www.dandydime.com

California

Nickel Want Ad Newspaper,
Redding
Circulation: 27,500

Illinois

Prairie Shopper, Decatur
Circulation: 45,050
www.theprairieshopper.com

Wheels For You, Decatur
Circulation: 11,000

Thrifty Nickel, East Moline
Circulation: 11,650
www.qcthriftynickel.com

Iowa

Gateway Express, Clinton
Circulation: 6,800/twice-wk

Quad-City Advertiser,
Davenport
Circulation: 28,000

Winnebago/ Hancock Shopper, Forest City
Circulation: 12,500
www.winnebagoshopper.com

Mason City Shopper
Circulation: 33,950
www.masoncityshopper.com

Classic Images, Muscatine
Circulation: 4,750/mo.
www.classicimages.com

Films of the Golden Age,
Muscatine
Circulation: 6,050/qtr.
www.filmsofthegoldenage.com

The Post, Muscatine
Circulation: 20,850
www.muscatinepost.com

Montana

Thrifty Nickel, Billings
Circulation: 30,000
www.billingsthriftynickel.com

Western Business, Billings
Circulation: 6,000

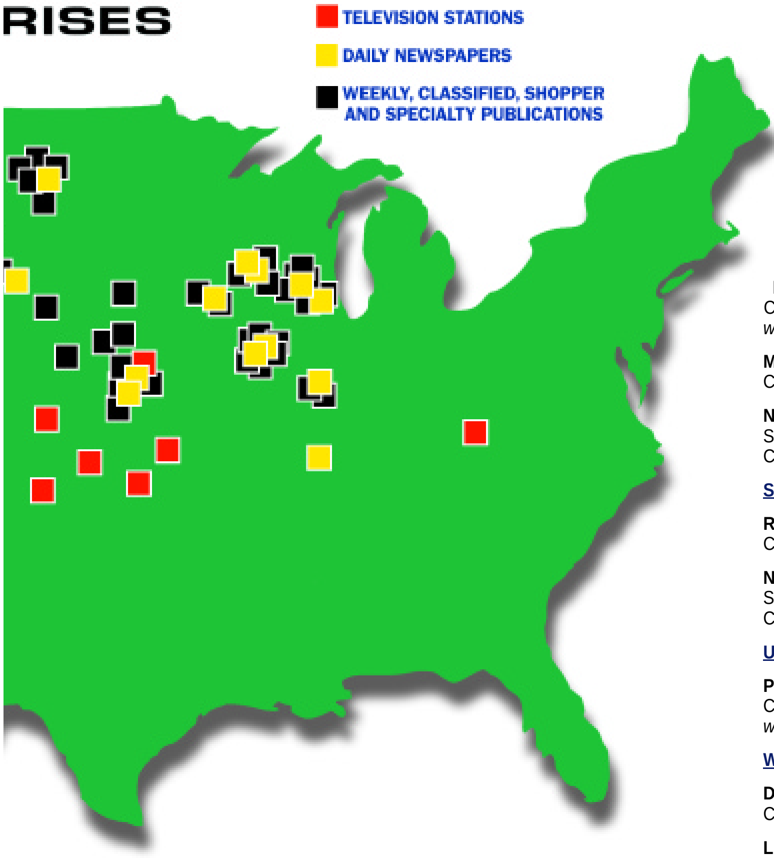
Yellowstone Shopper, Billings
Circulation: 47,200
www.yellowstoneshopper.com

Mini Nickel, Bozeman
Circulation: 22,900
www.virtualclassifieds.net

Nickel Saver, Butte
Circulation: 10,000
www.buttenickelsaver.com

North Valley Advertiser,
Columbia Falls-Whitefish
Circulation: 8,000

RISES



Western Shopper,
Deer Lodge
Circulation: 4,800
www.deerlodgeshopper.com

The Trader, Dillon
Circulation: 6,200
www.tradershopper.com

Consumers Press,
Great Falls
Circulation: 33,000
www.virtualclassifieds.net

Life & Times Press, Hamilton
Circulation: 12,300
www.timespress.com

The Adit, Helena
Circulation: 23,500
www.adit.com

The Eastmans' Journal
Helena
Circulation: 30,000/mo.
www.eastmans.com

Montana Magazine, Helena
Circulation: 40,000/mo.
www.montanamagazine.com

Autofinder, Missoula
Circulation: 16,000

The Messenger, Missolua
Circulation: 33,000

Nebraska

Wheels For You, Grand Island
Circulation: 15,000

Neighborhood Extra, Lincoln
Circulation: 62,000

Wheels For You, Lincoln
Circulation: 22,500

Nevada

Home Scene, Las Vegas
Circulation: 25,000

Nifty Nickel, Las Vegas
Circulation: 60,000
www.niftynickel.com

Nifty Nickel Cars & Trucks,
Las Vegas
Circulation: 30,000
www.niftynickel.com

New Mexico

PennySaver, Albuquerque
Circulation: 28,000

Quik Quarter/Thrifty Nickel,
Albuquerque
Circulation: 38,000

Wheels4U, Albuquerque
Circulation: 6,500

North Dakota

Dickinson Finder
Circulation: 13,800

The Finder, Mandan
Circulation: 39,200
www.finderads.com

Minot Finder
Circulation: 18,000
www.finderads.com

Oregon

Goldmine, Cottage Grove
Circulation: 14,000

The Family Times, Corvallis
Circulation: 16,000

Nickel Want Ad Newspaper, Klamath Falls
www.wheeldeals.com
Circulation: 19,000

Nickel Want Ad Newspaper, Medford
Circulation: 27,500

Nickel Ads, Portland
Circulation: 202,000
www.nickelads.com

Mighty Mailer, Springfield
Circulation: 100,000

Northeast Neighbors,
Springfield
Circulation: 8,800

South Dakota

Rapid City Advertiser
Circulation: 28,000

Northern Hills Advertiser,
Spearfish
Circulation: 15,000

Utah

Pioneer Shopper, St. George
Circulation: 27,000
www.pioneershopper.com

Washington

Driveline, Spokane
Circulation: 25,000

Little Nickel, Lynnwood
Circulation: 320,000
www.littlenickel.com

Homes, Moses Lake
Circulation: 16,000/mo.

Nickel Saver, Moses Lake
Circulation: 21,500
www.nickelsaver.com

Home Buyer's Guide,
Spokane
Circulation: 10,000/mo.

Nickel Nik, Spokane
Circulation: 37,000
www.nickelnik.com

Nickel Nik's Wheel Deals,
Spokane
Circulation: 42,000
www.wheeldeals.com

Nickel Nik's RV/Truck Wheel Deals, Spokane
Circulation: 35,000
www.wheeldeals.com

Smart Shopper, Spokane
Circulation: 15,000

Wheel Deals, Tri-Cities
Circulation: 21,500
www.wheeldeals.com

Buyline, Walla Walla
Circulation: 20,000
www.wheeldeals.com

Homes, Wenatchee
Circulation: 10,000/mo.

Nickel Ads, Wenatchee
Circulation: 26,500

Wisconsin

Ad World, Madison[2]
Circulation: 15,000/bi-weekly

Apartment Showcase[2]
Madison and Milwaukee
www.aptshowcase.com

Nursing Matters, Madison[2]
Circulation: 40,000/mo.

The Enterprise, La Crosse
Circulation: 5,400

Foxxy Shopper, La Crosse
Circulation: 34,100
www.lacrossefoxxy.com

Home Buyer's Guide,
La Crosse
Circulation: 10,500/mo.

Wheels For You, La Crosse
Circulation: 22,000/mo.

Pennysaver, Racine
Circulation: 65,000
www.racinepennysaver.com

Foxxy Shopper, Sparta
Circulation: 42,450
www.spartafoxxyshopper.com

Agri-Media Publications

Montana

Ag Almanac
Great Falls
Circulation: 20,000/bi-wk
www.agalmanac.com

Nebraska

Midwest Messenger
Tekamah
Circulation, 160,000/bi-wk
www.midwestmessenger.com

North Dakota

Farm & Ranch Guide
Bismarck
Circulation: 39,600/bi-wk
www.farmandranchguide.com

South Dakota

Tri-State Neighbor
Sioux Falls
Circulation: 30,000/bi-wk
www.tristateneighbor.com

Wisconsin

AgriView, Madison[2]
Circulation: 46,700/wk
www.madison.com

Other Products and Services

Lee Print
Decatur, Illinois
Davenport, Iowa
Townsend, Montana
Lincoln, Nebraska
Spokane, Washington

International Newspaper Network[3]
Big Fork, Montana
Davenport, Iowa

Intermountain Printing and Publishing
Deer Lodge, Montana

American World & Geographic Publishers, Book Division
Helena, Montana

Internet Broadcasting Partners[3]
Portland, Oregon

MIRA Mobile
Portland, Oregon

Western Mailers
Rapid City, South Dakota

1. *Mid-Valley Sunday* is a joint publication of the *Democrat-Herald* and the *Corvallis Gazette-Times*.

2. Madison Newspapers, Inc., publishes the *Wisconsin State Journal*, the *Capital Times*, *AgriView*, *Ad World*, *Apartment Showcase*, *Business First*, *Nursing Matters* and *Sun Prairie News*. Lee supplies news and editorial content for the *Wisconsin State Journal* and owns 50% of Madison Newspapers, Inc.

3. Strategic alliance owned 50% or more by Lee.

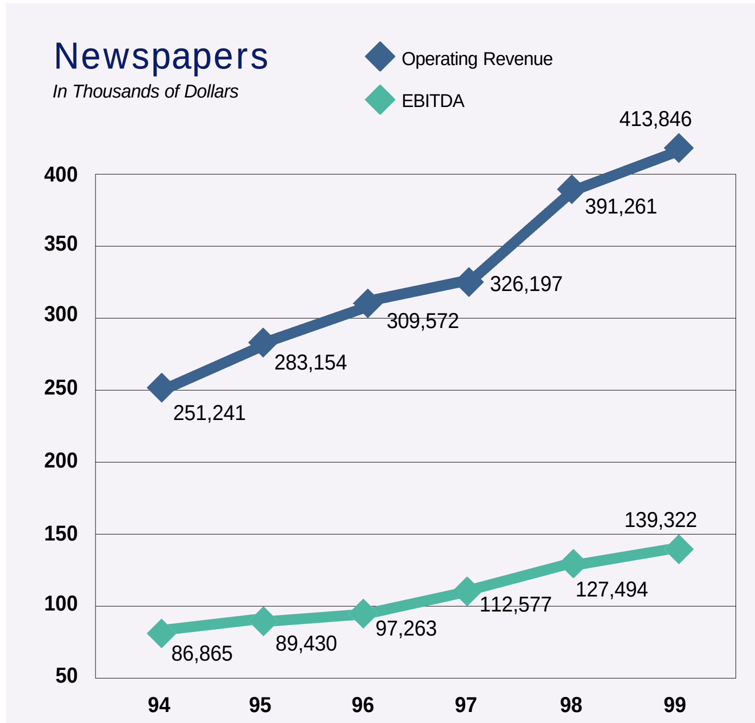
Six-Year Financial Performance

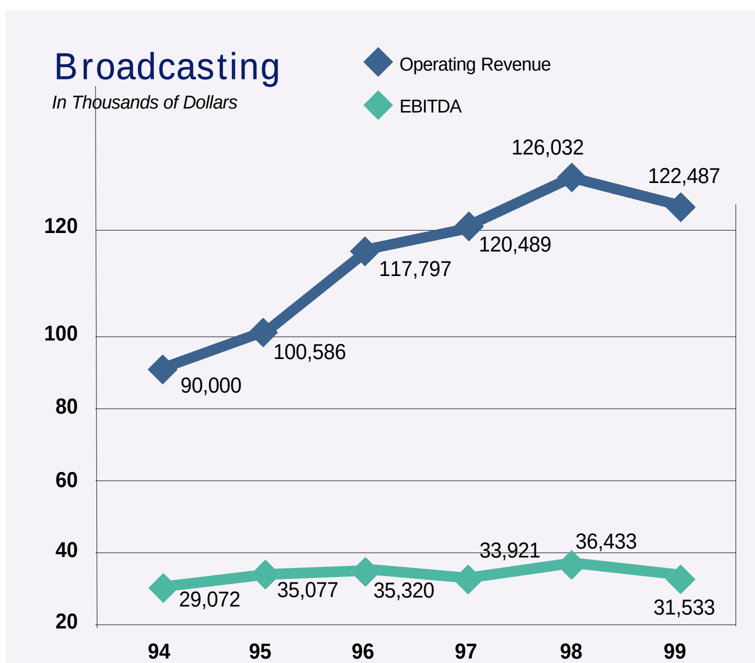
Lee Enterprises, Incorporated, and Subsidiaries

September 30, *(In Thousands Except Per Share Data)*	**1999**	1998	1997
Operations			
Operating revenue:			
Publishing	**$ 413,846**	$ 391,261	$ 326,197
Broadcasting	**122,487**	126,032	120,489
	$ 536,333	$ 517,293	$ 446,686
Income before depreciation and amortization, interest and taxes (EBITDA)			
Publishing	**$ 139,322**	$ 127,494	$ 112,577
Broadcasting	**31,533**	36,433	33,921
Corporate	**(14,367)**	(13,504)	(14,043)
	$ 156,488	$ 150,423	$ 132,455
Depreciation and amortization	**39,748**	37,576	28,304
Operating income	**$ 116,740**	$ 112,847	$ 104,151
Non-operating expense, net	**10,205**	12,715	2,929
Income taxes	**38,562**	37,899	38,477
Income from continuing operations	**$ 67,973**	$ 62,233	$ 62,745
Discontinued operations, net	**—**	—	1,485
Net income	**$ 67,973**	$ 62,233	$ 64,230
Per Share Amounts, Diluted			
Weighted average shares	**44,861**	45,557	47,243
Income from continuing operations	**$ 1.52**	$ 1.37	$ 1.33
Income (loss) from discontinued operations	**—**	—	.03
Net income	**1.52**	1.37	1.36
Dividends	**.60**	.56	.52
Selected Financial Percentages and Ratios			
EBITDA as a percent of revenue	**29.2%**	29.1%	29.7%
Net income as a percent of revenue*	**12.7**	12.0	14.0
Growth percentages:			
Earnings per share - diluted*	**10.9**	3.0	18.8
Dividends per share	**7.1**	7.7	8.3
Dividends per share, as a percent of prior year's earnings - diluted*	**43.8**	42.1	46.4
Current ratio	**1.3:1**	1:1	.4:1
Other Data			
Selected cash flow information:			
Net cash provided by operations	**$ 97,852**	$ 100,739	$ 97,546
Cash dividends paid	**26,623**	25,160	24,173
Purchase of property and equipment	**32,431**	26,725	16,342
Purchase of common stock	**11,830**	51,388	41,055
Principal payments on long-term borrowings	**25,000**	25,000	21,219
Total assets	**679,513**	660,585	650,963
Debt, including current maturities	**204,625**	219,481	203,735
Stockholders' equity	**354,329**	319,759	319,390

** Excludes discontinued operations*

1996	1995	1994
$ 309,572	$ 283,154	$ 251,241
117,797	100,586	90,000
$ 427,369	$ 383,740	$ 341,241
$ 97,263	$ 89,430	$ 86,865
35,320	35,077	29,072
(10,043)	(11,636)	(12,746)
$ 122,540	$ 112,871	$ 103,191
27,799	21,466	18,904
$ 94,741	$ 91,405	$ 84,287
7,039	8,198	10,592
34,032	30,975	28,558
$ 53,670	$ 52,232	$ 45,137
(8,223)	6,227	5,717
$ 45,447	$ 58,459	$ 50,854
47,899	46,873	46,806
$ 1.12	$ 1.12	$ .97
(.17)	.13	.12
.95	1.25	1.09
.48	.44	.42
28.7%	29.4%	30.2%
12.6	13.6	13.2
—	15.5	22.8
9.1	4.8	5.0
42.9	45.4	53.2
1.5:1	.9:1	1.4:1
$ 87,543	$ 72,571	$ 77,775
22,603	20,295	19,367
18,796	17,435	17,611
11,917	30,925	16,498
26,209	45,069	26,667
527,416	559,929	474,701
95,503	123,489	130,532
324,954	311,042	241,930





Management Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements that are based largely on the Company's current expectations and are subject to certain risks, trends, and uncertainties that could cause actual results to differ materially from those anticipated. Among such risks, trends, and uncertainties are changes in advertising demand, newsprint prices, interest rates, regulatory rulings, the availability of quality broadcast programming at competitive prices, changes in the terms and conditions of network affiliation agreements, quality and ratings of network over-the-air broadcast programs, legislative or regulatory initiatives affecting the cost of delivery of over-the-air broadcast programs to the company's customers,and other economic conditions and the effect of acquisitions, investments, and dispositions on the Company's results of operations or financial condition. The words "believe," "expect," "anticipate," "intends," "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 as of the date of this report.

Operating results are summarized below:

	1999	1998	1997
	(Dollars in Thousands, Except Per Share Data)		
Operating revenue	**$ 536,333**	$ 517,293	$ 446,686
Percent change	**3.7%**	15.8%	4.5%
Income before depreciation, amortization, interest and taxes (EBITDA)*	**156,488**	150,423	132,455
Percent change	**4.0%**	13.6%	8.1%
Operating income	**116,740**	112,847	104,151
Percent change	**3.4%**	8.3%	9.9%
Income from continuing operations	**67,973**	62,233	62,745
Percent change	**9.2%**	(0.8)%	16.9%
Earnings per share, continuing operations			
Basic	**1.54**	1.39	1.35
Percent change	**10.8%**	3.0%	18.4%
Diluted	**1.52**	1.37	1.33
Percent change	**10.9%**	3.0%	18.8%

** EBITDA is not a financial performance measurement under generally accepted accounting principles (GAAP), and should not be considered in isolation or a substitute for GAAP performance measurements. EBITDA is also not reflected in our consolidated statement of cash flows, but it is a common and meaningful alternative performance measurement for comparison to other companies in our industry. The computation excludes the gain on sale of businesses.*

The fiscal 1998 comparisons are significantly affected by the September 8, 1997, acquisition of The Pacific Northwest Group. The Pacific Northwest Group publishes eight daily and weekly newspapers geographically clustered in Oregon's Willamette Valley and classified publications in eight markets in the states of Washington, Oregon, Nevada and Utah.

If Lee had owned these properties since October 1, 1996, the operating revenue increase for 1998 would have been 3.9%, EBITDA and operating income would have increased 2.4%, income from continuing operations would have increased 4.6% and earnings per share on a diluted basis would have increased 8.7%.

Publishing

	1999	1998	1997
	(Dollars in Thousands)		
Operating revenue	**$ 404,608**	$ 382,894	$ 318,441
Percent change	**5.7%**	20.2%	5.2%
Operating income:			
Wholly-owned properties	**103,852**	94,159	88,865
Percent change	**10.3%**	6.0%	17.4%
Equity in net income	**9,238**	8,367	7,756
Percent change	**10.4%**	7.9%	10.7%
Operating margin, wholly-owned properties	**25.7%**	24.6%	27.9%

The publishing segment includes newspapers, classified and specialty publications. Operating revenue consists of the following:

	1999	1998	1997
	(Dollars in Thousands)		
Daily newspapers:			
Advertising	**$ 206,228**	$ 195,852	$ 179,822
Percent change	**5.3%**	8.9%	6.3%
Circulation	**81,562**	81,912	80,522
Percent change	**(0.4)%**	1.7%	0.9%
Other	**116,818**	105,130	58,097
Percent change	**11.1%**	81.0%	8.4%

Exclusive of acquisitions in 1999, 1998, and 1997, advertising revenue increased 5.1%, 5.0%, and 6.0%, circulation revenue (decreased) increased (.6%), (.6%), and .7%, and other revenue increased 3.6%, 4.9%, and 3.8%, respectively.

The following daily newspaper advertising lineage, circulation volume statistics, and related revenue results are presented on a pro forma basis for daily newspapers wholly owned at the end of fiscal 1999.

Changes in advertising units for classified and local advertising, which account for more than 70% of newspaper advertising revenue, are as follows:

Advertising lineage, in thousands of inches (Pro Forma):

	1999	1998	1997
Classified	**4,740**	4,427	4,314
Percent change	**7.1%**	2.7%	4.5%
Local	**5,903**	5,703	5,695
Percent change	**3.5%**	0.1%	(1.2)%

Classified advertising revenue increased approximately 6.1% in 1999, 9.7% in 1998, and 9.7% in 1997. The average rate realized decreased by (.9%) in 1999 and increased by 6.9% in 1998, and 5.0% in 1997. In 1999 growth in advertising lineage was in the automotive and to a lesser extent in the employment categories. This growth offset a decrease in real estate lineage. The decrease in the average rate realized was largely due to an increased amount of lower rate automotive advertising. In 1998 continued significant growth in employment and real estate advertising offset a small reduction in automotive. In 1997 significant growth in employment advertising offset softness in automotive and other advertising.

Local "run-of-press" advertising is advertising by merchants in the local community which is printed in the newspaper, rather than "preprints," which are printed separately by the Company or others and inserted into the newspaper. In 1999 local run-of-press revenue increased 3.4% and volume increased 3.5% as a result of the continuing emphasis on price incentives in return for larger or more frequent ads. In 1998 revenue increased 1.3% as the Company emphasized printing and frequency which resulted in a .1% increase in local advertising units. Revenue increased 3.1% in 1997 on higher average rates despite decreases in advertising inches.

Total revenue realized from local and national merchants includes preprints, which have lower-priced, higher-volume distribution rates. Preprint revenue increased 2.6% in 1999, 4.8% in 1998, and 5.2% in 1997.

In 1999 circulation revenue decreased by (.6%) as a result of a (2%) decrease in volume offset by higher rates. In 1998 circulation revenue decreased (.6%) and volume decreased (.7%). In 1997 circulation revenue increased .8% as a result of higher rates, offset by a (2.3%) decrease in volume.

Other revenue consists of revenue from weekly newspapers, classified, specialty publications, commercial printing, products delivered outside the newspaper (which include activities such as target marketing, special event production, and on-line service) and editorial service contracts with Madison Newspapers, Inc.

Other revenue by category and by property is as follows:

	1999	1998	1997
		(In Thousands)	
Weekly newspapers, classified and specialty publications:			
Properties owned for entire period	**$ 24,678**	$ 24,174	$ 23,083
Acquired since September 30, 1996	**54,686**	46,116	2,700
Commercial printing:			
Properties owned for entire period	**13,673**	13,858	14,351
Acquired since September 30, 1996	**1,548**	947	—
Products delivered outside the newspaper:			
Properties owned for entire period	**13,418**	11,650	9,928
Acquired since September 30, 1996	**71**	17	59
Editorial service contracts	**8,744**	8,368	7,976
	$ 116,818	$ 105,130	$ 58,097

The following table sets forth the percentage of revenue of certain items in the publishing segment.

	1999	1998	1997
Revenue	**100.0%**	100.0%	100.0%
Compensation costs	**35.2**	35.1	34.0
Newsprint and ink	**9.3**	10.7	9.7
Other operating expenses	**23.3**	23.1	23.4
	67.8	68.9	67.1
Income before depreciation, amortization, interest and taxes	**32.2**	31.1	32.9
Depreciation and amortization	**6.5**	6.5	5.0
Operating margin, wholly-owned properties	**25.7%**	24.6%	27.9%

Exclusive of the effects of acquisitions, in 1999 costs other than depreciation and amortization increased by 1.0%. Newsprint and ink costs decreased by (13.0%) due to lower prices for newsprint offset by a slight increase in usage. Compensation costs increased 4.1% due to an increase in average compensation and hours worked. Other operating costs increased 2.8%.

Exclusive of the effects of the 1998 acquisitions, in 1998 costs other than depreciation and amortization increased 5.2%. Newsprint and ink costs increased 12.2% due to higher prices for newsprint and greater consumption. Compensation cost increased 5.3% due to an increase in average compensation and hours worked. Other operating costs increased 2.1%.

Exclusive of the effects of the 1997 acquisitions, in 1997 costs other than depreciation and amortization decreased (.5%). Newsprint and ink costs decreased (20.9%) due to lower prices for newsprint. Newsprint consumption was flat in 1997 as compared to 1996. Compensation costs increased 4.4% as a result of salary increases. Other operating costs increased 3.7% due to normal inflationary increases.

Broadcasting

	1999	1998	1997
		(Dollars in Thousands)	
Operating revenue	**$ 122,487**	$ 126,032	$ 120,489
Percent change	**(2.8)%**	4.6%	2.3%
Operating income	**19,371**	24,948	22,262
Percent change	**(22.4)%**	12.1%	(3.0)%
Operating margin	**15.8%**	19.8%	18.5%

Revenue for 1999 decreased $(3,545,000), (2.8)%. Local, regional and national revenue decreased $(1,870,000), (1.8%) due to the absence of winter Olympics advertising on our CBS affiliates and the Super Bowl on our NBC affiliates in the second quarter offset in part by an increase in revenues in the fourth quarter. Political advertising increased $970,000, 20.6%. Compensation received from the television networks decreased $(900,000) in 1999 primarily as a result of the acquisition of broadcast rights for NFL football by the CBS television network. In return for reduced network compensation the Company received the right to sell additional broadcast time. The networks are continuing their efforts to reduce network compensation. In fiscal 2000 the Company anticipates receiving $2,000,000 less network compensation than the $6,400,000 received in 1999. Production revenues and revenues from other sources decreased $(1,752,000), (17.5%), as a result of the sale of MIRA Creative Group and loss of NBA production services during the strike.

Revenue for 1998 increased $5,543,000, 4.6%. Local, regional and national revenue increased $6,834,000 due to winter Olympics advertising in the second quarter and improved rates realized. Political advertising decreased $1,063,000. Production revenues and revenues from other sources were flat.

Revenue for 1997 increased $2,692,000, 2.3%. Local, regional and national revenue increased $1,342,000 while political advertising decreased ($244,000). Production revenue increased $562,000 due to the addition of a second mobile production facility at MIRA Productions in Portland, Oregon, and revenues from other services increased $913,000.

The following table sets forth the percentage of revenue of certain items in the broadcasting segment.

	1999	1998	1997
Revenue	**100.0%**	100.0%	100.0%
Compensation costs	**42.5**	40.9	41.8
Programming costs	**8.5**	6.6	6.6
Other operating expenses	**23.3**	23.6	23.4
	74.3	71.1	71.8
Income before depreciation, amortization, interest and taxes	**25.7**	28.9	28.2
Depreciation and amortization	**9.9**	9.1	9.7
Operating margin, wholly owned properties	**15.8%**	19.8%	18.5%

Operating income decreased in 1999 by $(5,577,000). Compensation costs increased $557,000, 1.1% due to an increase in the average hourly rate which offset a decrease in the number of hours worked. Programming costs increased by $1,984,000, 23.7% due to an increase in the cost of syndicated programs and a $732,000 write-down of nonperforming programs. In 2000 programming costs will increase by approximately $1,000,000 as a result of changes in certain network programming contracts. Other operating expense decreased $(1,186,000), (4.0)% due to the sale of MIRA Creative Group, reductions in insurance costs, more focused cost-effective station promotion, and generally tighter cost controls.

Operating income increased in 1998 by $2,686,000. Compensation costs increased $1,092,000, 2.2% due to an increase in the average hourly rate which offset a decrease in the number of hours worked. Programming costs increased by $462,000, 5.8% due to an increase in the cost of syndicated programs. Other operating expense increased $1,477,000, 5.2% due to increased costs for promotion, audience ratings services, and bad debt expense when two advertisers filed for bankruptcy.

Operating income decreased in 1997 by $691,000. Compensation costs increased $3,898,000, 8.4% due to an increase in the number of hours worked and an increase in the average hourly rate. Programming costs decreased by ($1,344,000), (14.5%), due to decreased amortization from programs amortized on an accelerated basis offset in part by a $400,000 write-down of programming at KMAZ-TV El Paso due to the January 1998 conversion to a Telemundo affiliate providing Spanish language programming. Other operating expense increased 5.8% due to the rental of two news helicopters in 1997 and increased outside services. The primary driver of the outside services increase is MIRA Productions, which uses contract labor and rental equipment for special projects.

Corporate

Corporate costs in 1999 increased by $1,094,000, 7.5%. Increases included depreciation, compensation, donations, and other expenses.

Corporate costs in 1998 decreased by ($105,000), (.7%). Reductions in financial system installation costs, incentive compensation, and donations were offset by increases in depreciation and other expenses.

Corporate costs in 1997 increased by $3,800,000, 35.1% as a result of increased marketing costs and the enhancement of computer software.

Non-Operating Income and Expense

Interest expense decreased by approximately $(1,748,000) in 1999 primarily due to payments on long-term debt and a $500,000 increase in capitalized interest offset by additional deferred compensation costs. Interest expense increased by approximately $6,300,000 in 1998 due to borrowings to finance The Pacific Northwest Group acquisition. Interest expense decreased by approximately ($1,300,000) in 1997 primarily due to a lower debt level. Interest on deferred compensation arrangements for executives and others is offset by financial income earned on the invested funds held in trust. Financial income and interest expense increased by $501,000, $24,000, and $1,700,000 in 1999, 1998, and 1997, respectively, as a result of these arrangements.

Other non-operating income, net represents the gain from the sale of a shopper publication in September 1999.

Income Taxes

Income taxes were 36.2%, 37.8%, and 38.0% of pretax income in 1999, 1998, and 1997, respectively. In 1999 income taxes were reduced by $1,500,000 due to a settlement of a contingency. Exclusive of the settlement, income taxes were 37.6% of pretax income.

Discontinued Operations

On January 17, 1997, the Company consummated the sale of the capital stock of its graphic arts products subsidiary, NAPP Systems Inc., for approximately $55,900,000, net of selling expenses. The results for NAPP Systems Inc.'s operations have been classified as discontinued operations for all periods presented. For the year ended September 30, 1997, the Company recorded an after-tax gain of $1,485,000 due to higher than estimated earnings and dividends through the closing date. For additional information related to the disposition, see Note 2 of the Notes to Consolidated Financial Statements.

Liquidity, Capital Resources and Commitments

Cash provided by operations totaled $97,852,000 in 1999. The Company has a $50,000,000 revolving credit arrangement with banks, which expires in 2003. The major sources and uses of cash in 1999 were as follows:

	(In Thousands)
Sources of cash:	
Operations	**$ 97,852**
Short-term borrowings	**6,000**
All other	**1,043**
	$ 104,895
Uses of cash:	
Acquisitions	**$ 15,416**
Purchase of property and equipment	**32,431**
Cash dividends paid	**26,623**
Purchase of Lee Enterprises, Incorporated stock	**11,830**
Payment of debt	**25,000**
	$ 111,300
(Decrease) in cash	**$ (6,405)**

The Company generally finances significant acquisitions by long-term borrowings.

Capital expenditures for new and improved facilities and equipment are expected to be about $39,500,000 in 2000. The FCC has required implementation of digital television ("DTV") service which includes high definition television systems. Implementation of DTV service will impose substantial additional costs on television stations to provide the new service due to increased equipment costs. KOIN-TV in Portland, Oregon, was required by the FCC to broadcast a digital TV signal by

November 1, 1999, but has filed a request for a six-month extension. The Company plans to spend approximately $5,000,000 in fiscal 2000 for DTV conversion. The Company expects that the balance of capital expenditures necessary to convert its stations to DTV will aggregate approximately $33,000,000. The Company is currently required to convert remaining stations to DTV by May 1, 2002.

The Company also is in the process of building a new production facility for the Journal Star in Lincoln, Nebraska. The total cost is expected to be approximately $32,000,000 and will be completed in fiscal 2000. Approximately $18,000,000 has been spent through September 30, 1999 on this project and spending in fiscal 2000 is expected to be approximately $14,000,000.

The Company anticipates that funds necessary for capital expenditures and other requirements will be available from internally generated funds and the Company's revolving credit agreements.

Dividends and Common Stock Prices

The current quarterly cash dividend is 16 cents per share, an annual rate of 64 cents.

During the fiscal year ended September 30, 1999, the Company paid dividends of $26,623,000 or 39.2% of 1999's net income. The Company will continue to review its dividend policy to assure that it remains consistent with its capital demands. Covenants under borrowing arrangements are not considered restrictive to payment of dividends. Lee Common Stock is listed on the New York Stock Exchange. The Company paid dividents of 15 cents, 14 cents and 13 cents in each quarter of fiscal 1999, 1998 and 1997, respectively. For a description of the relative rights of Common Stock, Class B Common Stock and Preferred Stock Purchase Rights, see Note 7 of the Notes to Consolidated Financial Statements. At September 30, 1999, the Company had 3,424 holders of Common Stock and 2,159 holders of Class B Common Stock.

Inflation

The net effect of inflation on operations has not been material in the last several years because of efforts by the Company to lessen the effect of rising costs through a strategy of improving productivity, controlling costs and, where conditions permit, increasing selling prices.

Year 2000

The Year 2000 issue concerns the inability of information technology (IT) systems and equipment utilizing microprocessors to recognize and process date-sensitive information after 1999 due to the use of only the last two digits to refer to a year. This problem could affect both computer software and hardware and other equipment that relies on microprocessors. Management has completed its company-wide evaluation of this impact on its IT systems and its date-sensitive equipment. Identified critical date-sensitive equipment is believed to be substantially Year 2000 compliant. Renovation and testing have been completed on all significant IT systems that utilize company-developed software that were not Year 2000 compliant. The Company has received representations and completed testing to determine that significant software developed by others is Year 2000 compliant. Installation of a new Year 2000-compliant financial system is complete. Testing of computer hardware for IT systems is substantially complete.

The Company is monitoring the progress of material vendors and suppliers whose uninterrupted delivery of product or service is material to the production or distribution of our print and broadcast products in their efforts to become Year 2000 compliant. Material vendors and suppliers include electric utilities, telecommunications, news and content providers, television networks, other television programming suppliers, the U.S. Postal Service, and financial institutions.

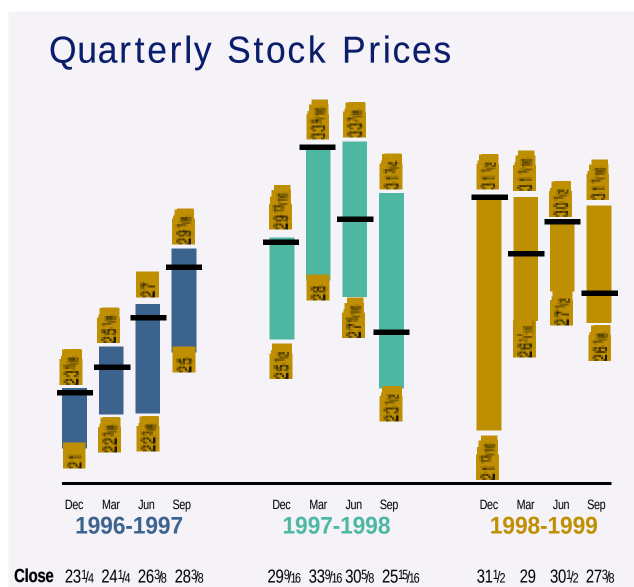
From September 30, 1994, through September 30, 1999, the Company spent approximately $500,000 to address Year 2000 issues for IT systems (exclusive of the cost of the new financial, newspaper production, and other systems that were scheduled to be replaced before the year 2000 for reasons other than Year 2000 compliance). Total costs to address Year 2000 issues for IT systems are currently estimated to be less than $600,000 and consist primarily of staff and consultant costs. Year 2000 remediation will require the replacement of telephone switches and software at a cost of approximately $1,000,000. Through September 30, 1999 approximately $600,000 had been spent for new telephone equipment. Funds for these costs are expected to be provided by the operating cash flows or bank line of credit of the Company.

The Company could be faced with severe consequences if Year 2000 issues are not identified and resolved in a timely manner by the Company and material third parties. A worst-case scenario would result in the short-term inability of the Company to produce or distribute newspapers or broadcast television programming due to unresolved Year 2000 issues. This would result in lost revenues; however, the amount would be dependent on the length and nature of the disruption, which cannot be predicted or estimated. In light of the possible consequences, the Company is devoting the resources needed to address Year 2000 issues in a timely manner. Management monitors the progress of the Company's Year 2000 efforts and provides update reports to the audit committee of the Board of Directors at each meeting. While management expects a successful resolution of these issues, there can be no guarantee that material third parties, on which the Company relies, will address all Year 2000 issues on a timely basis or that their failure to successfully address all issues would not have an adverse effect on the Company.

The Company's contingency plans in case business interruptions do occur are substantially complete, but will continue to be refined and implemented up to the Year 2000.

Quarterly Results

The Company's largest source of publishing revenue, local run-of-press advertising, is seasonal and tends to fluctuate with retail sales in markets served. Historically, local run-of-press advertising is higher in the first and third quarters. Newspaper classified advertising revenue (which includes real estate and automobile ads) and broadcasting revenue are lowest in January and February, which are included in our second fiscal quarter. Quarterly results of operations are summarized on Page 28.



Consolidated Balance Sheets

Lee Enterprises, Incorporated, and Subsidiaries

September 30,	**1999**	1998	1997
		(Dollars In Thousands)	

Assets

Current Assets

Cash and cash equivalents	**$ 10,536**	$ 16,941	$ 14,163
Trade receivables, less allowance for doubtful accounts 1999 $4,460; 1998 $4,110; 1997 $4,600	**67,122**	60,443	56,960
Receivables from associated companies	**1,438**	1,437	1,437
Inventories	**3,625**	3,878	3,716
Program rights and other	**19,822**	16,892	17,691
Total current assets	**$102,543**	$ 99,591	$ 93,967

Investments

Associated companies	**$ 16,326**	$ 14,107	$ 12,185
Other	**15,819**	12,364	12,506
	$ 32,145	$ 26,471	$ 24,691

Property and Equipment

Land and improvements	**$ 14,103**	$ 13,856	$ 12,994
Buildings and improvements	**67,342**	65,945	64,937
Equipment	**246,484**	219,491	194,510
	$327,929	$299,292	$272,441
Less accumulated depreciation	**188,726**	170,920	152,415
	$139,203	$128,372	$120,026

Intangibles and Other Assets

Intangibles	**$396,392**	$398,111	$404,481
Other	**9,230**	8,040	7,798
	$405,622	$406,151	$412,279
	$679,513	$660,585	$650,963

See Notes to Consolidated Financial Statements

September 30,	**1999**	1998	1997

Liabilities and Stockholders' Equity

(Dollars In Thousands)

Current Liabilities

	1999	1998	1997
Notes payable and current maturities of long-term debt	**$ 17,620**	$ 33,453	$177,561
Accounts payable	**11,764**	14,277	23,429
Compensation and other accruals	**26,551**	26,966	27,324
Income taxes payable	**5,378**	6,475	4,754
Unearned income	**18,135**	16,890	15,840
Total current liabilities	**$ 79,448**	$ 98,061	$248,908

	1999	1998	1997
Long-Term Debt, net of current maturities	**$187,005**	$186,028	$ 26,174

Deferred Items

	1999	1998	1997
Retirement and compensation	**$ 13,781**	$ 13,117	$ 13,948
Income taxes	**44,950**	43,620	42,543
	$ 58,731	$ 56,737	$ 56,491

Stockholders' Equity

	1999	1998	1997
Capital stock:			
Serial convertible preferred, no par value; authorized 500,000 shares; issued none			
Common, $2 par value; authorized 60,000,000 shares; issued and outstanding 1999 33,071,000 shares	**$ 66,142**	$ 65,144	$ 66,719
Class B, common, $2 par value; authorized 30,000,000 shares; issued and outstanding 1999 11,188,000 shares	**22,376**	23,556	24,298
Additional paid-in capital	**32,641**	28,715	25,629
Unearned compensation	**(961)**	(650)	(493)
Retained earnings	**234,131**	202,994	203,237
	$354,329	$319,759	$319,390
	$679,513	$660,585	$650,963

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Lee Enterprises, Incorporated, and Subsidiaries

Year Ended September 30,	**1999**	1998	1997
	(In Thousands Except Per Share Data)		
Operating revenue:			
Publishing:			
Daily Newspapers:			
Advertising	**$206,228**	$195,852	$179,822
Circulation	**81,562**	81,912	80,522
Other	**116,818**	105,130	58,097
Broadcasting	**122,487**	126,032	120,489
Equity in net income of associated companies	**9,238**	8,367	7,756
	$536,333	$517,293	$446,686
Operating expenses:			
Compensation costs	**$202,513**	$192,755	$165,547
Newsprint and ink	**37,447**	41,165	30,906
Depreciation	**21,909**	19,662	17,175
Amortization of intangibles	**17,839**	17,914	11,129
Other	**139,885**	132,950	117,778
	$419,593	$404,446	$342,535
Operating income	**$116,740**	$112,847	$104,151
Non-operating (income) expense, net:			
Financial expense	**$ 12,863**	$ 14,611	$ 8,321
Financial (income)	**(1,920)**	(1,896)	(5,392)
Other, net.	**(738)**	—	—
	$ 10,205	$ 12,715	$ 2,929
Income from continuing operations before taxes on income	**$ 106,535**	$ 100,132	$101,222
Income taxes	**38,562**	37,899	38,477
Income from continuing operations	**$ 67,973**	$ 62,233	$ 62,745
Discontinued operations, gain on disposition of discontinued operations, net of income tax effect	—	—	1,485
Net income	**$ 67,973**	$ 62,233	$ 64,230
Earnings per share:			
Basic:			
Income from continuing operations	**$ 1.54**	$ 1.39	$ 1.35
Income from discontinued operations.	—	—	.03
Net income	**$ 1.54**	$ 1.39	$ 1.38
Diluted:			
Income from continuing operations	**$ 1.52**	$ 1.37	$ 1.33
Income from discontinued operations.	—	—	.03
Net income	**$ 1.52**	$ 1.37	$ 1.36

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Lee Enterprises, Incorporated, and Subsidiaries

Year Ended September 30,	**1999**	1998	1997
		(In Thousands)	
Cash Provided by Operating Activities:			
Net income	**$ 67,973**	$ 62,233	$ 64,230
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**39,748**	37,576	29,581
Gain on sale of businesses	**(738)**	—	(1,985)
Distributions less than earnings of associated companies	**(2,220)**	(1,922)	(696)
Change in assets and liabilities, net of effects from business acquisitions:			
(Increase) in receivables	**(6,154)**	(3,131)	(2,817)
(Increase) decrease in inventories, program rights and other	**(749)**	1,427	1,552
Increase (decrease) in accounts payable, accrued expenses and unearned income	**(2,117)**	2,370	3,144
Increase (decrease) in income taxes payable	**(1,097)**	1,721	516
Other, primarily deferred items	**3,206**	465	4,021
Net cash provided by operating activities	**$ 97,852**	$100,739	$ 97,546
Cash (Required for) Investing Activities:			
Acquisitions	**$ (15,416)**	$ (11,944)	$(188,689)
Purchase of property and equipment	**(32,431)**	(26,725)	(16,342)
Proceeds from sale of businesses	**492**	—	54,795
Other	**(3,867)**	(952)	(1,838)
Net cash (required for) investing activities	**$ (51,222)**	$ (39,621)	$(152,074)
Cash Provided by (Required for) Financing Activities:			
Purchase of common stock	**$ (11,830)**	$ (51,388)	$ (41,055)
Cash dividends paid	**(26,623)**	(25,160)	(24,173)
Proceeds from long-term borrowings	—	185,000	—
Proceeds from (payments on) short-term notes payable, net	**6,000**	(145,000)	130,000
Principal payments on long-term borrowings	**(25,000)**	(25,000)	(21,219)
Other	**4,418**	3,208	5,871
Net cash provided by (required for) financing activities	**$ (53,035)**	$ (58,340)	$ 49,424
Net increase (decrease) in cash and cash equivalents	**$ (6,405)**	$ 2,778	$ (5,104)
Cash and cash equivalents:			
Beginning	**16,941**	14,163	19,267
Ending	**$ 10,536**	$ 16,941	$ 14,163

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Lee Enterprises, Incorporated, and Subsidiaries

	Amount			Shares		
Years Ended September 30,	**1999**	1998	1997	**1999**	1998	1997
	(In Thousands Except Per Share Data)					
Common Stock						
Balance, beginning	**$ 65,144**	$ 66,719	$ 68,578	**32,572**	33,359	34,289
Conversion from Class B Common Stock	**1,116**	649	1,131	**558**	325	565
Shares issued	**286**	286	474	**143**	143	237
Shares reacquired	**(404)**	(2,510)	(3,464)	**(202)**	(1,255)	(1,732)
Balance, ending	**$ 66,142**	$ 65,144	$ 66,719	**33,071**	32,572	33,359
Class B Common Stock						
Balance, beginning	**$ 23,556**	$ 24,298	$ 25,466	**11,778**	12,149	12,733
Conversion to Common Stock	**(1,116)**	(649)	(1,131)	**(558)**	(325)	(565)
Shares reacquired	**(64)**	(93)	(37)	**(32)**	(46)	(19)
Balance, ending	**$ 22,376**	$ 23,556	$ 24,298	**11,188**	11,778	12,149
Additional Paid-in Capital						
Balance, beginning	**$ 28,715**	$ 25,629	$ 20,189			
Shares issued	**3,926**	3,086	5,440			
Balance, ending	**$ 32,641**	$ 28,715	$ 25,629			
Unearned Compensation						
Balance, beginning	**$ (650)**	$ (493)	$ (637)			
Restricted shares issued	**(1,081)**	(714)	(405)			
Restricted shares canceled	**45**	7	59			
Amortization	**725**	550	490			
Balance, ending	**$ (961)**	$ (650)	$ (493)			
Retained Earnings						
Balance, beginning	**$ 202,994**	$ 203,237	$ 211,358			
Net income	**67,973**	62,233	64,230			
Cash dividends per share 1999 $.60; 1998 $.56; 1997 $.52	**(26,623)**	(25,160)	(24,173)			
Shares reacquired	**(10,213)**	(37,316)	(48,178)			
Balance, ending	**$ 234,131**	$ 202,994	$ 203,237			
Stockholders' Equity	**$ 354,329**	$ 319,759	$ 319,390	**44,259**	44,350	45,508

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business: The Company has two principal businesses: publishing and broadcasting. As of September 30, 1999, operating divisions and associated companies publish 21 daily newspapers and more than 80 other weekly, classified and specialty publications, and operate nine full-service, network-affiliated television stations and seven satellite television stations.

Significant Accounting Policies

Accounting Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany items have been eliminated.

Inventories: Newsprint inventories are priced at the lower of cost or market with cost being determined primarily by the last-in, first-out method. Newsprint inventories as of September 30, 1999, 1998 and 1997 were less than replacement cost by $4,710,000, $4,815,000 and $4,856,000, respectively.

Program Rights: Cost of program rights is stated at the lower of cost or estimated net realizable value. The total cost of the rights is recorded as an asset and a liability when the program becomes available for broadcast. Cost of program rights is charged to operations primarily on accelerated bases related to the usage of the program. The current portion of program rights represents those rights that will be amortized in the succeeding year.

Investments: Investments in the common stock or joint venture capital of associated companies are reported at cost plus the Company's share of undistributed earnings since acquisition, less amortization of intangibles.

Long-term loans to associated companies are included in investments in associated companies.

Other investments primarily consist of various marketable securities held in trust under a deferred compensation arrangement. These investments are classified as trading securities and carried at fair value with gains and losses reported in the consolidated statements of income.

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

	Years
Buildings and improvements	5-25
Publishing:	
Printing presses	15-20
Other major equipment	3-11
Broadcasting:	
Towers	15-20
Other major equipment	3-10

The Company capitalizes interest as part of the cost of constructing major facilities.

Intangibles: Intangibles include covenants not to compete, consulting agreements, customer lists, broadcast licenses and agreements, newspaper subscriber lists, and the excess costs over fair value of net assets of businesses acquired.

The excess costs over fair value of net tangible assets include $21,510,000 incurred prior to October 31, 1970, which is not being amortized. Excess costs related to speciality publications are being amortized over 10- to 15-year periods. Intangibles, representing non-compete covenants, consulting agreements, customer lists, broadcast licenses and agreements and newspaper subscriber lists are being amortized over periods of 3 to 40 years. The remaining costs are being amortized over a period of 40 years. All intangibles are amortized by the straight-line method.

The Company reviews its intangibles and other long-lived assets annually to determine potential impairment. In performing the review, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment is recognized. The amount of impairment is measured based upon projected discounted future cash flows using a discount rate reflecting the Company's average cost of funds.

Unearned Income: Unearned income arises as a normal part of business from advance subscription payments for newspapers. Revenue is recognized in the period in which it is earned.

Advertising Costs: Advertising costs, which are not material, are expensed as incurred.

Income Taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred 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 tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Cash and Cash Equivalents: For the purpose of reporting cash flows, 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.

Restricted Stock: The Company amortizes as compensation cost the value of restricted stock, issued under a long-term incentive plan, by the straight-line method over the three year restriction period.

Note 2. Discontinued Operations

On January 17, 1997, the Company sold the capital stock of its graphic arts products subsidiary, NAPP Systems Inc., for approximately $55,900,000, net of selling expenses. The results for NAPP Systems Inc.'s operations have been classified as discontinued operations and in 1997 include a gain on disposition of $1,985,000, less income taxes of $500,000, resulting in income from discontinued operations of $1,485,000.

Note 3. Acquisitions

On September 8, 1997, the Company acquired, for cash, 100% of the outstanding stock of Southern Utah Media, Inc. (now known as The Pacific Northwest Publishing Group, Inc.), Oregon News Media, Inc., and

Nevada Media, Inc. (collectively referred to as The Pacific Northwest Group). The Pacific Northwest Group publishes daily and weekly newspapers and classified publications. The total acquisition cost was $186,253,000. The excess of the total acquisition cost, over the fair value of the net assets acquired, was $166,916,000.

The acquisition was accounted for as a purchase, and the results of operations of The Pacific Northwest Group since the date of acquisition are included in the consolidated financial statements.

The Company also acquired one daily newspaper, two weekly, and four classified or specialty publications in 1999, five classified or specialty publications and one commercial printer in 1998 and five classified or specialty publications in 1997.

The purchase price of business acquisitions was allocated as follows:

	Year Ended September 30, **1999**	1998	1997
	(In Thousands)		
Noncash working capital acquired	**$ (100)**	$ 377	$ 2,897
Property and equipment	**1,207**	1,326	16,278
Intangibles	**16,048**	11,485	169,554
Other long-term assets	**—**	—	10
Issuance of note payable	**(1,000)**	(1,194)	(50)
Deferred items	**(739)**	(50)	—
Total cash purchase price	**$15,416**	$ 11,944	$188,689

Note 4. Investments in Associated Companies

The Company has a 50 percent ownership interest in Madison Newspapers, Inc., a newspaper publishing company operating in Madison, Wisconsin, and interests in two Internet service ventures.

Summarized financial information of these associated companies is as follows:

	1999	1998	1997
	(In Thousands)		
Assets			
Current assets	**$30,560**	$ 25,867	$ 23,854
Investments and other assets	**6,035**	5,966	5,700
Property and equipment, net	**9,545**	10,204	9,730
	$46,140	$ 42,037	$ 39,284
Liabilities and Stockholders' Equity			
Current liabilities	**$14,058**	$ 14,510	$ 14,792
Long-term debt	**434**	661	435
Stockholders' equity	**31,648**	26,866	24,057
	$46,140	$ 42,037	$ 39,284
Revenue	**$91,283**	$ 85,436	$ 79,677
Income before depreciation, amortization, interest and income taxes	**31,983**	29,434	26,895
Operating income	**29,339**	26,553	24,732
Net income	**18,475**	16,738	15,517

Receivables from associated companies consist of dividends. Certain information relating to Company investments in these associated companies is as follows:

	1999	1998	1997
	(In Thousands)		
Share of:			
Stockholders' equity	**$15,824**	$ 13,433	$ 12,028
Undistributed earnings	**15,642**	13,281	11,568

Note 5. Debt

The Company has a $50,000,000 unsecured revolving loan agreement with a bank group that expires in 2003. Interest rates float at rates specified in the agreement. There were $6,000,000 of borrowings under this agreement at September 30, 1999.

The Company has long-term obligations, net of current maturities, as follows:

	September 30, **1999**	1998	1997
	(In Thousands)		
Insurance companies senior notes payable, 6.14% to 6.64%, due in varying amounts from 2001 to 2013	**$185,000**	$185,000	$ —
Insurance company senior notes payable, effective rate of 9.96%, $25,000,000 due January 1999	**—**	—	25,000
Program contracts, noninterest bearing, due through 2002	**2,005**	1,028	1,174
	$187,005	$186,028	$ 26,174

Aggregate maturities during the next five years are $11,620,000, $13,180,000, $11,980,000, $11,640,000, and $36,600,000. Covenants under these agreements are not considered restrictive to normal operations or anticipated stockholder dividends.

Note 6. Retirement and Compensation Plans

Substantially all the Company's employees are covered by a qualified defined contribution retirement plan. The Company has other retirement and compensation plans for executives and others. Retirement and compensation plan costs, including interest on deferred compensation costs, charged to operations were $12,000,000 in 1999, $10,400,000 in 1998, and $10,300,000 in 1997.

Note 7. 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; however, 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 total less than 5,600,000 shares.

On May 7, 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 Common and Class B Common share (Common Shares) of the Company. The Rights are attached to and automatically trade with the outstanding shares of the Company's Common Shares.

The Rights will 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 shareholders 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 on May 31, 2008.

Note 8. *Stock Option, Restricted Stock, and Stock Purchase Plans*

At September 30, 1999, the Company has three stock-based compensation plans which are described below. As permitted under generally accepted accounting principles, grants under those plans are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recognized for grants under the stock option or the stock purchase plans. Had compensation costs for all of the stock-based compensation plans been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123), reported net income and earnings per common share would have been reduced to the pro forma amounts shown below:

	1999	1998	1997
	(In Thousands, Except Per Share Data)		
Net income:			
As reported	**$67,973**	$ 62,233	$ 64,230
Pro forma	**66,600**	60,945	63,180
Earnings per share:			
Basic:			
As reported	**$ 1.54**	$ 1.39	$ 1.38
Pro forma	**1.50**	1.36	1.36
Diluted:			
As reported	**$ 1.52**	$ 1.37	$ 1.36
Pro forma	**1.49**	1.34	1.34

The pro forma effects of applying Statement No. 123 are not indicative of future amounts since, among other reasons, the pro forma requirements of the Statement have been applied only to options granted after October 1, 1995.

Stock option and restricted stock plans: The Company has reserved 5,292,000 shares of Common Stock for issuance to key employees under an incentive and nonstatutory stock option and restricted stock plan approved by stockholders. Options have been granted at a price equal to the fair market value on the date of grant, and are exercisable in cumulative installments over a ten year period. The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1999, 1998, and 1997, respectively: dividend rates of 2.06%, 1.95%, and 2.22%; price volatility of 18.5%, 14.5%, and 16.5%; risk-free interest rates based upon the life of the option ranging from 4.84% to 6.03%, 5.29% to 5.77%, and 5.89% to 6.67%; and expected lives based upon the life of the option ranging from 1.5 to 8 years.

A summary of the stock option plan is as follows:

	Number of Shares		
	1999	1998	1997
	(In Thousands)		
Under option, beginning of year	**1,491**	1,509	2,279
Granted	**185**	190	155
Terminated and canceled	**(21)**	(5)	(8)
Exercised	**(397)**	(203)	(917)
Under option, end of year	**1,258**	1,491	1,509
Options exercisable, end of year	**945**	1,110	1,192

	Average price		
	1999	1998	1997
Granted during the year	**$ 27.62**	$ 27.18	$ 22.20
Exercised during the year	**15.45**	15.88	13.64
Under option, end of year	**19.09**	17.15	15.82
Weighted-average fair value per option of options granted	**6.55**	6.95	5.71

A further summary of options outstanding as of September 30, 1999, is as follows:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	Number Outstanding (Thousands)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable (Thousands)	Weighted-Average Exercise Price
$11 to $14	287	1.7	$11.02	287	$11.02
$15 to $20	498	4.6	17.16	498	17.16
$20 to $22	111	6.6	21.45	70	21.42
$25 to $30	345	8.3	27.17	73	27.34
$31 to $34	17	3.1	32.46	17	32.46
	1,258	5.1	19.02	945	16.88

Restricted stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within three years of the grant date for reasons other than normal retirement, death or disability. In 1999, 1998, and 1997, the Company granted 39,000, 26,000, and 18,000 shares, respectively, of restricted stock to employees. As of September 30, 1999, 72,000 shares of restricted stock were outstanding.

At September 30, 1999, 4,034,000 shares were available for granting of stock options or issuance of restricted stock.

Stock purchase plans: The Company has 1,196,000 additional shares of common stock available for issuance pursuant to an employee stock purchase plan. April 30, 2000 is the exercise date for the current offering. The purchase price is the lower of 85% of the fair market value at the date of the grant or the exercise date which is one year from the date of the grant. The weighted-average fair value per share of purchase rights granted in 1999, 1998, and 1997 computed using the Black-Scholes option-pricing model was $6.34, $6.65, and $5.28, respectively.

In 1999, 1998, and 1997 employees purchased 97,000, 95,000, and 106,000 shares, respectively, at a per share price of $24.78 in 1999, $20.98 in 1998, and $19.02 in 1997.

Note 9. *Income Tax Matters*

Components of income tax expense consist of the following:

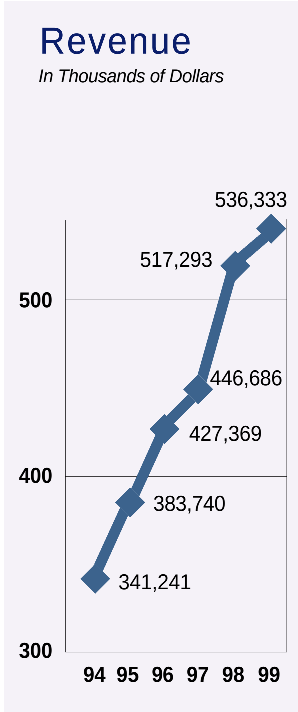
	Year Ended September 30,		
	1999	1998	1997
	(In Thousands)		
Paid or payable on currently taxable income:			
Federal	**$30,633**	$ 29,943	$ 32,188
State	**5,652**	5,525	6,595
Net increase due to deferred income taxes	**2,277**	2,431	194
	$38,562	$ 37,899	$ 38,977

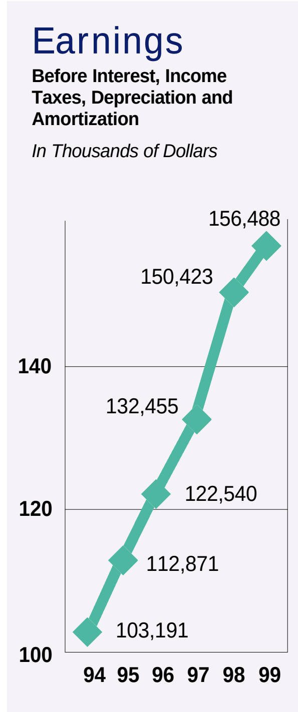
The total tax provision has been allocated to the following financial statement items:

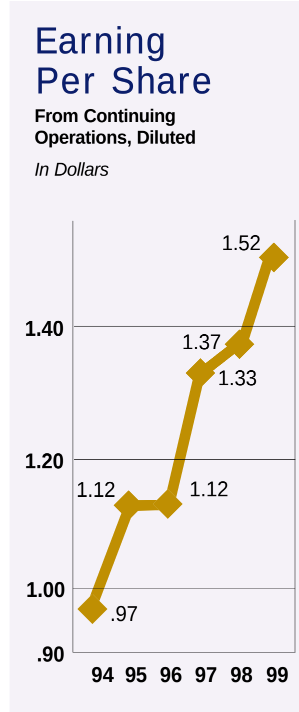
	Year Ended September 30,		
	1999	1998	1997
	(In Thousands)		
Income from continuing operations	**$38,562**	$ 37,899	$ 38,477
Discontinued operations	—	—	500
	$38,562	$ 37,899	$ 38,977

one of the best media executives in the country.

Mary Junck, a nationally known newspaper and civic leader, joined us in July as chief operating officer and a member of our board of directors.







Mary had held several senior executive positions at the Times Mirror Company, most recently as executive vice president and president of its eastern newspapers group. Before that she was publisher and chief executive officer of *The Baltimore Sun.* Before that, she was publisher and president of the *St. Paul Pioneer Press.*

I have known her for years and am absolutely delighted that she has joined Lee. She is a leader of the highest quality, with a fabulous value system and a terrific track record as a corporate and community leader. She has become my partner in leading the company.

In January, Mary will become president. At that time, with the retirement of Lloyd Schermer from the board, I will become chairman and will remain as chief executive officer. (Please see the special note about Lloyd on the inside back cover.)

When Ronald Rickman retired last spring as president of our newspaper publishing group, he left huge shoes to fill. We have placed publishing responsibilities under three vice presidents. They are Phil Blake, who also continues as publisher of the *Wisconsin State Journal* and chairman of Madison Newspapers, Inc.; Randy Miller, who also continues as a vice president for publishing; and Greg Veon, formerly vice president for marketing.

Meanwhile, before Gary Schmedding retired

Note 12. *Line of Business Information*

	Year Ended September 30, 1999	1998	1997
	(In Thousands)		
Revenue:			
Publishing:			
Wholly-owned properties	**$404,608**	$382,894	$318,441
Equity in net income of associated companies	**9,238**	8,367	7,756
Broadcasting	**122,487**	126,032	120,489
Total revenue	**$536,333**	$517,293	$446,686
Operating income:			
Publishing	**$113,090**	$102,526	$ 96,621
Broadcasting	**19,371**	24,948	22,262
Corporate	**(15,721)**	(14,627)	(14,732)
Total operating income	**$116,740**	$112,847	$104,151
Identifiable assets:			
Publishing	**$449,010**	$425,825	$413,834
Broadcasting	**192,746**	190,621	195,567
Corporate	**37,757**	44,139	41,562
Total identifiable assets	**$679,513**	$660,585	$650,963
Depreciation:			
Publishing	**$ 12,412**	$ 11,280	$ 9,054
Broadcasting	**8,143**	7,259	7,432
Corporate	**1,354**	1,123	689
Total depreciation	**$ 21,909**	$ 19,662	$ 17,175
Amortization of intangibles:			
Publishing	**$ 13,820**	$ 13,688	$ 6,902
Broadcasting	**4,019**	4,226	4,227
Total amortization of intangibles	**$ 17,839**	$ 17,914	$ 11,129
Capital expenditures:			
Publishing	**$ 24,197**	$ 16,987	$ 8,834
Broadcasting	**7,493**	6,825	6,516
Corporate	**741**	2,913	992
Total capital expenditures	**$ 32,431**	$ 26,725	$ 16,342

Note 13. *Other Information*

Balance sheet information:

Program rights and other consist of the following:

	September 30, 1999	1998	1997
	(In Thousands)		
Program rights	**$ 9,650**	$ 8,140	$ 7,020
Deferred income taxes	**5,595**	5,038	6,392
Other	**4,577**	3,714	4,279
	$ 19,822	$ 16,892	$ 17,691

Intangibles consist of the following:

	September 30, 1999	1998	1997
	(In Thousands)		
Goodwill	**$345,937**	$332,821	$325,758
Less accumulated amortization	**71,503**	63,584	55,303
	$274,434	$269,237	$270,455
Noncompete covenants and consulting agreements	**$ 28,023**	$ 28,213	$ 26,314
Less accumulated amortization	**25,497**	23,522	21,201
	$ 2,526	$ 4,691	$ 5,113
Customer lists, broadcasting licenses and agreements, and newspaper subscriber lists	**$159,805**	$157,011	$154,444
Less accumulated amortization	**40,373**	32,828	25,531
	$119,432	$ 124,183	$128,913
	$396,392	$398,111	$404,481

Compensation and other accruals consist of the following:

	September 30, 1999	1998	1997
	(In Thousands)		
Compensation	**$ 11,214**	$ 12,092	$ 12,029
Vacation pay	**5,402**	4,384	4,080
Retirement and stock purchase plans	**5,324**	5,005	4,708
Interest	**9**	519	1,639
Other	**4,602**	4,966	4,868
	$ 26,551	$ 26,966	$ 27,324

Cash flows information:

	Year Ended September 30, 1999	1998	1997
	(In Thousands)		
Cash payments for:			
Interest, net of capitalized interest 1999 $703; 1998 $169	**$ 13,373**	$ 15,731	$ 8,111
Income taxes	**$ 39,528**	$ 33,747	$ 40,767
Program rights were acquired by issuing long-term contracts as follows	**$ 12,417**	$ 9,017	$ 7,300
Issuance of restricted common stock, net	**$ 1,006**	$ 682	$ 244
Accounts payable for stock acquired	**$ 317**	$ (10,926)	$ 10,926
Proceeds from sale of businesses, net of selling costs	**$ 492**	$ —	$ 55,914
Less cash retained	**—**	—	(1,119)
Proceeds from sale of businesses	**$ 492**	$ —	$ 54,795
Note received in connection with sale of businesses	**$ 525**	$ —	$ —

Note 14. *Subsequent Event*

On October 1, 1999, the Company sold substantially all the assets used in, and liabilities related to, the publication, marketing and distribution of two daily newspapers and the related specialty and classified publications in Kewanee, Geneseo, and Aledo, Illinois, and Ottumwa, Iowa, in exchange for $9,300,000 of cash and a daily newspaper and specialty publications in Beatrice, Nebraska. In addition in November, 1999, the Company received $1,700,000 in cancellation of its local marketing agreement for KASY-TV in Albuquerque, New Mexico. The gain, net of closing costs, will be approximately $19,500,000.

Independent Auditor's Report

To the Stockholders
Lee Enterprises, Incorporated and Subsidiaries
Davenport, Iowa

We have audited the accompanying consolidated balance sheets of Lee Enterprises, Incorporated and subsidiaries as of September 30, 1999, 1998 and 1997 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. 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 generally accepted auditing standards. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lee Enterprises, Incorporated and subsidiaries as of September 30, 1999, 1998 and 1997 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Davenport, Iowa
November 5, 1999

McGladrey & Pullen, LLP

Quarterly Results (unaudited)

Lee Enterprises, Incorporated, and Subsidiaries

(In Thousands Except Per Share Data)

1999 Quarter:	**4th**	**3rd**	**2nd**	**1st**
Operating revenue	**$134,823**	**$135,787**	**$123,596**	**$142,127**
Net income	**$ 16,922**	**$ 19,444**	**$ 11,968**	**$ 19,639**
Earnings per share:				
Basic	**$ .38**	**$ .44**	**$ .27**	**$ .44**
Diluted	**$ .38**	**$ .43**	**$ .27**	**$ .44**

1998 Quarter:	4th	3rd	2nd	1st
Operating revenue	$129,596	$135,093	$121,345	$131,259
Net income	$ 14,947	$ 18,091	$ 12,611	$ 16,584
Earnings per share:				
Basic	$ .34	$ .41	$ .28	$ .37
Diluted	$ .33	$ .40	$ .28	$ .36

1997 Quarter:	4th	3rd	2nd	1st
Operating revenue	$112,538	$112,693	$101,787	$119,668
Income from continuing operations	$ 14,638	$ 17,759	$ 11,240	$ 19,108
Income from discontinued operations	—	485	1,000	—
Net income	$ 14,638	$ 18,244	$ 12,240	$ 19,108
Earnings per share:				
Basic:				
Income from continuing operations	$ .32	$ .38	$ .24	$ .41
Income from discontinued operations	—	.01	.02	—
Net income	$ .32	$ .39	$ .26	$ .41
Diluted:				
Income from continuing operations	$ .31	$ .38	$ .24	$ .40
Income from discontinued operations	—	.01	.02	—
Net income	$ .31	$ .39	$ .26	$ .40

Directors/Officers

Lloyd G. Schermer
Chairman of the Board and Director

Richard D. Gottlieb
President and Chief Executive Officer; Director

Mary E. Junck
Executive Vice President and Chief Operating Officer; Director

Phil Blake
Vice President, Publishing; Publisher of the *Wisconsin State Journal*

Larry L. Bloom
Senior Vice President, Finance; Treasurer and Chief Financial Officer

Colleen Brown
President, Broadcasting Group

Rance E. Crain
Director; President, Crain Communications Inc.

J.P. Guerin
Director; Investor

Vytenis P. Kuraitis
Vice President, Human Resources

William E. Mayer
Director; Partner, Development Capital, LLC

Randy Miller
Vice President, Publishing

Andrew E. Newman
Director; Chairman, Race Rock International

Gordon D. Prichett
Director; Chairman of Mathematics, Statistics and Information Sciences, Babson College

Ronald L. Rickman
Director; Retired President, Publishing

Gregory P. Schermer
Vice President, Interactive Media and Corporate Counsel

Phyllis Sewell
Director; Retired Senior Vice President, Federated Department Stores

Greg Veon
Vice President, Publishing

Mark Vittert
Director; Private Investor

C.D. Waterman III
Secretary; Partner, Lane & Waterman

Retiring Director
Charles E. Rickershauser, Jr.

In January, Charles Rickershauser will retire from Lee's board of directors after 10 years of outstanding service.

We will very much miss his steady counsel, clear thinking, wonderful ideas and quiet warmth.

Clockwise from left: Gregory P. Schermer, Phil Blake, C.D. Waterman III, Mary E. Junck, Richard D. Gottlieb.

Clockwise from left: Greg Veon, Colleen Brown, Randy Miller, Vytenis P. Kuraitis, Larry L. Bloom.

Clockwise from left: Rance E. Crain, Phyllis Sewell, William E. Mayer, Gordon D. Prichett.

Clockwise from left: J.P. Guerin, Andrew E. Newman, Mark Vittert, Ronald L. Rickman.

For leadership, vision and values . . . Thank you, Lloyd

As tributes go, few are more telling than the one Lloyd G. Schermer received from a group of citizens in Missoula, Montana:

"He brought to us the fresh air of a free and independent newspaper. He committed himself and his organization to a vigorous and effective attack on the problems besetting our community. All of us have benefitted because he was here. We shall not soon forget him."

That was in 1970 as Lloyd was leaving for a bigger job at corporate headquarters, and three years later he would become president and chief executive officer. In all the years before and since, just like in Missoula, Lloyd has made our company, our communities, our country and even our world better places. He taught others — thousands of others — how to become better leaders, he guided us with both vision and wisdom, and he shaped our company's values for all time. In January, Lloyd is retiring as chairman of the board of directors.

We and future generations at Lee owe him a debt beyond imagination.

LEE ENTERPRISES

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Davenport, Iowa 52801-1924

www.lee.net