SCRIPPS E W CO /DE
Form 10-Q
November 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 0-16914

THE E. W. SCRIPPS COMPANY

(Exact name of registrant as specified in its charter)

Ohio	**31-1223339**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
312 Walnut Street	**45202**

Cincinnati, Ohio
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: (513) 977-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of October 31, 2006 there were 126,812,798 of the Registrant s Class A Common Shares outstanding and 36,568,226 of the Registrant s Common Voting Shares outstanding.

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PART I

As used in this Quarterly Report on Form 10-Q, the terms we, our, us or Scripps may, depending on the context, refer to The E.W. Scripps Company, to one or more of its consolidated subsidiary companies or to all of them taken as a whole.

ITEM 1. FINANCIAL STATEMENTS

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

The information required by this item is filed as part of this Form 10-Q. See Index to Financial Information at page F-1 of this Form 10-Q.

PART II

ITEM 1. LEGAL PROCEEDINGS

We are involved in litigation arising in the ordinary course of business, such as defamation actions, employment and employee relations and various governmental and administrative proceedings, none of which is expected to result in material loss.

ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005.

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ITEM 2. UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

There were no sales of unregistered equity securities during the quarter for which this report is filed.

The following table provides information about Company purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended September 30, 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans Or Programs
7/1/06 - 7/31/06	112,000	$ 42.31	112,000	3,438,000
8/1/06 - 8/31/06	161,000	$ 43.26	161,000	3,277,000
9/1/06 - 9/30/06	140,000	$ 46.62	140,000	3,137,000
Total	413,000	$ 44.14	413,000	3,137,000

Under a share repurchase program authorized by the Board of Directors on October 28, 2004, we were authorized to repurchase up to 5.0 million Class A Common Shares. There is no expiration date for the program and we are under no commitment or obligation to repurchase any particular amount of Class A Common Shares under the program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the quarter for which this report is filed.

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

There were no matters submitted to a vote of security holders during the quarter for which this report is filed.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

The information required by this item is filed as part of this Form 10-Q. See Index to Exhibits at page E-1 of this Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE E. W. SCRIPPS COMPANY

Dated: November 9, 2006

BY: /s/ Joseph G. NeCastro
Joseph G. NeCastro
Executive Vice President and Chief Financial Officer

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THE E. W. SCRIPPS COMPANY

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30, 2006 (Unaudited)	As of December 31, 2005	September 30, 2005 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 30,804	$ 19,243	$ 23,879
Short-term investments	2,398	12,800	1,029
Accounts and notes receivable (less allowances $15,474, $18,463, $18,285)	478,641	493,075	408,423
Programs and program licenses	169,388	172,879	163,452
Deferred income taxes	32,845	32,269	30,131
Inventories	11,889	11,725	11,402
Assets of discontinued operations	166,778	230,694	337,704
Miscellaneous	38,519	22,841	21,286
Total current assets	931,262	995,526	997,306
Investments	225,616	210,021	222,323
Property, plant and equipment	478,227	490,891	480,622
Goodwill and other intangible assets:			
Goodwill	1,944,853	1,647,794	1,660,732
Other intangible assets	315,568	227,585	233,331
Total goodwill and other intangible assets	2,260,421	1,875,379	1,894,063
Other assets:			
Programs and program licenses (less current portion)	233,200	169,624	172,992
Unamortized network distribution incentives	160,656	172,271	177,474
Prepaid pension	51,754	66,153	62,983
Miscellaneous	47,419	52,763	49,201
Total other assets	493,029	460,811	462,650
TOTAL ASSETS	$ 4,388,555	$ 4,032,628	$ 4,056,964

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 30, 2006 (Unaudited)	As of December 31, 2005	September 30, 2005 (Unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 79,105	$ 92,084	$ 101,600
Customer deposits and unearned revenue	61,589	53,521	54,798
Accrued liabilities:			
Employee compensation and benefits	62,867	75,069	64,986
Network distribution incentives	7,199	8,871	8,576
Accrued income taxes	4,160	4,705	13,376
Miscellaneous	92,968	83,720	84,922
Liabilities of discontinued operations	41,260	46,863	60,285
Other current liabilities	27,226	29,103	36,634
Total current liabilities	376,374	393,936	425,177
Deferred income taxes	359,336	312,961	282,866
Long-term debt	966,168	825,775	857,893
Other liabilities (less current portion)	121,420	121,616	109,507
Minority interests	98,710	91,261	73,523
Shareholders' equity:			
Preferred stock, $.01 par - authorized: 25,000,000 shares; none outstanding			
Common stock, $.01 par:			
Class A - authorized: 240,000,000 shares; issued and outstanding: 126,723,327, 126,994,386; and 127,027,297 shares	1,267	1,270	1,270
Voting - authorized: 60,000,000 shares; issued and outstanding: 36,568,226, 36,668,226 and 36,668,226 shares	366	367	367
Total	1,633	1,637	1,637
Additional paid-in capital	404,560	363,416	357,835
Stock compensation:			
Performance awards and restricted stock units		4,828	3,717
Unvested restricted stock awards		(1,634)	(2,470)
Retained earnings	2,044,808	1,930,994	1,958,040
Accumulated other comprehensive income (loss), net of income taxes:			
Unrealized gains on securities available for sale	6,098	4,906	6,209
Pension liability adjustments	(18,988)	(18,550)	(18,495)
Foreign currency translation adjustment	28,436	1,482	1,525
Total shareholders' equity	2,466,547	2,287,079	2,307,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,388,555	$ 4,032,628	$ 4,056,964

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Operating Revenues:				
Advertising	$ 406,124	$ 374,110	$ 1,290,269	$ 1,176,161
Referral fees	60,449	34,672	183,133	35,719
Network affiliate fees, net	49,039	43,634	146,572	125,233
Circulation	30,530	30,650	93,487	96,223
Licensing	19,651	19,492	56,161	57,372
Other	17,656	12,774	45,470	47,998
Total operating revenues	583,449	515,332	1,815,092	1,538,706
Costs and Expenses:				
Employee compensation and benefits (exclusive of JOA editorial compensation costs)	159,393	146,779	478,292	420,172
Marketing and advertising	55,238	40,500	166,712	95,650
Programs and program licenses	64,030	54,794	177,768	164,070
Newsprint and ink	20,155	20,304	65,906	61,458
JOA editorial costs and expenses	8,561	9,261	26,534	27,535
Other costs and expenses	111,238	106,955	346,589	310,898
Total costs and expenses	418,615	378,593	1,261,801	1,079,783
Depreciation, Amortization, and Losses (Gains):				
Depreciation	16,359	16,696	52,464	45,593
Amortization of intangible assets	10,769	8,611	33,445	11,189
Gain on formation of Colorado newspaper partnership			(3,535)	
Losses (gains) on disposal of property, plant and equipment	277	107	433	65
Hurricane recoveries, net	(150)		(1,900)	(1,892)
Net depreciation, amortization and losses (gains)	27,255	25,414	80,907	54,955
Operating income	137,579	111,325	472,384	403,968
Interest expense	(15,281)	(12,136)	(42,971)	(27,067)
Equity in earnings of JOAs and other joint ventures	13,942	10,096	39,923	49,456
Interest and dividend income	713	3,758	1,864	4,340
Miscellaneous, net	1,421	417	3,400	350
Income from continuing operations before income taxes and minority interests	138,374	113,460	474,600	431,047
Provision for income taxes	44,132	37,895	159,929	150,968
Income from continuing operations before minority interests	94,242	75,565	314,671	280,079
Minority interests	15,806	11,729	49,881	40,354
Income from continuing operations	78,436	63,836	264,790	239,725
Income (loss) from discontinued operations, net of tax	(5,373)	18,320	(45,518)	10,031
Net income	$ 73,063	$ 82,156	$ 219,272	$ 249,756
Net income (loss) per basic share of common stock:				
Income from continuing operations	$ .48	$ .39	$ 1.62	$ 1.47

Income (loss) from discontinued operations		(.03)		.11		(.28)		.06
Net income per basic share of common stock	$	.45	$	.50	$	1.34	$	1.53
Net income (loss) per diluted share of common stock:								
Income from continuing operations	$	.48	$	.39	$	1.61	$	1.45
Income (loss) from discontinued operations		(.03)		.11		(.28)		.06
Net income per diluted share of common stock	$	.44	$	.50	$	1.33	$	1.51

Net income per share amounts may not foot since each is calculated independently.

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Nine months ended September 30, 2006	2005
Cash Flows from Operating Activities:		
Net income	$ 219,272	$ 249,756
Loss (income) from discontinued operations	45,518	(10,031)
Income from continuing operations	264,790	239,725
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	85,909	56,782
Gain on formation of Colorado newspaper partnership	(3,535)	
Deferred income taxes	11,773	18,551
Excess tax benefits of stock compensation plans	1,547	9,390
Dividends received greater (less) than equity in earnings of JOAs and other joint ventures	19,092	10,282
Stock and deferred compensation plans	24,088	15,075
Minority interests in income of subsidiary companies	49,881	40,354
Affiliate fees billed greater than amounts recognized as revenue	10,964	15,261
Network launch incentive payments	(5,082)	(17,937)
Payments for programming less (greater) than program cost amortization	(55,675)	(28,696)
Prepaid and accrued pension expense	14,399	(30,804)
Other changes in certain working capital accounts, net	(10,119)	6,774
Miscellaneous, net	4,375	(7,167)
Net cash provided by continuing operating activities	412,407	327,590
Net cash provided by (used in) discontinued operating activities	(7,195)	20,490
Net operating activities	405,212	348,080
Cash Flows from Investing Activities:		
Purchase of subsidiary companies, minority interest, and long-term investments	(398,225)	(548,659)
Proceeds from formation of Colorado newspaper partnership, net of transaction costs	20,029	
Additions to property, plant and equipment	(50,037)	(35,421)
Decrease in short-term investments	10,402	19,887
Sale of long-term investments	2,838	4,131
Miscellaneous, net	4,143	261
Net cash provided by (used in) continuing investing activities	(410,850)	(559,801)
Net cash provided by (used in) discontinued investing activities	12,902	(6,873)
Net investing activities	(397,948)	(566,674)
Cash Flows from Financing Activities:		
Increase in long-term debt	149,756	325,896
Payments on long-term debt	(10,918)	(78)
Dividends paid	(57,200)	(52,363)
Dividends paid to minority interests	(40,128)	(40,460)
Repurchase Class A Common shares	(50,222)	(26,790)
Proceeds from employee stock options	13,935	28,017
Excess tax benefits of stock compensation plans	2,319	
Miscellaneous, net	(4,054)	(4,132)
Net cash provided by continuing financing activities	3,488	230,090

Net cash provided by (used in) discontinued financing activities	(106)	104
Net financing activities	3,382	230,194
Effect of exchange rate changes on cash and cash equivalents	915	
Increase in cash and cash equivalents	11,561	11,600
Cash and cash equivalents:		
Beginning of year	19,243	12,279
End of period	$ 30,804	$ 23,879
Supplemental Cash Flow Disclosures:		
Interest paid, excluding amounts capitalized	$ 41,246	$ 25,967
Income taxes paid continuing operations	$ 158,061	$ 103,545
Income taxes paid (refunds received) discontinued operations	(24,066)	3,548
Total income taxes paid	$ 133,995	$ 107,093

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AND SHAREHOLDERS' EQUITY (UNAUDITED)

(in thousands, except share data)	Common Stock	Additional Paid-in Capital	Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income for the Three Months Ended September 30
As of December 31, 2004	$ 1,632	$ 320,359	$ (4,090)	$ 1,787,221	$ (9,001)	$ 2,096,121	
Comprehensive income:							
Net income				249,756		249,756	$ 82,156
Unrealized gains (losses) on investments, net of tax of $1,340 and ($1,014)					(2,594)	(2,594)	1,888
Adjustment for losses (gains) in income, net of tax of ($480)					891	891	
Change in unrealized gains (losses) on investments					(1,703)	(1,703)	1,888
Currency translation, net of tax of ($199) and ($374)					(57)	(57)	621
Total				249,756	(1,760)	247,996	$ 84,665
Dividends: declared and paid - $.32 per share				(52,363)		(52,363)	
Repurchase 562,500 Class A Common shares	(6)	(1,322)		(26,574)		(27,902)	
Compensation plans, net: 1,133,929 shares issued; 63,464 shares repurchased; 2,500 shares forfeited	11	29,408	5,337			34,756	
Tax benefits of compensation plans		9,390				9,390	
As of September 30, 2005	$ 1,637	$ 357,835	$ 1,247	$ 1,958,040	$ (10,761)	$ 2,307,998	
As of December 31, 2005	$ 1,637	$ 363,416	$ 3,194	$ 1,930,994	$ (12,162)	$ 2,287,079	
Comprehensive income:							
Net income				219,272		219,272	$ 73,063
Unrealized gains (losses) on investments, net of tax of $(526) and $(603)					1,203	1,203	1,347
Adjustment for losses (gains) in income, net of tax of $6					(11)	(11)	
Change in unrealized gains (losses) on investments					1,192	1,192	1,347
Tax adjustment to minimum pension liability					(438)	(438)	(438)
Currency translation, net of tax of $(52) and $212					26,954	26,954	4,516

Total				219,272	27,708	246,980	$ 78,488
Adoption of FAS 123-R		3,194	(3,194)				
Dividends: declared and paid - $.35 per share				(57,200)		(57,200)	
Convert 100,000 Voting Shares to Class A Shares							
Repurchase 1,113,000 Class A Common shares	(11)	(2,958)		(48,258)		(51,227)	
Compensation plans, net: 816,822 shares issued;							
72,065 shares repurchased; 2,816 shares forfeited	7	37,042				37,049	
Tax benefits of compensation plans		3,866				3,866	
As of September 30, 2006	$ 1,633	$ 404,560		$ 2,044,808	$ 15,546	$ 2,466,547	

See notes to condensed consolidated financial statements.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Aside from information disclosed in this Form 10-Q, the information disclosed in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005, has not changed materially. Financial information as of December 31, 2005, included in these financial statements has been derived from the audited consolidated financial statements included in that report. In management s opinion all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the interim periods have been made.

Results of operations are not necessarily indicative of the results that may be expected for future interim periods or for the full year.

Nature of Operations - We are a diverse media concern with interests in national television networks, newspaper publishing, broadcast television, interactive media, and licensing and syndication. All of our media businesses provide content and advertising services via the Internet. Our media businesses are organized into the following reportable business segments: Scripps Networks, Newspapers, Broadcast television, and Interactive media. Additional information for our business segments in presented in Note 18.

Concentration Risks - Our operations are geographically dispersed and we have a diverse customer base. We believe bad debt losses resulting from default by a single customer, or defaults by customers in any depressed region or business sector, would not have a material effect on our financial position.

Approximately 80% of our operating revenues are earned from marketing services, including advertising and referral fees. Operating results can be affected by changes in the demand for such services both nationally and in individual markets.

The six largest cable television systems and the two largest satellite television systems provide service to more than 95% of homes receiving HGTV and Food Network. The loss of distribution by any of these cable and satellite television systems could adversely affect our business. While no assurance can be given regarding renewal of our distribution contracts, we have not lost carriage upon the expiration of our distribution contracts with any of these cable and satellite television systems.

One customer accounts for approximately 30% of our interactive media segment s annual operating revenues. While we can provide no assurance that the revenues from this customer would be replaced, we believe we could reach agreement to provide these services to other parties.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make a variety of decisions that affect the reported amounts and the related disclosures. Such decisions include the selection of accounting principles that reflect the economic substance of the underlying transactions and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgment based on our understanding and analysis of the relevant circumstances, including our historical experience, actuarial studies and other assumptions.

Our financial statements include estimates and assumptions used in accounting for our defined benefit pension plans; the recognition of certain revenues; rebates due to customers; the periods over which long-lived assets are depreciated or amortized; the fair value of such long-lived assets; income taxes payable; estimates for uncollectible accounts receivable; and self-insured risks.

While we re-evaluate our estimates and assumptions on an ongoing basis, actual results could differ from those estimated at the time of preparation of the financial statements.

Newspaper Joint Operating Agreements (JOA) - We include our share of JOA earnings in Equity in earnings of JOAs and other joint ventures in our Condensed Consolidated Statements of Income. The related editorial costs and expenses are included in JOA editorial costs and expenses. Our residual interest in the net assets of the Denver and Albuquerque JOAs is classified as an investment in the Condensed Consolidated Balance Sheets. We do not have a residual interest in the net assets of the Cincinnati JOA.

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Foreign Currency Translation Substantially all of our international subsidiaries use the local currency of their respective country as their functional currency. Assets and liabilities of such international subsidiaries are translated using end-of-period exchange rates while results of operations are translated based on the average exchange rates throughout the year. Equity is translated at historical exchange rates, with the resulting cumulative translation adjustment included as a component of accumulated other comprehensive income (loss) in shareholders equity, net of applicable income taxes.

Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured into the functional currency using end-of-period exchange rates. Gains or losses resulting from such remeasurement are recorded in income. Foreign exchange gains and losses are included in Miscellaneous, net in the Condensed Consolidated Statements of Income. Foreign exchange gains totaled $0.3 million for the year-to-date period of 2006 and foreign exchange losses totaled $0.7 million for the year-to-date period of 2005.

Revenue Recognition - Our primary sources of revenue are from:

- The sale of print, broadcast, and internet advertising.
- Referral fees and commissions from retailers and service providers.
- Fees for programming services (network affiliate fees).
- The sale of newspapers.
- Licensing royalties.

Revenue is reported net of our remittance of sales taxes, value added taxes and other taxes collected from our customers.

The revenue recognition policies for each source of revenue are described in our annual report on Form 10-K for the year ended December 31, 2005.

Stock-Based Compensation We have a Long-Term Incentive Plan (the Plan), which is described more fully in Note 19 to this Form 10-Q. The Plan provides for the award of incentive and nonqualified stock options, stock appreciation rights, restricted and unrestricted Class A Common Shares and performance units to key employees and non-employee directors.

As discussed in Note 2, we adopted Financial Accounting Standard No. 123-R - Share Based Payment (FAS 123-R), effective January 1, 2006. In accordance with FAS 123-R, compensation cost is based on the grant-date fair value of the award. The fair value of awards that grant the employee the right to the appreciation of the underlying shares, such as stock options, is measured using a binomial lattice model. The fair value of awards that grant the employee the underlying shares is measured by the fair value of a Class A Common Share.

Certain awards of Class A Common Shares have performance conditions under which the number of shares granted is determined by the extent to which such performance conditions are met (Performance Shares). Compensation costs for such awards are measured by the grant-date fair value of a Class A Common Share and the number of shares earned. In periods prior to completion of the performance period, compensation costs are based upon estimates of the number of shares that will be earned.

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Compensation costs, net of estimated forfeitures due to termination of employment or failure to meet performance targets, are recognized on a straight-line basis over the requisite service period of the award. The requisite service period is generally the vesting period stated in the award. However, because stock compensation grants vest upon the retirement of the employee, grants to retirement-eligible employees are expensed immediately and grants to employees who will become retirement eligible prior to the end of the stated vesting period are expensed over such shorter period. The vesting of certain awards is also accelerated if performance measures are met. If it is expected those performance measures will be met, compensation costs are expensed over the accelerated vesting period.

Prior to January 1, 2006, we applied the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for stock-based compensation. Under APB 25 we measured compensation costs based upon the intrinsic value of the award on the date of grant, with the exception of performance shares. Compensation costs for performance shares were measured by the number of shares earned and the fair value of a Class A Common share at the end of the performance period. Because stock options were granted with exercise prices equal or greater than the market price of a Class A Common share on the date of grant, no compensation costs were recognized unless the terms of those options were later modified. Compensation costs were expensed over the vesting period stated in the award, including grants to retirement-eligible employees, as each tranche of an award vested. If the stated vesting period was accelerated upon satisfaction of performance conditions, compensation costs were recognized over the shorter period if the performance conditions were expected to be met. Any unrecognized compensation cost was recognized upon retirement of an employee prior to the end of the stated vesting period. Forfeitures were recognized as they occurred.

Net Income Per Share - The following table presents information about basic and diluted weighted-average shares outstanding:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Basic weighted-average shares outstanding	163,090	163,506	163,251	163,258
Effect of dilutive securities:				
Unvested restricted stock held by employees	241	285	236	281
Stock options held by employees and directors	1,181	1,912	1,355	1,963
Diluted weighted-average shares outstanding	164,512	165,703	164,842	165,502

Stock options to purchase 5,823,864 common shares were anti-dilutive as of September 30, 2006 and are therefore not included in the computation of diluted weighted-average shares outstanding.

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2. ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Changes - We adopted FAS 123-R using the modified prospective application transition method. Under the modified prospective application transition method, the provisions of FAS 123-R are applied to awards granted after the date of adoption and to the unvested portion of awards outstanding as of January 1, 2006. There are no changes in the accounting for awards which vested prior to adoption of FAS 123-R unless the terms of those awards are subsequently modified. Prior period reported amounts have not been restated to apply the provisions of FAS 123-R.

Income from continuing operations in the third quarter of 2006 was reduced by $2.6 million, $.02 per share, as a result of the adoption of FAS 123-R. Income from continuing operations in the year-to-date period was reduced by $10.7 million, $.07 per share.

Net income and earnings per share as if the fair-value based principles of FAS 123-R were applied to all periods presented, on an as reported basis for periods after the adoption of FAS 123-R and on a pro forma basis for periods prior to the adoption of FAS 123-R, are as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands, except per share data)	**2006**	**2005**	**2006**	**2005**
Net income:				
Reported net income for 2005		$ 82,156		$ 249,756
Additional compensation to adjust intrinsic value to fair value		(4,062)		(11,238)
Net income under fair-value based method for all periods	$ 73,063	$ 78,094	$ 219,272	$ 238,518
Net income per share of common stock				
Basic earnings per share:				
As reported		$ 0.50		$ 1.53
Additional compensation to adjust intrinsic value to fair value		(0.02)		(0.07)
Basic earnings per share under fair-value based method	$ 0.45	$ 0.48	$ 1.34	$ 1.46
Diluted earnings per share:				
As reported		$ 0.50		$ 1.51
Additional compensation to adjust intrinsic value to fair value		(0.02)		(0.07)
Diluted earnings per share under fair-value based method	$ 0.44	$ 0.47	$ 1.33	$ 1.44

Net income per share amounts may not foot since each is calculated independently.

Prior to the adoption of FAS 123-R, tax benefits for tax deductions in excess of compensation expense were classified as operating cash flows. Upon the adoption of FAS 123-R, tax benefits related to recorded stock compensation are presented as operating cash flows, while tax benefits resulting from tax deductions in excess of recorded compensation expense are classified as financing cash flows.

Cash flows from operating activities were reduced by $2.3 million and cash flows from financing activities were increased by $2.3 million in the 2006 year-to-date period.

In addition, prior to adoption of FAS 123-R, additional paid-in capital was increased by the intrinsic value of the award on the date of grant. The unvested portion of the award as of each balance sheet date was presented as a reduction in shareholders equity as of that date. Upon adoption of FAS 123-R, additional paid-in capital is increased as the fair value of the award is recognized as compensation expense in our statements of income.

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In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123-R-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee share-based compensation awards that are outstanding upon adoption of FAS 123-R. An entity may make a one-time election to adopt the transition method described in this guidance and may take up to one year from the later of its initial adoption of FAS 123-R or the effective date of this guidance, which was November 11, 2005. We have elected not to adopt the alternative transition method provided in FAS 123-R-3 for calculating the tax effects of share-based compensation pursuant to FAS 123-R.

Recently Issued Accounting Standards - In July 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, Accounting for Income Taxes. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition.

In accordance with FIN 48, the benefits of tax positions will not be recorded unless it is more likely than not that the tax position would be sustained upon challenge by the appropriate tax authorities. Tax benefits that are more likely than not to be sustained are measured at the largest amount of benefit that is cumulatively greater than a 50% likelihood of being realized. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements. This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. FAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

In September 2006, the FASB issued FAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB statements No. 87, 88, 106 and 132(R). FAS 158 requires us to recognize the over- or under-funded status of each of our pension and postretirement plans in our balance sheet. The standard did not change the manner in which plan liabilities or periodic expense is measured. Changes in the funded status of the plans resulting from unrecognized prior service costs and credits and unrecognized actuarial gains and losses are recorded as a component of other comprehensive income within shareholders equity. Based upon an estimated actuarial valuation of plan assets and obligations for our fiscal year ending December 31, 2006, the difference in accounting between the previous requirements of FAS 132(R) and the new requirements of FAS 158 is expected to decrease assets by approximately $41 million and increase pension liabilities by approximately $15 million. Shareholders s equity, net of a $21 million deferred income tax impact, is expected to decrease by $35 million.

3. ACQUISITIONS

2006 - On March 16, 2006, we acquired 100% of the common stock of uSwitch Ltd. for approximately $383 million in cash. Assets acquired in the transaction included approximately $10.9 million of cash. The acquisition, financed using a combination of cash on hand and borrowing on both existing and new credit facilities, enables us to further capitalize on the increasing use and profitability of specialized Internet search businesses and to extend the reach of our interactive media businesses into essential home services and international markets.

In the first and second quarter of 2006, we acquired an additional 4% interest in our Memphis newspaper and 2% interest in our Evansville newspaper for total consideration of $22.4 million. We also acquired a newspaper publication for total consideration of $0.7 million. In the third quarter of 2006, we acquired newspapers and other publications in areas contiguous to our existing newspaper markets for total consideration of $2.0 million.

2005 **-** On June 27, 2005, we acquired 100% ownership of Shopzilla for approximately $570 million in cash. Assets acquired in the transaction included approximately $34.0 million of cash and $12.3 million of short-term investments. The acquisition was financed using a combination of cash on hand and additional borrowings. The acquisition enabled us to capitalize on the rapid growth and rising profitability of specialized Internet search businesses and expand our electronic media platform.

In the third quarter and fourth quarter of 2005, we acquired newspapers and other publications in areas contiguous to our existing newspaper markets. Cash consideration paid for these transactions totaled $8.5 million.

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The following table summarizes the fair values of the assets acquired and the liabilities assumed as of the dates of acquisition. The allocation of the purchase price to the assets and liabilities of the uSwitch acquisition is based upon preliminary appraisals and estimates and is therefore subject to change. The allocation of the purchase price for the other acquisitions summarized below reflects final values assigned which may differ from preliminary values reported in the financial statements for prior periods.

	2006		2005	
(in thousands)	**uSwitch**	**Newspapers**	**Shopzilla**	**Newspapers**
Short-term investments			$ 12,279	
Accounts receivable	$ 9,486	$ 91	12,670	$ 454
Other current assets	583		8,046	93
Property, plant and equipment	5,367	5	25,728	268
Amortizable intangible assets	108,091	8,468	142,400	1,840
Goodwill	288,085	14,317	401,492	5,851
Other assets			138	
Net operating loss carryforwards			23,499	
Total assets acquired	411,612	22,881	626,252	8,506
Current liabilities	(13,251)	(96)	(24,195)	(47)
Deferred income taxes	(26,204)		(66,271)	
Other long-term obligations			(719)	
Minority interest		2,305		10
Net purchase price	$ 372,157	$ 25,090	$ 535,067	$ 8,469

Pro forma results of operations, assuming the uSwitch and Shopzilla acquisitions had taken place at the beginning of each respective period, are included in the following table. The pro forma information includes adjustments for interest expense that would have been incurred to finance the acquisition, additional depreciation and amortization of the assets acquired and excludes transaction related expenses incurred by the acquired companies. The unaudited pro forma financial information is not necessarily indicative of the results that actually would have occurred had the acquisitions been completed at the beginning of the period. Pro forma results are not presented for the other acquisitions completed during 2005 and 2006 because the combined results of operations would not be significantly different from reported amounts.

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	**2006**	**2005**	**2006**	**2005**
Operating revenues	$ 583,449	$ 521,110	$ 1,825,358	$ 1,611,124
Income from continuing operations	78,436	58,391	261,211	215,936
Income from continuing operations per share of common stock:				
Basic	$ .48	$ .36	$ 1.60	$ 1.32
Diluted	.48	.35	1.58	1.30

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4. DISCONTINUED OPERATIONS

On June 21, 2006, we reached agreement to sell the operations of the Shop At Home television network and certain of its assets to Jewelry Television for consideration of $17 million. Under the terms of the agreement, Jewelry Television also assumed a number of Shop At Home s television affiliation agreements. In the third quarter of 2006, we reached agreement to sell the five Shop At Home-affiliated broadcast television stations for consideration of $170 million. The sale of the stations is expected to be completed in multiple closings pending the timing of license transfers and other approvals by the Federal Communications Commission. We expect the transactions will be completed in their entirety by the second quarter of 2007.

In the third quarter of 2005, we reached an agreement with Advance Publications, Inc., the publisher of the Birmingham News (News), to terminate the Birmingham joint operating agreement between the News and our Birmingham Post-Herald newspaper. During the third quarter of 2005, we also ceased publication of our Birmingham Post-Herald newspaper and sold certain assets to the News.

In accordance with the provisions of Financial Accounting Standards (FAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of businesses held for sale or that have ceased operations are presented as discontinued operations within our results of operations. Accordingly, these businesses have also been excluded from segment results for all periods presented.

Operating results of our discontinued operations were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Operating revenues:				
Shop At Home	$ 1,962	$ 79,370	$ 166,584	$ 268,382
Birmingham-Post Herald		9		27
Total	$ 1,962	$ 79,379	$ 166,584	$ 268,409
Share of earnings of JOA, including termination fee		$ 41,970		$ 45,423
Income (loss) from discontinued operations:				
Shop At Home:				
Loss from operations	$ (8,110)	$ (9,836)	$ (58,612)	$ (24,688)
Loss on divestiture			(12,054)	
Total Shop At Home	(8,110)	(9,836)	(70,666)	(24,688)
Birmingham-Post Herald		40,658	(2)	42,799
Income (loss) from discontinued operations, before tax	(8,110)	30,822	(70,668)	18,111
Income taxes (benefit)	(2,737)	12,502	(25,150)	8,080
Income (loss) from discontinued operations	$ (5,373)	$ 18,320	$ (45,518)	$ 10,031

In 2005, we received cash consideration of approximately $40.8 million as a result of the termination of the Birmingham joint operating agreement and the sale of certain assets of the Birmingham-Post Herald newspaper. Third quarter 2005 net income was increased by $24.2 million.

The loss on divestiture in 2006 represents losses on the sale of property and other assets to Jewelry Television.

Upon reaching agreement to sell the five Shop At Home-affiliated broadcast television stations in the third quarter of 2006, we recognized a $7.5 million impairment charge to reduce the carrying value of the stations FCC licenses to their fair value.

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Shop At Home s loss from operations in the 2006 year-to-date period also includes a $6.4 million pre-tax charge to write-down assets on the Shop At Home television network, $13.7 million in costs associated with employee termination benefits, and $3.3 million in costs associated with the termination of long-term agreements. Information regarding employee benefit and long-term contract termination accruals is as follows:

(in thousands)	Second quarter charge	Third quarter charges	Third quarter adjustments	Cash Paid	Balance as of September 30, 2006
Employee termination benefits	$ 12,327	$ 1,326		$ (13,653)	
Other long-term agreement costs	4,404		$ (1,142)	(1,033)	$ 2,229
Total	$ 16,731	$ 1,326	$ (1,142)	$ (14,686)	$ 2,229

Assets and liabilities of our discontinued operations consisted of the following:

	As of		
(in thousands)	September 30, 2006	December 31, 2005	September 30, 2005
Assets:			
Inventories		$ 31,592	$ 34,486
Property, plant and equipment	$ 9,469	35,330	34,710
Goodwill			100,889
Intangible assets	156,115	163,600	166,887
Other assets	1,194	172	732
Assets of discontinued operations	$ 166,778	$ 230,694	$ 337,704
Liabilities:			
Deferred income taxes	$ 40,708	$ 45,237	$ 57,124
Other liabilities	552	1,626	3,161
Liabilities of discontinued operations	$ 41,260	$ 46,863	$ 60,285

Liabilities of discontinued operations include only those liabilities that were assumed or are expected to be assumed by third parties.

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5. OTHER ITEMS

Gain on formation of Colorado newspaper partnership - In February of 2006, we completed the formation of a newspaper partnership with MediaNews Group, Inc. (MediaNews) that will operate certain of both companies newspapers in Colorado. We contributed the assets of our Boulder Daily Camera, Colorado Daily and Bloomfield Enterprise newspapers for a 50% interest in the partnership. MediaNews contributed the assets of publications they operate in Colorado. In addition, MediaNews also paid us cash consideration of $20.4 million. We recognized a pre-tax gain of $3.5 million in the first quarter of 2006 upon completion of the transaction. Net income was increased by $2.1 million.

Denver newspaper production facilities - In the third quarter of 2005, the management committee of the Denver Newspaper Agency (DNA) approved plans to consolidate DNA s newspaper production facilities. As a result, assets used in certain of the existing facilities will be retired earlier than previously estimated. The reduction in these assets estimated useful lives increased DNA s depreciation expense in 2006 and 2005. The increased depreciation resulted in a $3.0 million decrease in our equity in earnings from JOAs in the third quarter of 2006 and $9.1 million in the third quarter of 2005. Third quarter net income was decreased by $1.9 million in 2006 and $5.7 million in 2005.

Year-to-date equity in earnings from JOAs was decreased $9.3 million in 2006 reducing net income by $5.7 million. The increased depreciation is expected to decrease equity in earnings from JOAs approximately $3.0 million in each quarter until the second quarter of 2007.

Hurricanes - Certain of our Florida operations sustained hurricane damages in 2004 and 2005. Throughout the course of 2005 and 2006, we reached final settlement agreements with insurance providers and other responsible third parties on property and business interruption claims related to these hurricanes. We recorded year-to-date insurance recoveries of $1.9 million in 2006 and $2.2 million in 2005. The insurance recoveries recorded in 2005 were partially offset by additional estimated losses of $0.3 million. Year-to-date net income was increased by $1.2 million in 2006 and 2005.

6. INCOME TAXES

We file a consolidated federal income tax return and separate state income tax returns for each subsidiary company. Included in our federal and state income tax returns is our proportionate share of the taxable income or loss of partnerships and incorporated limited liability companies that have elected to be treated as partnerships for tax purposes (pass-through entities). Our financial statements do not include any provision (benefit) for income taxes on the income (loss) of pass-through entities attributed to the non-controlling interests.

Food Network is operated under the terms of a general partnership agreement. Fine Living is a limited liability company (LLC) and is treated as a partnership for tax purposes. As a result, federal and state income taxes for these pass-through entities accrue to the individual partners.

Consolidated income before income tax consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Income allocated to Scripps	$ 122,687	$ 102,351	$ 425,374	$ 394,208
Income of pass-through entities allocated to non-controlling interests	15,687	11,109	49,226	36,839
Income from continuing operations before income taxes and minority interest	$ 138,374	$ 113,460	$ 474,600	$ 431,047

The income tax provision for interim periods is determined based upon the expected effective income tax rate for the full year and the tax rate applicable to certain discrete transactions in the interim period. To determine the annual effective income tax rate for the full year period we must estimate both the total income before income tax for the full year and the jurisdictions in which that income is subject to tax. The actual effective income tax rate for the full year may differ from these estimates if income before income tax is greater or less than what was estimated or if the allocation of income to jurisdictions in which it is taxed is different from the estimated allocations. We review and adjust our estimated effective income tax rate for the full year each quarter based upon our most recent estimates of income before income tax for the full year and the jurisdictions in which we expect that income will be taxed.

Information regarding our expected effective income tax rate from continuing operations for the full year of 2006 and the actual effective income tax rate from continuing operations for the full year of 2005 is as follows:

	2006	**2005**
Statutory rate	35.0%	35.0%
Effect of:		
State and local income taxes, net of federal income tax benefit	2.7	3.5
Income of pass-through entities allocated to non-controlling interests	(3.6)	(3.1)
Adjustment of state net operating loss carryforward valuation allowance	0.6	
Amended return claims and other prior year tax adjustments	(0.8)	
Section 199 - Production Activities Deduction	(0.6)	(0.4)
Miscellaneous	0.4	0.3
Effective income tax rate	33.8%	35.3%

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7. JOINT OPERATING AGREEMENTS AND NEWSPAPER PARTNERSHIPS

Three of our newspapers are operated pursuant to the terms of joint operating agreements (JOAs). The Newspaper Preservation Act of 1970 provides a limited exemption from anti-trust laws, permitting competing newspapers in a market to combine their sales, production and business operations in order to reduce aggregate expenses and take advantage of economies of scale, thereby allowing the continuing operation of both newspapers in that market. Each newspaper in a JOA maintains a separate and independent editorial operation.

The table below provides certain information about our JOAs.

Newspaper	Publisher of Other Newspaper	Year JOA Entered Into	Year of JOA Expiration
The Albuquerque Tribune	Journal Publishing Company	1933	2022
The Cincinnati Post	Gannett Newspapers	1977	2007
Denver Rocky Mountain News	MediaNews Group, Inc.	2001	2051

The JOAs generally provide for renewals unless an advance termination notice ranging from two to five years is given to either party. Gannett Newspapers has notified us of its intent to terminate the Cincinnati JOA upon its expiration in December 2007.

The combined sales, production and business operations of the newspapers are either jointly managed or are solely managed by one of the newspapers. The sales, production and business operations of the Denver newspapers are operated by the Denver Newspaper Agency, a limited liability partnership (the Denver JOA). Each newspaper owns 50% of the Denver JOA and shares management of the combined newspaper operations. We do not have management responsibilities for the combined operations of the other two JOAs.

Under the terms of a JOA, operating profits earned from the combined newspaper operations are distributed to the partners in accordance with the terms of the joint operating agreement. We receive a 50% share of the Denver JOA profits, a 40% share of the Albuquerque JOA profits, and approximately 20% to 25% of the Cincinnati JOA profits.

In February of 2006, we formed a newspaper partnership with MediaNews Group, Inc. that will operate certain of both companies newspapers in Colorado, including their editorial operations. We have a 50% interest in the partnership.

Our share of the operating profit (loss) of JOAs and newspaper partnerships are reported as Equity in earnings of JOAs and other joint ventures in our financial statements.

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8. INVESTMENTS

Investments consisted of the following:

(in thousands, except share data)		As of	
	September 30, 2006	**December 31, 2005**	**September 30, 2005**
Securities available for sale (at market value):			
Time Warner (common shares - 2006, 2,011,000; 2005, 2,017,000)	$ 36,665	$ 35,173	$ 36,525
Other available-for-sale securities	2,058	1,806	4,540
Total available-for-sale securities	38,723	36,979	41,065
Denver JOA	123,280	142,633	152,714
Colorado newspaper partnership	30,607		
Joint ventures	25,551	24,983	22,834
Other equity securities	7,455	5,426	5,710
Total investments	$ 225,616	$ 210,021	$ 222,323
Unrealized gains (losses) on securities available for sale	$ 8,963	$ 7,251	$ 9,716

Investments available for sale represent securities of publicly-traded companies. Investments available for sale are recorded at fair value based upon the closing price of the security on the reporting date. As of September 30, 2006, there were no significant unrealized losses on our available-for-sale securities.

Cash distributions from the Denver JOA have exceeded earnings since the third quarter of 2005, primarily as a result of increased depreciation on assets that will be retired upon consolidation of DNA s newspaper production facilities.

Other equity securities include securities that do not trade in public markets, so they do not have readily determinable fair values. We estimate the fair values of the other securities approximate their carrying values at September 30, 2006. There can be no assurance we would realize the carrying values of these securities upon their sale.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

(in thousands)		As of	
	September 30, 2006	**December 31, 2005**	**September 30, 2005**
Land and improvements	$ 53,955	$ 57,383	$ 57,051
Buildings and improvements	255,321	258,350	252,927
Equipment	703,710	687,379	670,336
Total	1,012,986	1,003,112	980,314
Accumulated depreciation	534,759	512,221	499,692
Net property, plant and equipment	$ 478,227	$ 490,891	$ 480,622

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10. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consisted of the following:

	As of		
(in thousands)	**September 30, 2006**	**December 31, 2005**	**September 30, 2005**
Goodwill	$ 1,944,853	$ 1,647,794	$ 1,660,732
Other intangible assets:			
Amortizable intangible assets:			
Carrying amount:			
Acquired network distribution	43,415	43,415	43,415
Broadcast television network affiliation relationships	26,748	26,748	26,748
Customer lists	200,543	118,454	118,373
Copyrights and other trade names	32,804	20,562	20,500
Other	46,545	20,000	17,400
Total carrying amount	350,055	229,179	226,436
Accumulated amortization:			
Acquired network distribution	(7,050)	(4,952)	(4,260)
Broadcast television network affiliation relationships	(2,203)	(1,379)	(1,101)
Customer lists	(31,833)	(14,123)	(8,488)
Copyrights and other trade names	(4,492)	(2,081)	(1,127)
Other	(16,714)	(6,864)	(6,178)
Total accumulated amortization	(62,292)	(29,399)	(21,154)
Net amortizable intangible assets	287,763	199,780	205,282
Other indefinite-lived intangible assets:			
FCC licenses	25,622	25,622	25,622
Other	2,087	2,087	2,287
Total other indefinite-lived intangible assets	27,709	27,709	27,909
Pension liability adjustments	96	96	140
Total other intangible assets	315,568	227,585	233,331
Total goodwill and other intangible assets	$ 2,260,421	$ 1,875,379	$ 1,894,063

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Activity related to goodwill and other intangible assets by business segment was as follows:

(in thousands)	Scripps Networks	Newspapers	Broadcast Television	Interactive Media	Licensing and Other	Total
Goodwill:						
Balance as of December 31, 2004	$ 254,689	$ 783,464	$ 219,367		$ 18	$ 1,257,538
Business acquisitions		5,537		$ 411,844		417,381
Adjustment to purchase price allocation	(14,187)					(14,187)
Balance as of September 30, 2005	$ 240,502	$ 789,001	$ 219,367	$ 411,844	$ 18	$ 1,660,732
Balance as of December 31, 2005	$ 240,502	$ 789,315	$ 216,467	$ 401,492	$ 18	$ 1,647,794
Business acquisitions		14,317		288,085		302,402
Formation of Colorado newspaper partnership		(25,731)				(25,731)
Foreign currency translation adjustment				20,388		20,388
Balance as of September 30, 2006	$ 240,502	$ 777,901	$ 216,467	$ 709,965	$ 18	$ 1,944,853
Amortizable intangible assets:						
Balance as of December 31, 2004	$ 29,762	$ 2,907	$ 27,441			$ 60,110
Business acquisitions		1,760		$ 140,000		141,760
Adjustment of purchase price allocations	14,399					14,399
Other additions		200	2			202
Amortization	(2,482)	(498)	(880)	(7,329)		(11,189)
Balance as of September 30, 2005	$ 41,679	$ 4,369	$ 26,563	$ 132,671		$ 205,282
Balance as of December 31, 2005	$ 41,093	$ 4,305	$ 26,266	$ 128,116		$ 199,780
Business acquisitions		8,468		108,091		116,559
Formation of Colorado newspaper partnership		(2,407)				(2,407)
Other additions		8				8
Foreign currency translation adjustment				7,268		7,268
Amortization	(2,481)	(1,024)	(844)	(29,096)		(33,445)
Balance as of September 30, 2006	$ 38,612	$ 9,350	$ 25,422	$ 214,379		$ 287,763
Other indefinite-lived intangible assets:						
Balance as of December 31, 2004	$ 919	$ 1,168	$ 25,622			$ 27,709
Adjustment of purchase price allocations	200					200
Balance as of September 30, 2005	$ 1,119	$ 1,168	$ 25,622			$ 27,909
Balance as of December 31, 2005	$ 919	$ 1,168	$ 25,622			$ 27,709
Balance as of September 30, 2006	$ 919	$ 1,168	$ 25,622			$ 27,709

Goodwill of $411.8 million and amortizable intangible assets of $140.0 million were allocated to the Shopzilla acquisition in the third quarter of 2005. In the fourth quarter of 2005, we completed an appraisal of the book and tax bases of the assets acquired and liabilities assumed in the Shopzilla acquisition. The amount allocated to goodwill was reduced by $10.4 million and the amounts allocated to amortizable intangible assets were increased by $2.4 million.

Goodwill of $113.5 million was initially allocated to the GAC acquisition in 2004. During 2005, we completed an appraisal of the book and tax basis of the assets acquired and liabilities assumed in the transaction. Primarily due to higher values being assigned to network distribution relationships, we decreased the amount assigned to goodwill by $14.2 million.

We expect that $3.3 million of the goodwill acquired in the Shopzilla acquisition will be deductible for income tax purposes. The goodwill acquired in the uSwitch and Newspaper acquisitions are not expected to be deductible for income tax purposes.

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Amortizable intangible assets acquired in the Shopzilla and uSwitch acquisitions include customer lists, technology, trade names and patents. The customer lists intangible assets are estimated to have useful lives of 2 to 20 years. The other acquired intangibles are estimated to have useful lives of 4 to 9 years. The allocation of the purchase price for the uSwitch acquisition is based upon preliminary appraisals and estimates, and is therefore subject to change.

Amortizable intangible assets acquired in the Newspaper acquisitions were customer lists. The customer intangible assets are estimated to have useful lives of 3 to 20 years.

Estimated amortization expense of intangible assets for each of the next five years is expected to be $10.7 million for the remainder of 2006, $41.9 million in 2007, $39.1 million in 2008, $37.9 million in 2009, $33.7 million in 2010, $29.8 million in 2011 and $94.7 million in later years.

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11. PROGRAMS AND PROGRAM LICENSES

Programs and program licenses consisted of the following:

	As of		
(in thousands)	**September 30, 2006**	**December 31, 2005**	**September 30, 2005**
Cost of programs available for broadcast	$ 948,164	$ 798,925	$ 884,280
Accumulated amortization	660,188	534,246	628,606
Total	287,976	264,679	255,674
Progress payments on programs not yet available for broadcast	114,612	77,824	80,770
Total programs and program licenses	$ 402,588	$ 342,503	$ 336,444

In addition to the programs owned or licensed by us included in the table above, we have commitments to license certain programming that is not yet available for broadcast, including first-run syndicated programming. Such program licenses are recorded as assets when the programming is delivered to us and is available for broadcast. First-run syndicated programming is generally produced and delivered at or near its broadcast date. Such contracts may require progress payments or deposits prior to the program becoming available for broadcast. Remaining obligations under contracts to purchase or license programs not yet available for broadcast totaled approximately $284 million at September 30, 2006. If the programs are not produced, our obligations would generally expire without obligation.

Progress payments on programs not yet available for broadcast and the cost of programs and program licenses capitalized totaled $74.6 million in the third quarter of 2006 and $59.0 million in the third quarter of 2005. Year to date progress payments and capitalized programs totaled $206 million in 2006 and $160 million in 2005.

Estimated amortization of recorded program assets and program commitments for each of the next five years is as follows:

(in thousands)	**Programs Available for Broadcast**	**Programs Not Yet Available for Broadcast**	**Total**
Remainder of 2006	$ 44,136	$ 14,899	$ 59,035
2007	122,457	99,281	221,738
2008	68,464	105,380	173,844
2009	39,215	79,910	119,125
2010	12,219	63,244	75,463
2011	1,483	29,302	30,785
Later years	2	6,132	6,134
Total	$ 287,976	$ 398,148	$ 686,124

Actual amortization in each of the next five years will exceed the amounts presented above as our broadcast television stations and our national television networks will continue to produce and license additional programs.

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12. UNAMORTIZED NETWORK DISTRIBUTION INCENTIVES

Unamortized network distribution incentives consisted of the following:

	As of		
	September 30,	December 31,	September 30,
(in thousands)	2006	2005	2005
Network launch incentives	$ 316,123	$ 316,774	$ 316,721
Accumulated amortization	198,737	178,241	170,983
Net book value	117,386	138,533	145,738
Unbilled affiliate fees	43,270	33,738	31,736
Total unamortized network distribution incentives	$ 160,656	$ 172,271	$ 177,474

We capitalized network launch incentives totaling $1.2 million year-to-date in 2005.

Amortization recorded as a reduction to affiliate fee revenue in the consolidated financial statements, and estimated amortization of recorded network launch incentives for each of the next five years, is presented below.

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2006	2005	2006	2005
Amortization of network launch incentives	$ 6,990	$ 7,194	$ 20,496	$ 19,913

Estimated amortization for the next five years is as follows:	
Remainder of 2006	$ 6,950
2007	20,951
2008	23,444
2009	25,473
2010	16,850
2011	16,572
Later years	7,146
Total	$ 117,386

Actual amortization could be greater than the above amounts as additional incentive payments may be capitalized as we expand distribution of Scripps Networks.

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13. LONG-TERM DEBT

Long-term debt consisted of the following:

	As of		
(in thousands)	**September 30, 2006**	**December 31, 2005**	**September 30, 2005**
Variable-rate credit facilities, including commercial paper	$ 376,727	$ 226,966	$ 258,899
6.625% notes due in 2007	99,986	99,975	99,971
3.75% notes due in 2008	39,207	48,705	48,935
4.25% notes due in 2009	99,695	99,623	99,599
4.30% notes due in 2010	149,820	149,784	149,772
5.75% notes due in 2012	199,279	199,185	199,154
Other notes	1,454	1,537	1,563
Total long-term debt	$ 966,168	$ 825,775	$ 857,893

We have a Competitive Advance and Revolving Credit Facility expiring in June 2011 (the Revolver) and a commercial paper program that permits aggregate borrowings up to $750 million (the Variable-Rate Credit Facilities). Borrowings under the Revolver are available on a committed revolving credit basis at our choice of three short-term rates or through an auction procedure at the time of each borrowing. The Revolver is primarily used as credit support for our commercial paper program in lieu of direct borrowings under the Revolver. The weighted-average interest rate on borrowings under the Variable-Rate Credit Facilities was 5.3% at September 30, 2006, 4.3% at December 31, 2005, and 3.7% at September 30, 2005.

In the third quarter of 2006, we repurchased $10 million principal amount of our 3.75% notes due in 2008 for $9.8 million.

In 2003, we entered into a receive-fixed, pay-floating interest rate swap to achieve a desired proportion of fixed-rate versus variable-rate debt. The interest rate swap was due to expire upon the maturity of the $50 million, 3.75% notes in 2008, and effectively converted those fixed-rate notes into variable-rate borrowings. The swap agreement was designated as a fair-value hedge of the underlying fixed-rate notes. Accordingly, changes in the fair value of the interest rate swap agreement (due to movements in the benchmark interest rate) were recorded as adjustments to the carrying value of long-term debt with an offsetting adjustment to either other assets or other liabilities. The changes in the fair value of the interest rate swap agreements and the underlying fixed-rate obligation were recorded as equal and offsetting unrealized gains and losses in the Condensed Consolidated Statements of Income. The interest rate swap was terminated in the third quarter of 2006. The difference between the fair value of the underlying notes and the face amount will be amortized to interest expense over the remaining terms of the notes.

Certain long-term debt agreements contain restrictions on the incurrence of additional indebtedness. We were in compliance with all debt covenants as of September 30, 2006.

Current maturities of long-term debt are classified as long-term to the extent they can be refinanced under existing long-term credit commitments.

As of September 30, 2006, we had outstanding letters of credit totaling $8.3 million.

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14. OTHER LIABILITIES

Other liabilities consisted of the following:

	As of		
(in thousands)	**September 30, 2006**	**December 31, 2005**	**September 30, 2005**
Program rights payable	$ 25,825	$ 21,615	$ 30,025
Employee compensation and benefits	85,660	84,903	78,432
Network distribution incentives	17,673	22,758	24,354
Other	35,072	32,923	25,722
Total other liabilities	164,230	162,199	158,533
Current portion of other liabilities	42,810	40,583	49,026
Other liabilities (less current portion)	$ 121,420	$ 121,616	$ 109,507

15. MINORITY INTERESTS

Non-controlling interests hold an approximate 10% residual interest in Fine Living. The minority owners of Fine Living have the right to require us to repurchase their interests. We have an option to acquire their interests. The minority owners will receive the fair market value for their interests at the time their option is exercised. In the third quarter of 2006, we notified a minority owner that we intend to exercise our call option on their 3.75% interest in Fine Living. The exercise price will be determined by an independent valuation. Upon completion of the transaction, which is expected to occur in the fourth quarter of 2006, non-controlling interests will hold a 6% residual interest in Fine Living. The put options on the remaining non-controlling interest in Fine Living are currently exercisable. The call options become exercisable in 2016.

Non-controlling interests hold an approximate 30% residual interest in Food Network. The Food Network general partnership agreement is due to expire on December 31, 2012, unless amended or extended prior to that date. In the event of such termination, the assets of the partnership are to be liquidated and distributed to the partners in proportion to their partnership interests.

Minority interests include non-controlling interests of approximately 4% in the capital stock of the subsidiary company that publishes our Memphis newspaper and approximately 6% in the capital stock of the subsidiary company that publishes our Evansville newspaper. The capital stock of these companies does not provide for or require the redemption of the non-controlling interests by us.

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16. SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents additional information about the change in certain working capital accounts:

(in thousands)	Nine months ended September 30, 2006	2005
Other changes in certain working capital accounts, net:		
Accounts receivable	$ (1,866)	$ (2,244)
Inventories	(980)	(462)
Accounts payable	5,111	(9,680)
Accrued income taxes	(12,764)	7,557
Accrued employee compensation and benefits	(7,757)	(1,036)
Accrued interest	745	1,208
Other accrued liabilities	12,464	10,967
Other, net	(5,072)	464
Total	$ (10,119)	$ 6,774

17. EMPLOYEE BENEFIT PLANS

We sponsor defined benefit pension plans that cover substantially all non-union and certain union-represented employees. Benefits are generally based upon the employee s compensation and years of service.

We also have a non-qualified Supplemental Executive Retirement Plan (SERP). The SERP, which is unfunded, provides defined pension benefits in addition to the defined benefit pension plan to eligible executives based on average earnings, years of service and age at retirement.

Substantially all non-union and certain union employees are also covered by a company-sponsored defined contribution plan. We match a portion of employees voluntary contributions to this plan.

Other union-represented employees are covered by defined benefit pension plans jointly sponsored by us and the union, or by union-sponsored multi-employer plans.

We use a December 31 measurement date for our retirement plans. Retirement plans expense is based on valuations performed by plan actuaries as of the beginning of each fiscal year. The components of the expense consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2006	2005	2006	2005
Service cost	$ 4,714	$ 4,666	$ 14,939	$ 13,829
Interest cost	6,231	5,849	18,395	17,199
Expected return on plan assets, net of expenses	(8,253)	(8,078)	(24,587)	(22,617)
Net amortization and deferral	1,178	888	4,136	2,441
Total for defined benefit plans	3,870	3,325	12,883	10,852
Multi-employer plans	134	132	394	304
SERP	1,391	1,001	3,492	3,017
Defined contribution plans	2,002	1,849	6,212	5,502
Total	$ 7,397	$ 6,307	$ 22,981	$ 19,675

For the year-to-date period of 2006, we made required contributions of $0.2 million and voluntary contributions of $1.1 million to our defined benefit plans. We anticipate contributing $0.1 million to meet minimum funding requirements of our defined benefit plans during the remainder of fiscal 2006. During 2006, we also contributed $1.8 million to fund current benefit payments for our non-qualified SERP plan. We anticipate contributing an additional $0.6 million to fund the SERP s benefit payments during the remainder of fiscal 2006.

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18. SEGMENT INFORMATION

We determine our business segments based upon our management and internal reporting structure. Our reportable segments are strategic businesses that offer different products and services.

Scripps Networks includes five national television networks and their affiliated Websites, Home & Garden Television (HGTV), Food Network, DIY Network (DIY), Fine Living and Great American Country (GAC); and our 12% interest in FOX Sports Net South, a regional television network. Our networks also operate internationally through licensing agreements and joint ventures with foreign entities. We own approximately 70% of Food Network and approximately 90% of Fine Living. Each of our networks is distributed by cable and satellite television systems. Scripps Networks earns revenue primarily from the sale of advertising time and from affiliate fees from cable and satellite television systems.

Our newspaper business segment includes daily and community newspapers in 18 markets in the U.S. Newspapers earn revenue primarily from the sale of advertising space to local and national advertisers and from the sale of newspapers to readers. We also have newspapers that are operated pursuant to the terms of joint operating agreements (See Note 7). Each of those newspapers maintains an independent editorial operation and receives a share of the operating profits of the combined newspaper operations.

Broadcast television includes six ABC-affiliated stations, three NBC-affiliated stations and one independent. Our television stations reach approximately 10% of the nation s television households. Broadcast television stations earn revenue primarily from the sale of advertising time to local and national advertisers.

Interactive media includes our online comparison shopping services, Shopzilla and uSwitch. Shopzilla, acquired on June 27, 2005, operates a product comparison shopping service that helps consumers find products offered for sale on the Web by online retailers. Shopzilla aggregates and organizes information on millions of products from thousands of retailers. Shopzilla also operates BizRate, a Web-based consumer feedback network which collects millions of consumer reviews of stores and products each year. We acquired uSwitch on March 16, 2006. uSwitch operates an online comparison service that helps consumers compare prices and arrange for the purchase of a range of essential home services including gas, electricity, home phone, broadband providers and personal finance products primarily in the United Kingdom. Our interactive media businesses earn revenue primarily from referral fees and commissions paid by participating online retailers and service providers.

Licensing and other media aggregates our operating segments that are too small to report separately, and primarily includes syndication and licensing of news features and comics.

The accounting policies of each of our business segments are those described in Note 1 in our Annual Report on Form 10-K for the year ended December 31, 2005.

Each of our segments may provide advertising, programming or other services to our other business segments. In addition, certain corporate costs and expenses, including information technology, pensions and other employee benefits, and other shared services, are allocated to our business segments. The allocations are generally amounts agreed upon by management, which may differ from amounts that would be incurred if such services were purchased separately by the business segment. Corporate assets are primarily cash, cash equivalent and other short-term investments, property and equipment primarily used for corporate purposes, and deferred income taxes.

Our chief operating decision maker (as defined by FAS 131 Segment Reporting) evaluates the operating performance of our business segments and makes decisions about the allocation of resources to our business segments using a measure we call segment profit. Segment profits exclude interest, income taxes, depreciation and amortization, divested operating units, restructuring activities, investment results and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1, we account for our share of the earnings of JOAs and newspaper partnerships using the equity method of accounting. Our equity in earnings of JOAs and newspaper partnerships is included in Equity in earnings of JOAs and other joint ventures in our Condensed Consolidated Statements of Income. Newspaper segment profits include equity in earnings of JOAs and newspaper partnerships. Scripps Networks segment profits include equity in earnings of joint ventures.

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Information regarding our business segments is as follows:

(in thousands)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Segment operating revenues:				
Scripps Networks	$ 248,795	$ 209,115	$ 772,700	$ 656,092
Newspapers:				
Newspapers managed solely by us	167,892	166,543	533,988	516,009
JOAs and newspaper partnerships	43	181	147	331
Total	167,935	166,724	534,135	516,340
Boulder prior to formation of Colorado newspaper partnership		7,314	2,189	20,716
Total newspapers	167,935	174,038	536,324	537,056
Broadcast television	81,667	72,808	251,875	228,251
Interactive media	60,864	35,210	184,472	36,257
Licensing and other media	24,647	24,214	70,778	81,227
Corporate	274	78	716	162
Intersegment eliminations	(733)	(131)	(1,773)	(339)
Total operating revenues	$ 583,449	$ 515,332	$ 1,815,092	$ 1,538,706
Segment profit (loss):				
Scripps Networks	$ 116,247	$ 87,943	$ 373,062	$ 292,345
Newspapers:				
Newspapers managed solely by us	38,110	42,187	141,835	149,798
JOAs and newspaper partnerships	1,568	(1,829)	2,984	14,674
Total	39,678	40,358	144,819	164,472
Boulder prior to formation of Colorado newspaper partnership		1,241	(125)	2,799
Total newspapers	39,678	41,599	144,694	167,271
Broadcast television	22,694	14,714	71,598	58,067
Interactive media	8,957	7,309	39,341	7,667
Licensing and other media	4,007	4,425	10,027	15,609
Corporate	(12,356)	(9,155)	(43,307)	(30,688)
Intersegment eliminations	(301)		(301)	
Depreciation and amortization of intangibles	(27,128)	(25,307)	(85,909)	(56,782)
Gain on formation of Colorado newspaper partnership			3,535	
Gains (losses) on disposal of property, plant and equipment	(277)	(107)	(433)	(65)
Interest expense	(15,281)	(12,136)	(42,971)	(27,067)
Interest and dividend income	713	3,758	1,864	4,340
Miscellaneous, net	1,421	417	3,400	350
Income from continuing operations before income taxes and minority interests	$ 138,374	$ 113,460	$ 474,600	$ 431,047
Depreciation:				
Scripps Networks	$ 4,550	$ 3,569	$ 12,467	$ 10,569
Newspapers:				

Newspapers managed solely by us	5,576	5,039	16,156	14,968
JOAs and newspaper partnerships	311	310	921	919
Total	5,887	5,349	17,077	15,887
Boulder prior to formation of Colorado newspaper partnership		316	111	931
Total newspapers	5,887	5,665	17,188	16,818
Broadcast television	4,281	4,688	13,413	13,845
Interactive media	1,143	1,994	7,924	2,046
Licensing and other media	120	221	442	664
Corporate	378	559	1,030	1,651
Total depreciation	$ 16,359	$ 16,696	$ 52,464	$ 45,593

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(in thousands)	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Amortization of intangibles:				
Scripps Networks	$ 801	$ 1,112	$ 2,481	$ 2,482
Newspapers:				
Newspapers managed solely by us	562	77	1,003	238
JOAs and newspaper partnerships		67		200
Total	562	144	1,003	438
Boulder prior to formation of Colorado newspaper partnership		20	21	60
Total newspapers	562	164	1,024	498
Broadcast television	284	296	844	880
Interactive media	9,122	7,039	29,096	7,329
Total amortization of intangibles	$ 10,769	$ 8,611	$ 33,445	$ 11,189
Additions to property, plant and equipment:				
Scripps Networks	$ 5,878	$ 8,780	$ 11,590	$ 13,552
Newspapers:				
Newspapers managed solely by us	5,948	3,534	13,218	8,501
JOAs and newspaper partnerships	125	527	1,153	1,452
Total newspapers	6,073	4,061	14,371	9,953
Broadcast television	3,076	3,495	6,072	6,803
Interactive media	4,852	3,226	15,950	3,226
Licensing and other media	172	69	448	370
Corporate	704	871	3,977	2,477
Total additions to property, plant and equipment	$ 20,755	$ 20,502	$ 52,408	$ 36,381
Business acquisitions and other additions to long-lived assets:				
Scripps Networks	$ 72,913	$ 56,437	$ 204,268	$ 157,359
Newspapers:				
Newspapers managed solely by us	2,045	516	25,090	586
Newspapers operated pursuant to JOAs	78	7,953	214	8,203
Total newspapers	2,123	8,469	25,304	8,789
Interactive media		189	372,157	535,984
Corporate	20	746	641	1,236
Total	$ 75,056	$ 65,841	$ 602,370	$ 703,368
Assets:				
Scripps Networks			$ 1,218,839	$ 1,106,562
Newspapers:				
Newspapers managed solely by us			1,080,681	1,047,990
JOAs and newspaper partnerships			173,108	219,405
Total newspapers			1,253,789	1,267,395
Broadcast television			477,974	483,656

Interactive media	1,014,056	629,814
Licensing and other media	32,992	35,254
Investments	46,631	46,702
Corporate	177,496	149,877
Total assets of continuing operations	4,221,777	3,719,260
Discontinued operations	166,778	337,704
Total assets	$ 4,388,555	$ 4,056,964

No single customer provides more than 10% of our revenue. We earn international revenues from our uSwitch business that operates primarily in the United Kingdom. We also earn international revenues from the licensing of comic characters and HGTV and Food Network programming in international markets. We anticipate that about two thirds of our international revenues, which will approximate $90 million, will be provided from the United Kingdom and Japanese markets.

Other additions to long-lived assets include investments, capitalized intangible assets and Scripps Networks capitalized programs and network launch incentives.

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19. CAPITAL STOCK AND STOCK COMPENSATION PLANS

Capital Stock Scripps capital structure includes Common Voting Shares and Class A Common Shares. The articles of incorporation provide that the holders of Class A Common Shares, who are not entitled to vote on any other matters except as required by Ohio law, are entitled to elect the greater of three or one-third of the directors.

Under a share repurchase program authorized by the Board of Directors on October 28, 2004, we are authorized to repurchase up to 5.0 million Class A Common Shares. A total of 1.9 million shares have been repurchased in 2005 and 2006 at prices ranging from $41 to $51 per share. The balance remaining on the authorization is 3.1 million shares. There is no expiration date for the program and we are under no commitment or obligation to repurchase any particular amount of common shares under the program.

Incentive Plans Scripps Long-Term Incentive Plan (the Plan) provides for the award of incentive and nonqualified stock options, stock appreciation rights, restricted and unrestricted Class A Common Shares and performance units to key employees and non-employee directors. The Plan expires in 2014, except for options then outstanding.

We satisfy stock option exercises and vested stock awards with newly issued shares. Shares available for future stock compensation grants totaled 5.3 million as of September 30, 2006.

Stock Options Stock options grant the recipient the right to purchase Class A Common Shares at not less than 100% of the fair market value on the date the option is granted. Stock options granted to employees generally vest over a three year period, conditioned upon the individual s continued employment through that period. Vesting of awards is immediately accelerated upon the retirement, death or disability of the employee or upon a change in control of Scripps or in the business in which the individual is employed. Unvested awards are forfeited if employment is terminated for other reasons. Options granted to employees prior to 2005 generally expire 10 years after grant, while options granted in 2005 and later generally have 8-year terms. Stock options granted to non-employee directors generally vest over a one-year period and have a 10-year term.

Compensation costs of stock options are estimated on the date of grant using a lattice-based binomial model. The weighted average assumptions used in the model are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Weighted-average fair value of options granted	$ 11.43	$ 12.50	$ 12.74	$ 11.54
Assumptions used to determine fair value:				
Dividend yield	0.9%	0.8%	0.9%	0.8%
Risk-free rate of return	4.6%	3.8%	4.6%	3.8%
Expected life of options (years)	5.38	5.38	5.38	5.38
Expected volatility	21.3%	22.2%	21.3%	22.2%

Dividend yield considers our historical dividend yield and the expected dividend yield over the life of the options. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected life is an output of the valuation model, and primarily considers historical exercise patterns. Unexercised options for grants included in the historical period are assumed to be exercised at the midpoint of the current date and the full contractual term. Expected volatility is based on a combination of historical share price volatility for a period equal to the expected term, historical share price volatility for a longer period and the implied volatility of exchange-traded options on our Class A Common Shares.

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The following table summarizes information about stock option transactions:

	Number of Shares	Weighted Average Exercise Price	Range of Exercise Prices
Options outstanding at December 31, 2004	11,158,734	$ 35.27	$ 13 - 54
Options granted during the period	1,858,700	46.88	46 - 51
Options exercised during the period	(1,063,578)	37.46	17 - 51
Options forfeited during the period	(68,427)	37.82	24 - 49
Options outstanding at September 30, 2005	11,885,429	$ 37.88	$ 13 - 54
Options exercisable at September 30, 2005	8,046,296	$ 33.79	$ 13 - 54
Options outstanding at December 31, 2005	11,640,330	$ 37.89	$ 13 - 54
Options granted during the period	2,040,664	48.28	42 - 49
Options exercised during the period	(541,876)	29.53	13 - 49
Options forfeited/canceled during the period	(155,415)	46.03	24 - 52
Options outstanding at September 30, 2006	12,983,703	$ 39.79	$ 17 - 54
Options exercisable at September 30, 2006	9,373,402	$ 36.64	$ 17 - 54

The following table presents additional information about exercises of stock options:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2006	2005	2006	2005
Cash received upon exercise	$ 2,434	$ 9,990	$ 13,935	$ 28,017
Intrinsic value (market value on date of exercise less exercise price)	3,471	12,082	9,834	25,052
Tax benefits realized	1,302	4,228	3,688	8,768

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Substantially all options granted prior to 2004 are exercisable. Options generally become exercisable in increments over a three-year period. Information about options outstanding and options exercisable by year of grant is as follows:

(dollars in millions, except per share amounts)

			Options Outstanding			Options Exercisable		
Year of Grant	**Range of Exercise Prices**	**Average Remaining Term (in years)**	**Options on Shares Outstanding**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value (in millions)**	**Options on Shares Exercisable**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value (in millions)**
1997 - expire in 2007	$ 17 - 21	0.43	114,801	$ 17.94	$ 3.4	114,801	$ 17.94	$ 3.4
1998 - expire in 2008	20 - 27	1.34	263,800	23.66	6.4	263,800	23.66	6.4
1999 - expire in 2009	21 - 25	2.32	718,100	23.53	17.6	718,100	23.53	17.6
2000 - expire in 2010	22 - 30	3.42	1,164,916	24.76	27.0	1,164,916	24.76	27.0
2001 - expire in 2011	29 - 35	4.36	1,314,186	32.13	20.8	1,314,186	32.13	20.8
2002 - expire in 2012	36 - 39	5.43	1,710,734	37.67	17.5	1,710,734	37.67	17.5
2003 - expire in 2013	40 - 46	6.44	1,895,001	40.10	14.8	1,888,699	40.08	14.8
2004 - expire in 2014	46 - 54	7.46	1,986,400	49.28	0.1	1,451,376	49.36	
2005 - expire in 2013	46 - 51	6.53	1,791,051	46.89	2.4	734,990	47.30	0.9
2006 - expire in 2014	42 - 49	7.54	2,024,714	48.42	0.7	11,800	48.91	0.0
Total	$ 17 - 54	5.8	12,983,703	$ 39.79	$ 110.7	9,373,402	$ 36.64	$ 108.4

Restricted Stock Awards of Class A Common shares (restricted stock) generally require no payment by the employee. Restricted stock awards generally vest over a three-year period, conditioned upon the individual s continued employment through that period. The vesting of certain awards may also be accelerated if certain performance targets are met. Vesting of awards is immediately accelerated upon the retirement, death or disability of the employee or upon a change in control of Scripps or in the business in which the individual is employed. Unvested awards are forfeited if employment is terminated for other reasons. Awards are nontransferable during the vesting period, but the shares are entitled to all the rights of an outstanding share. There are no post-vesting restrictions on shares granted to employees and non-employee directors.

At the election of the employee, restricted stock awards may be converted to restricted stock units (RSU) prior to vesting. RSUs are convertible into equal number of Class A Common Shares at a specified time or times or upon the occurrence of a specified event, such as upon retirement, at the election of the employee.

In 2005 we adopted a new approach to long-term incentive compensation for senior executives. The proportion of stock options in incentive compensation was reduced and replaced with performance share awards. Performance share awards represent the right to receive a grant of restricted shares if certain performance measures are met. Each award specifies a target number of shares to be issued and the specific performance criteria that must be met. The number of shares that an employee receives may be less or more than the target number of shares depending on the extent to which the specified performance measures are met or exceeded.

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Information related to restricted stock transactions is presented below:

	Number of Shares	Grant Date Fair Value Weighted Average	Grant Date Fair Value Range of Prices
Unvested shares at December 31, 2004	453,954	$ 39.58	$ 23 - 53
Shares awarded during the period	8,750	49.23	48 - 50
Shares vested during the period	(197,156)	44.62	23 - 52
Shares forfeited during the period	(2,500)	47.28	47
Unvested shares at September 30, 2005	263,048	$ 41.80	$ 31 - 53
Unvested shares at December 31, 2005	249,008	$ 41.93	$ 31 - 53
Shares issued for 2005 performance share awards	144,036	46.48	46 - 48
Shares awarded during the period	50,500	48.98	49
Shares vested during the period	(190,675)	41.53	31 - 53
Shares forfeited during the period	(2,816)	45.59	47 - 49
Unvested shares at September 30, 2006	250,053	$ 46.50	$ 39 - 53

During 2004, 40,000 restricted stock awards were converted to RSUs. The restricted stock was originally awarded in May 2003, at which time the value of a Class A Common Share was $39.44. The RSUs vest on January 1, 2007.

Performance share awards with a target of 134,250 Class A Common Shares were granted in 2006. The weighted-average price of an underlying Class A Common Share on the dates of grant was $47.74. The number of shares ultimately issued depends upon the extent to which specified performance measures are met. Such performance measure for these awards is segment profits as defined in Note 18. The shares earned and issued vest over a three year service period from the date of grant.

The following table presents additional information about restricted stock vesting:

(in thousands)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Fair value of shares vested	$ 146	$ 1,002	$ 8,882	$ 9,755
Tax benefits realized	56	351	1,774	1,831

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Stock Compensation Costs Stock compensation expense recognized in 2006 and in 2005, and on a pro-forma basis for 2005 assuming we had been applying the fair value provisions of FAS 123 as previously disclosed in the footnotes to our financial statements for those periods, and the effect on income and earnings per share, is as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share data)	2006	2005	2006	2005
Stock-based compensation:				
As reported:				
Stock options	$ 4,217		$ 17,153	$ 1,165
Restricted stock, RSUs and performance shares	656	$ 1,877	5,731	6,010
Total stock compensation as reported	4,873	1,877	22,884	7,175
Additional compensation to adjust intrinsic value to fair value		6,249		17,290
Total fair-value based stock compensation	$ 4,873	$ 8,126	$ 22,884	$ 24,465
Fair-value based stock compensation, net of tax:				
As reported	$ 3,046	$ 1,220	$ 14,303	$ 4,664
Additional compensation to adjust intrinsic value to fair value		4,062		11,238
Fair-value based stock compensation, net of tax	$ 3,046	$ 5,282	$ 14,303	$ 15,902
Effect of fair-value based stock compensation on basic and diluted earnings per share	$ 0.02	$ 0.03	$ 0.09	$ 0.10

Total stock compensation in the 2006 year-to-date period includes $6.2 million of expense related to awards granted to retirement employees.

As of September 30, 2006, $21.6 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.0 years and $7.5 million of total unrecognized compensation cost related to restricted stock, RSUs and performance shares is expected to be recognized over a weighted-average period of 2.4 years.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations is based upon the condensed consolidated financial statements and the condensed notes to the consolidated financial statements. You should read this discussion in conjunction with those financial statements.

FORWARD-LOOKING STATEMENTS

This discussion and the information contained in the condensed notes to the consolidated financial statements contain certain forward-looking statements that are based on our current expectations. Forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from the expectations expressed in the forward-looking statements. Such risks, trends and uncertainties, which in most instances are beyond our control, include changes in advertising demand and other economic conditions; consumers taste; newsprint prices; program costs; labor relations; technological developments; competitive pressures; interest rates; regulatory rulings; and reliance on third-party vendors for various products and services. The words believe, expect, anticipate, estimate, intend and similar expressi identify forward-looking statements. All forward-looking statements, which are as of the date of this filing, should be evaluated with the understanding of their inherent uncertainty. We undertake no obligation to publicly update any forward-looking statements to reflect events or circumstances after the date the statement is made.

EXECUTIVE OVERVIEW

The E. W. Scripps company is a diverse and growing media company with interests in national television networks, newspaper publishing, broadcast television stations, interactive media and licensing and syndication. The company s portfolio of media properties includes: Scripps Networks, with such brands as HGTV, Food Network, DIY Network, Fine Living and Great American Country; daily and community newspapers in 18 markets and the Washington-based Scripps Media Center, home to the Scripps Howard News Service; 10 broadcast television stations, including six ABC-affiliated stations, three NBC affiliates and one independent; Interactive media, our online comparison shopping services comprising our Shopzilla and uSwitch businesses; and United Media, a leading worldwide licensing and syndication company that is the home of PEANUTS, DILBERT and approximately 150 other features and comics.

The company has a long-standing objective of creating shareholder value by following a disciplined strategy of investing in growing media businesses. Starting with newspapers nearly 130 years ago and continuing with our recent acquisitions of Shopzilla and uSwitch, we have stayed ahead of the ongoing migration of consumers and marketing dollars to new media marketplaces. This is evidenced by the dramatic change in our company s profile during the last ten years. In 1994, the newspaper division contributed 50 percent of the company s consolidated revenue. In 2006 it is contributing 30 percent. The national television networks, a business that did not exist in 1993, are contributing 43 percent to the company s revenue in 2006 while Shopzilla and uSwitch, our newly acquired comparison shopping Internet services, are contributing 10 percent.

We expect to continue to increase shareholder value by maximizing and allocating the cash flow generated by our mature media businesses to new or existing businesses. In the past we have used cash generated by our newspapers and broadcast television stations to develop HGTV, DIY and Fine Living and to acquire Food Network, GAC, Shopzilla and uSwitch. The continued expansion of Scripps Networks, the support and development of our comparison shopping services rapid growth potential, and investment in new and growing media businesses are the company s top strategic priorities.

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Scripps Networks continues to generate double digit increases in both revenues and segment profits due primarily to the enduring popularity of HGTV and Food Network. The appeal of our new programming has resonated with viewers and has resulted in an increasing number of younger viewers tuning in to our flagship networks. At HGTV, primetime impressions were up 25 percent during the third quarter and total day viewership grew 15 percent. At Food Network, primetime viewership during the quarter was up 10 percent and total day viewership was up 17 percent. We are also extending our Scripps Networks brands into new media platforms and are emerging as a leader in providing content that is specifically formatted for the growing number of video-on-demand and broadband services. In 2006, we have launched high definition versions of both HGTV and Food Network and added additional Scripps Networks branded broadband channels. We expect to launch similar broadband channels that will focus on such lifestyle topics as gardening, healthy eating and crafts. The number of people visiting HGTV s and Food Network s Web sites continues to increase demonstrating the appeal of our brands and the success we have had targeting consumers. Top priorities at Scripps Networks are the ratings growth at HGTV and Food, the programming and distribution of our emerging networks, developing new revenue streams for our network brands such as product licensing and retail sales, and the growth of online revenue.

During the second quarter of 2005, we acquired Shopzilla, which operates a product comparison shopping service that helps consumers find products offered for sale by online retailers. In the first quarter of 2006, we acquired uSwitch. uSwitch operates an online comparison service that helps consumers compare prices and arrange for the purchase of a range of essential home services including gas, electricity, home phone, broadband Internet and personal finance products primarily in the United Kingdom. These acquisitions enable us to capitalize on the rapid growth and rising profitability of specialized Internet search businesses and expand our electronic media platform. On a pro-forma basis, the revenues of these businesses in the year-to-date period of 2006 have increased nearly 80% when compared with the same period of 2005 due in part to the increasing popularity of comparison shopping sites with consumers.

At our newspapers, our publishers are focused on increasing advertising market share and online revenue while publishing reader-focused newspapers and online content to build readership. To achieve advertising market share growth, our publishers look to expand our print business through start-ups or acquisitions of nontraditional and nondaily products. We believe that our online business will generate higher growth rates than our traditional print business and, as a result, are focusing heavily in that area.

Priorities at our broadcast television stations include concentrating on the branding of our local ABC and NBC affiliates, emphasizing local news and building out non-traditional revenue opportunities that target new advertisers. Improved ratings at ABC in 2005 and 2006 bode well not only for revenue from popular shows at our ABC stations, but also for the lead-in they provide to late news. The broadcast of the Super Bowl on ABC and NBC s coverage of the Winter Olympics contributed to an increase in broadcast television revenues in 2006. The return of political advertising has also contributed to an increase in our revenues in 2006.

In the second quarter of 2006, we sold the operations of the Shop At Home television network and certain of its assets to Jewelry Television. In the third quarter of 2006, we reached agreement to sell the five Shop At Home-affiliated broadcast television stations. Operating results for Shop At Home are presented as discontinued operations in our financial statements for all periods presented.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires us to make a variety of decisions which affect reported amounts and related disclosures, including the selection of appropriate accounting principles and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgment based on our understanding and analysis of the relevant circumstances, including our historical experience, actuarial studies and other assumptions. We are committed to preparing financial statements incorporating accounting principles, assumptions and estimates that promote the representational faithfulness, verifiability, neutrality and transparency of the accounting information included in the financial statements.

Note 1 to the Condensed Consolidated Financial Statements included in our Annual Report on Form 10-K describes the significant accounting policies we have selected for use in the preparation of our financial statements and related disclosures. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in estimates that are likely to occur could materially change the financial statements. We believe the accounting for Network Affiliate Fees, Acquisitions, Goodwill and Other Indefinite-Lived Intangible Assets, Income Taxes and Pension Plans to be our most critical accounting policies and estimates. A detailed description of these accounting policies is included in the Critical Accounting Policies Section of Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no significant changes in those accounting policies or other significant accounting policies except for the impacts from adopting FAS 123-R (See Note 2 to the Condensed Consolidated Financial Statements).

RESULTS OF OPERATIONS

The trends and underlying economic conditions affecting the operating performance and future prospects differ for each of our business segments. Accordingly, we believe the discussion of our consolidated results of operations should be read in conjunction with the discussion of the operating performance of our business segments that follows on pages F-38 through F-53.

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Consolidated Results of Operations - Consolidated results of operations were as follows:

(in thousands)	Quarter Period 2006	Quarter Period Fav(Unf)	Quarter Period 2005	Year-to-date 2006	Year-to-date Fav(Unf)	Year-to-date 2005
Operating revenues	$ 583,449	13.2%	$ 515,332	$ 1,815,092	18.0%	$ 1,538,706
Costs and expenses	(418,615)	(10.6)%	(378,593)	(1,261,801)	(16.9)%	(1,079,783)
Depreciation and amortization of intangibles	(27,128)	(7.2)%	(25,307)	(85,909)	(51.3)%	(56,782)
Gain on formation of Colorado newspaper partnership				3,535		
Gains (losses) on disposal of property, plant and equipment	(277)		(107)	(433)		(65)
Hurricane recoveries, net	150			1,900	0.4%	1,892
Operating income	137,579	23.6%	111,325	472,384	16.9%	403,968
Interest expense	(15,281)	(25.9)%	(12,136)	(42,971)	(58.8)%	(27,067)
Equity in earnings of JOAs and other joint ventures	13,942	38.1%	10,096	39,923	(19.3)%	49,456
Interest and dividend income	713	(81.0)%	3,758	1,864	(57.1)%	4,340
Miscellaneous, net	1,421		417	3,400		350
Income from continuing operations before income taxes and minority interests	138,374	22.0%	113,460	474,600	10.1%	431,047
Provision for income taxes	44,132	(16.5)%	37,895	159,929	(5.9)%	150,968
Income from continuing operations before minority interests	94,242	24.7%	75,565	314,671	12.4%	280,079
Minority interests	15,806	(34.8)%	11,729	49,881	(23.6)%	40,354
Income from continuing operations	78,436	22.9%	63,836	264,790	10.5%	239,725
Income (loss) from discontinued operations, net of tax	(5,373)		18,320	(45,518)		10,031
Net income	$ 73,063	(11.1)%	$ 82,156	$ 219,272	(12.2)%	$ 249,756
Net income (loss) per diluted share of common stock:						
Income from continuing operations	$ .48	23.1%	$ .39	$ 1.61	11.0%	$ 1.45
Income (loss) from discontinued operations	(.03)		.11	(.28)		.06
Net income per diluted share of common stock	$ .44	(12.0)%	$ .50	$ 1.33	(11.9)%	$ 1.51

Net income per share amounts may not foot since each is calculated independently.

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Discontinued Operations - Discontinued operations include Shop At Home and our newspaper operations in Birmingham (See Note 4 to the Condensed Consolidated Financial Statements). In accordance with the provisions of FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of businesses held for sale or that have ceased operations are presented as discontinued operations.

Operating results for our discontinued operations were as follows:

		Quarter Period			Year-to-date	
(in thousands)	**2006**	**Fav(Unf)**	**2005**	**2006**	**Fav(Unf)**	**2005**
Operating revenues:						
Shop At Home	$ 1,962	(97.5)%	$ 79,370	$ 166,584	(37.9)%	$ 268,382
Birmingham-Post Herald			9			27
Total operating revenues	$ 1,962	(97.5)%	$ 79,379	$ 166,584	(37.9)%	$ 268,409
Equity in earnings of JOA, including termination fee			$ 41,970			$ 45,423
Income (loss) from discontinued operations:						
Shop At Home:						
Loss from operations	$ (8,110)	17.5%	$ (9,836)	$ (58,612)		$ (24,688)
Loss on divestiture				(12,054)		
Total Shop At Home	(8,110)	17.5%	(9,836)	(70,666)		(24,688)
Birmingham Post-Herald			40,658	(2)		42,799
Income (loss) from discontinued operations, before tax	(8,110)		30,822	(70,668)		18,111
Income tax (benefits)	(2,737)		12,502	(25,150)		8,080
Income (loss) from discontinued operations	$ (5,373)		$ 18,320	$ (45,518)		$ 10,031

We sold the Shop At Home television network to Jewelry Television on June 21, 2006. In the third quarter of 2005, we terminated the Birmingham joint operating agreement and ceased operation of our Birmingham Post-Herald newspaper. These transactions impact the year-over-year comparability of our discontinued operations results.

In connection with reaching agreement on the sale of the five Shop At Home-affiliated broadcast television stations, Shop At Home s loss from operations includes an impairment charge of approximately $7.5 million in the third quarter of 2006. Shop At Home s loss from operations in the 2006 year-to-date period also includes $23.4 million of costs associated with employee termination benefits, the termination of long-term agreements and charges to write-down certain assets of the network. The loss on divestiture in 2006 represents losses on the sale of property and other assets to Jewelry Television.

In 2005, we received cash consideration of approximately $40.8 million as a result of the transactions to terminate the Birmingham joint operating agreement and sell certain assets of the Birmingham-Post Herald newspaper.

Continuing Operations

The increase in operating revenues was primarily due to the continued growth in advertising and network affiliate fee revenues at our national television networks, increases in political advertising revenues at our broadcast television stations, the June 2005 acquisition of Shopzilla, and the March 2006 acquisition of uSwitch. The growth in advertising revenues was primarily driven by increased demand for advertising time and higher advertising rates at our networks. The growth in affiliate fee revenues is attributed to scheduled rate increases and wider distribution of our networks.

Costs and expenses were primarily impacted by the expanded hours of original programming and costs to promote our national networks and the acquisitions of Shopzilla and uSwitch. In addition, we adopted the requirements of FAS 123-R, Share-Based Payments, effective January 1, 2006 and began recording compensation expense on stock options granted to employees. Stock option expense, including the costs of

immediately expensed options granted to retirement eligible employees, increased our costs and expenses $4.2 million in the third quarter of 2006 and $17.0 million year-to-date. Based upon stock options issued through the third quarter, we expect stock option expense to increase our costs and expenses by approximately $4.0 million for the remainder of 2006.

Depreciation and amortization increased primarily as a result of the acquisitions of Shopzilla and uSwitch. We expect depreciation and amortization will be approximately $31 million in the fourth quarter of 2006.

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In the first quarter of 2006, we completed the formation of a newspaper partnership with MediaNews Group, Inc. In conjunction with the transaction, we recognized a pre-tax gain of $3.5 million. Net income was increased by $2.1 million, $.01 per share.

Certain of our Florida operations sustained hurricane damages in 2004 and 2005. Throughout the course of 2005 and 2006, we reached final settlement agreements with insurance providers and other responsible third parties on property and business interruption claims related to these hurricanes. We recorded year-to-date insurance recoveries of $1.9 million in 2006 and $2.2 million in 2005. The insurance recoveries recorded in 2005 were partially offset by additional estimated losses of $0.3 million. Year-to-date net income was increased by $1.2 million, $.01 per share in 2006 and 2005.

Interest expense includes interest incurred on our outstanding borrowings and deferred compensation and other employment agreements. Interest incurred on our outstanding borrowings increased in 2006 due to higher average debt levels attributed to the Shopzilla and uSwitch acquisitions. In connection with the June 2005 acquisition of Shopzilla, we issued $150 million in 5-year notes at a rate of 4.30%. We financed the remainder of the Shopzilla and uSwitch transactions with commercial paper. The average outstanding commercial paper balance for the year-to-date period of 2006 was $362 million at an average rate of 5.0% compared with $111 million at an average rate of 3.3% for the year-to-date period of 2005. The average outstanding commercial paper balance for the third quarter of 2006 was $394 million at an average rate of 5.3% compared with $263 million at an average rate of 3.5% for the third quarter of 2005. Interest expense is expected to be approximately $14 million in the fourth quarter of 2006.

Additional depreciation incurred by the Denver News Agency reduced equity in earnings of JOAs by $3.0 million in the third quarter of 2006 and $9.1 million in the third quarter of 2005. Year-to-date equity in earnings of JOAs was reduced by $9.3 million in 2006. (See Note 5 to the Condensed Consolidated Financial Statements). The increased depreciation is expected to decrease equity in earnings from JOAs approximately $3.0 million in each quarter until the second quarter of 2007. The decrease in equity in earnings of JOAs is also attributed to lower advertising sales in all three of our JOA markets.

Interest and dividend income in the third quarter and year-to-date periods of 2005 reflects $3.0 million of interest income resulting from favorable court rulings with respect to certain disputes with the Internal Revenue Service.

The income tax provision for interim periods is determined by applying the expected effective income tax rate for the full year to year-to-date income before income tax. Tax provisions are separately provided for certain discrete transactions in interim periods. To determine the annual effective income tax rate for the full year period, we must estimate both the total income before income tax for the full year and the jurisdictions in which that income is subject to tax.

Our effective income tax rate is affected by the growing profitability of Food Network. Food Network is operated pursuant to the terms of a general partnership, in which we own an approximate 70% residual interest. Income taxes on partnership income accrue to the individual partners. While the income before income tax reported in our financial statements includes all of the income before tax of the partnership, our income tax provision does not include income taxes on the portion of Food Network income that is attributable to the non-controlling interest.

Information regarding our effective tax rate, and the impact of the Food Network partnership on our effective income tax rate, is a follows:

		Quarter Period			**Year-to-date**	
(in thousands)	**2006**	**Fav(Unf)**	**2005**	**2006**	**Fav(Unf)**	**2005**
Income from continuing operations before income taxes and minority interests as reported	$ 138,374	22.0%	$ 113,460	$ 474,600	10.1%	$ 431,047
Income allocated to non-controlling interests	15,687	(41.2)%	11,109	49,226	(33.6)%	36,839
Income allocated to Scripps	$ 122,687	19.9%	$ 102,351	$ 425,374	7.9%	$ 394,208
Provision for income taxes	$ 44,132	(16.5)%	$ 37,895	$ 159,929	(5.9)%	$ 150,968
Effective income tax rate as reported	31.9%		33.4%	33.7%		35.0%
Effective income tax rate on income allocated to Scripps	36.0%		37.0%	37.6%		38.3%

During the third quarter of 2006, we reduced our estimated tax liabilities for prior years by $5.5 million. We are conducting a strategic review of various tax positions with respect to our state and local tax returns. The review resulted in changes in our state and local filing positions in 2005 tax returns and the filing of refund claims for 2002 to 2004 tax years. In addition, the statute of limitations on our 2002 federal income tax return expired in the third quarter of 2006.

Based upon expected operating results of the Denver JOA, we increased our estimate of the amount of Colorado state net operating loss carryforwards that would not be utilized on our tax returns prior to the expiration of the carryforward period. The increase in the valuation allowance increased the tax provision by $4.4 million.

Based on changes in our tax filing positions, we expect our ongoing effective tax rate on income allocated to Scripps, excluding discrete items, will be 37.8% compared with 38.4% in the second quarter of 2006. The 0.6% reduction in the effective tax rate during the third quarter reduced the third quarter tax provision by approximately $2 million.

Minority interest increased in the third quarter and year-to-date period of 2006 primarily due to the increased profitability of the Food Network. Food Network s profits are allocated in proportion to each partner s residual interests in the partnership, of which we own approximately 70%.

Business Segment Results - As discussed in Note 18 to the Condensed Consolidated Financial Statements our chief operating decision maker (as defined by FAS 131 - Segment Reporting) evaluates the operating performance of our business segments using a performance measure we call segment profits. Segment profits exclude interest, income taxes, depreciation and amortization, divested operating units, restructuring activities, investment results and certain other items that are included in net income determined in accordance with accounting principles generally accepted in the United States of America.

Items excluded from segment profits generally result from decisions made in prior periods or from decisions made by corporate executives rather than the managers of the business segments. Depreciation and amortization charges are the result of decisions made in prior periods regarding the allocation of resources and are therefore excluded from the measure. Financing, tax structure and divestiture decisions are generally made by corporate executives. Excluding these items from our business segment performance measure enables us to evaluate business segment operating performance for the current period based upon current economic conditions and decisions made by the managers of those business segments in the current period.

In February of 2006, we formed a newspaper partnership with MediaNews Group, Inc. (MediaNews) that will operate certain of both companies newspapers in Colorado (See Note 5 to the Condensed Consolidated Financial Statements). Our share of the operating profit (loss) of the partnership is recorded as Equity in earnings of JOAs and other joint ventures in our financial statements. To enhance comparability of year-over-year operating results, the results of the contributed publications prior to the formation of the partnership are reported separately in our segment results.

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Information regarding the operating performance of our business segments determined in accordance with FAS 131 and a reconciliation of such information to the consolidated financial statements is as follows:

(in thousands)	2006	Quarter Period Fav(Unf)	2005	2006	Year-to-date Fav(Unf)	2005
Segment operating revenues:						
Scripps Networks	$ 248,795	19.0%	$ 209,115	$ 772,700	17.8%	$ 656,092
Newspapers:						
Newspapers managed solely by us	167,892	0.8%	166,543	533,988	3.5%	516,009
JOAs and newspaper partnerships	43	(76.2)%	181	147	(55.6)%	331
Total	167,935	0.7%	166,724	534,135	3.4%	516,340
Boulder prior to formation of Colorado newspaper partnership			7,314	2,189	(89.4)%	20,716
Total newspapers	167,935	(3.5)%	174,038	536,324	(0.1)%	537,056
Broadcast television	81,667	12.2%	72,808	251,875	10.4%	228,251
Interactive media	60,864	72.9%	35,210	184,472		36,257
Licensing and other media	24,647	1.8%	24,214	70,778	(12.9)%	81,227
Corporate	274		78	716		162
Intersegment eliminations	(733)		(131)	(1,773)		(339)
Total operating revenues	$ 583,449	13.2%	$ 515,332	$ 1,815,092	18.0%	$ 1,538,706
Segment profit (loss):						
Scripps Networks	$ 116,247	32.2%	$ 87,943	$ 373,062	27.6%	$ 292,345
Newspapers:						
Newspapers managed solely by us	38,110	(9.7)%	42,187	141,835	(5.3)%	149,798
JOAs and newspaper partnerships	1,568		(1,829)	2,984	(79.7)%	14,674
Total	39,678	(1.7)%	40,358	144,819	(11.9)%	164,472
Boulder prior to formation of Colorado newspaper partnership			1,241	(125)		2,799
Total newspapers	39,678	(4.6)%	41,599	144,694	(13.5)%	167,271
Broadcast television	22,694	54.2%	14,714	71,598	23.3%	58,067
Interactive media	8,957	22.5%	7,309	39,341		7,667
Licensing and other media	4,007	(9.4)%	4,425	10,027	(35.8)%	15,609
Corporate	(12,356)	(35.0)%	(9,155)	(43,307)	(41.1)%	(30,688)
Intersegment eliminations	(301)			(301)		
Depreciation and amortization of intangibles	(27,128)	(7.2)%	(25,307)	(85,909)	(51.3)%	(56,782)
Gain on formation of Colorado newspaper partnership				3,535		
Gains (losses) on disposal of property, plant and equipment	(277)		(107)	(433)		(65)
Interest expense	(15,281)	(25.9)%	(12,136)	(42,971)	(58.8)%	(27,067)
Interest and dividend income	713	(81.0)%	3,758	1,864	(57.1)%	4,340
Miscellaneous, net	1,421		417	3,400		350
Income from continuing operations before income taxes and minority interests	$ 138,374	22.0%	$ 113,460	$ 474,600	10.1%	$ 431,047

Discussions of the operating performance of each of our reportable business segments begin on page F-44.

The decrease in licensing and other media s revenues for the year-to-date period is primarily attributed to the renewals of multi-year license agreements with ABC Television Network for certain of our Peanuts animated films that occurred in June 2005.

The impact of expensing stock options beginning on January 1, 2006 increased Corporate expenses $1.6 million in the third quarter of 2006 and $6.9 million year-to-date. Corporate expenses are expected to be about $15 million in the fourth quarter of 2006.

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Segment profits include our share of the earnings of JOAs and certain other investments included in our consolidated operating results using the equity method of accounting. A reconciliation of our equity in earnings of JOAs and other joint ventures included in segment profits to the amounts reported in our Condensed Consolidated Statements of Income is as follows:

(in thousands)	2006	Quarter Period Fav(Unf)	2005	2006	Year-to-date Fav(Unf)	2005
Scripps Networks:						
Equity in earnings of joint ventures	$ 3,856	35.5%	$ 2,845	$ 10,552	39.2%	$ 7,578
Newspapers:						
Equity in earnings of JOAs and newspaper partnerships	10,086	39.1%	7,251	29,371	(29.9)%	41,878
Total equity in earnings of JOAs and other joint ventures	$ 13,942	38.1%	$ 10,096	$ 39,923	(19.3)%	$ 49,456

Certain items required to reconcile segment profitability to consolidated results of operations determined in accordance with accounting principles generally accepted in the United States of America are attributed to particular business segments. Significant reconciling items attributable to each business segment are as follows:

(in thousands)	2006	Quarter Period Fav(Unf)	2005	2006	Year-to-date Fav(Unf)	2005
Depreciation and amortization:						
Scripps Networks	$ 5,351	(14.3)%	$ 4,681	$ 14,948	(14.5)%	$ 13,051
Newspapers:						
Newspapers managed solely by us	6,138	(20.0)%	5,116	17,159	(12.8)%	15,206
JOAs and newspaper partnerships	311	17.5%	377	921	17.7%	1,119
Total	6,449	(17.4)%	5,493	18,080	(10.8)%	16,325
Boulder prior to formation of Colorado newspaper partnership			336	132	86.7%	991
Total newspapers	6,449	(10.6)%	5,829	18,212	(5.2)%	17,316
Broadcast television	4,565	8.4%	4,984	14,257	3.2%	14,725
Interactive media	10,265		9,033	37,020		9,375
Licensing and other media	120	45.7%	221	442	33.4%	664
Corporate	378	32.4%	559	1,030	37.6%	1,651
Total	$ 27,128	(7.2)%	$ 25,307	$ 85,909	(51.3)%	$ 56,782
Gains (losses) on disposal of PP&E:						
Scripps Networks	$ (10)			$ (104)		$ (25)
Newspapers:						
Newspapers managed solely by us	(161)	(91.7)%	$ (84)	(196)	11.7%	(222)
JOAs and newspaper partnerships	1			9		
Total newspapers	(160)	(90.5)%	(84)	(187)	15.8%	(222)
Broadcast television	(107)		(23)	(142)		200
Corporate						(18)
Gains (losses) on disposal of PP&E	$ (277)		$ (107)	$ (433)		$ (65)
Gain on formation of Colorado newspaper partnership				$ 3,535		

Scripps Networks - Scripps Networks includes five national television networks and their affiliated Websites, HGTV, Food Network, DIY Network (DIY), Fine Living and Great American Country (GAC); and our 12% interest in FOX Sports Net South, a regional television network. Our networks also operate internationally through licensing agreements and joint ventures with foreign entities.

We launched HGTV in 1994. Food Network launched in 1993, and we acquired our controlling interest in 1997. We launched DIY in 1999 and Fine Living in the first quarter of 2002. We acquired GAC in 2004. We have used a similar strategy in developing each of our networks. Our initial focus is to gain distribution on cable and satellite television systems. We may offer incentives in the form of cash payments or an initial period in which payment of affiliate fees by the systems is waived in exchange for long-term distribution contracts. We create new and original programming and undertake promotion and marketing campaigns designed to increase viewer awareness. We expect to incur operating losses until network distribution and audience size are sufficient to attract national advertisers. As distribution of the network increases, we make additional investments in the quality and variety of programming and increase the number of hours of original programming offered on the network. Such investments are expected to result in increases in viewership, yielding higher advertising revenues.

While we have employed similar development strategies with each of our networks, there can be no assurance DIY, Fine Living and GAC will achieve operating performances similar to HGTV and Food Network. There has been considerable consolidation among cable and satellite television operators, with the eight largest providing services to approximately 95% of the homes that receive cable and satellite television programming. At the same time, there has been an expansion in the number of programming services seeking distribution on those systems, with the number of networks more than doubling since 1996.

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The networks utilize common facilities and certain sales, operational and support services are shared by the networks. Expenses directly attributable to the operations of a network are charged directly to that network. The costs of shared facilities and services are not allocated to individual networks for segment reporting purposes.

Financial information for Scripps Networks is as follows:

		Quarter Period			Year-to-date	
(in thousands)	**2006**	**Fav(Unf)**	**2005**	**2006**	**Fav(Unf)**	**2005**
Operating revenues:						
HGTV	$ 122,867	15.7%	$ 106,201	$ 382,555	14.6%	$ 333,815
Food Network	97,995	22.5%	80,013	305,011	19.8%	254,559
DIY	12,321	11.5%	11,055	37,538	13.5%	33,067
Fine Living	9,082	42.3%	6,382	27,715	42.3%	19,479
GAC	4,817	24.9%	3,857	14,623	35.3%	10,808
Other	1,713	6.6%	1,607	5,258	20.5%	4,364
Total segment operating revenues	$ 248,795	19.0%	$ 209,115	$ 772,700	17.8%	$ 656,092
Contribution to segment profit (loss):						
HGTV	$ 79,343	19.1%	$ 66,612	$ 255,913	18.0%	$ 216,831
Food Network	61,360	36.5%	44,953	189,935	28.8%	147,500
DIY	102	(94.8)%	1,977	4,266	(23.3)%	5,561
Fine Living	1,947		(343)	6,021		(558)
GAC			(128)	407		(943)
Unallocated costs and other	(26,505)	(5.5)%	(25,128)	(83,480)	(9.8)%	(76,046)
Total segment profit	$ 116,247	32.2%	$ 87,943	$ 373,062	27.6%	$ 292,345
Homes reached in September *(1)*:						
HGTV				91,000	2.0%	89,200
Food Network				90,800	3.1%	88,100
DIY				39,000	11.4%	35,000
Fine Living				40,000	37.9%	29,000
GAC				44,300	13.6%	39,000

(1) Approximately 94 million homes in the United States receive cable or satellite television. Homes reached are according to the Nielsen Homevideo Index (Nielsen), with the exception of DIY and Fine Living which are not yet rated by Nielsen and represent comparable amounts calculated by us.

DIY s contribution to segment profit is lower in 2006 due to increases in expenses in preparation for the network becoming a Nielsen-rated service.

Advertising and network affiliate fees provide substantially all of each network s operating revenues and employee costs and programming costs are the primary expenses. The trends and underlying economic conditions affecting each of our networks are substantially the same as those affecting all of our networks, primarily the demand for national advertising.

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Operating results for Scripps Networks were as follows:

(in thousands)	2006	Quarter Period Fav(Unf)	2005	2006	Year-to-date Fav(Unf)	2005
Segment operating revenues:						
Advertising	$ 191,752	17.6%	$ 162,987	$ 611,828	16.6%	$ 524,558
Network affiliate fees, net	49,039	12.4%	43,634	146,572	17.0%	125,233
Other	8,004		2,494	14,300		6,301
Total segment operating revenues	248,795	19.0%	209,115	772,700	17.8%	656,092
Segment costs and expenses:						
Employee compensation and benefits	32,527	(14.4)%	28,439	93,891	(11.7)%	84,068
Programs and program licenses	52,197	(22.6)%	42,576	143,085	(11.4)%	128,390
Other segment costs and expenses	51,680	2.5%	53,002	173,214	(9.0)%	158,867
Total segment costs and expenses	136,404	(10.0)%	124,017	410,190	(10.5)%	371,325
Segment profit before joint ventures	112,391	32.1%	85,098	362,510	27.3%	284,767
Equity in income of joint ventures	3,856	35.5%	2,845	10,552	39.2%	7,578
Segment profit	$ 116,247	32.2%	$ 87,943	$ 373,062	27.6%	$ 292,345
Supplemental Information:						
Billed network affiliate fees	$ 52,962		$ 48,074	$ 157,536		$ 140,494
Network launch incentive payments	1,992		8,667	5,082		17,937
Payments for programming less (greater) than program cost amortization	(16,606)		(12,571)	(56,103)		(28,210)
Depreciation and amortization	5,351		4,681	14,948		13,051
Capital expenditures	5,878		8,780	11,590		13,552
Business acquisitions and other additions to long-lived assets, primarily program assets	72,913		56,437	204,268		157,359

Advertising revenues increased due primarily to an increased demand for advertising time and higher advertising rates at our networks. In addition, revenues generated by our Internet sites also contributed to the increase in advertising revenues. Internet sites had revenues of $12.1 million in the third quarter of 2006 compared with $6.9 million in the third quarter of 2005. Year-to-date Internet revenues were $35.6 million in 2006 compared with $22.8 million in 2005.

The increase in network affiliate fees reflects both scheduled rate increases and wider distribution of the networks.

We expect total operating revenues at Scripps Networks to increase approximately 11% to 13% year-over-year in the fourth quarter of 2006.

Employee compensation and benefit expenses increased due to the hiring of additional employees to support the growth of Scripps Networks. In addition, the impact of expensing stock options increased employee compensation and benefits $0.9 million in the third quarter of 2006 and $2.7 million year-to-date.

Programs and program licenses and other costs and expenses increased due to the improved quality and variety of programming, expanded programming hours and continued efforts to promote the programming in order to attract a larger audience. Our continued investment in building consumer awareness and expanding distribution of our network and online lifestyle brands is expected to increase total segment expenses approximately 8% to 10% year-over-year in the fourth quarter of 2006.

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Newspapers - We operate daily and community newspapers in 18 markets in the U.S. Our newspapers earn revenue primarily from the sale of advertising space to local and national advertisers and from the sale of newspapers to readers. Three of our newspapers are operated pursuant to the terms of joint operating agreements. Each of those newspapers maintains an independent editorial operation and receives a share of the operating profits of the combined newspaper operations.

Newspapers managed solely by us*:* The newspapers managed solely by us operate in mid-size markets, focusing on news coverage within their local markets. Advertising and circulation revenues provide substantially all of each newspaper s operating revenues and employee and newsprint costs are the primary expenses at each newspaper. Declines in circulation of daily newspapers have resulted in a loss of advertising market share throughout the newspaper industry. Further declines in circulation in our newspaper markets could adversely affect our newspapers.

The trends and underlying economic conditions affecting the operating performance of any of our newspapers are substantially the same as those affecting all of our newspapers. Our newspaper operating performance is most affected by newsprint prices and economic conditions, particularly within the retail, labor, housing and auto markets. While an individual newspaper may perform better or worse than our newspaper group as a whole due to specific conditions at the newspaper or within its local economy, we do not expect such near-term variances to significantly affect the overall long-term operating performance of the newspaper segment.

Operating results for newspapers managed solely by us were as follows:

		Quarter Period			**Year-to-date**	
(in thousands)	**2006**	**Fav(Unf)**	**2005**	**2006**	**Fav(Unf)**	**2005**
Segment operating revenues:						
Local	$ 35,449	0.6%	$ 35,245	$ 116,842	1.3%	$ 115,380
Classified	54,123	(0.7)%	54,500	175,507	5.6%	166,224
National	8,220	(21.5)%	10,475	27,569	(10.3)%	30,727
Preprint, online and other	36,128	10.1%	32,827	108,999	11.4%	97,882
Newspaper advertising	133,920	0.7%	133,047	428,917	4.6%	410,213
Circulation	30,530	1.8%	29,992	93,266	(1.0)%	94,234
Other	3,442	(1.8)%	3,504	11,805	2.1%	11,562
Total operating revenues	167,892	0.8%	166,543	533,988	3.5%	516,009
Segment costs and expenses:						
Employee compensation and benefits	66,247	(0.3)%	66,026	199,592	(3.8)%	192,212
Newsprint and ink	20,150	(3.8)%	19,418	65,619	(11.3)%	58,971
Other segment costs and expenses	43,535	(11.9)%	38,912	128,842	(11.9)%	115,158
Total costs and expenses	129,932	(4.5)%	124,356	394,053	(7.6)%	366,341
Hurricane recoveries (losses), net	150			1,900		130
Contribution to segment profit	$ 38,110	(9.7)%	$ 42,187	$ 141,835	(5.3)%	$ 149,798
Supplemental Information:						
Depreciation and amortization	$ 6,138		$ 5,116	$ 17,159		$ 15,206
Capital expenditures	5,948		3,534	13,218		8,501
Business acquisitions, including acquisitions of minority interests, and other additions to long-lived assets	2,045		516	25,090		586

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Newspaper advertising revenues increased in the year-to-date period of 2006 due to increases in classified advertising and preprint, online and other advertising. The increase in classified advertising was primarily attributed to continued improvement in help wanted and real estate advertising. Increases in these categories helped offset declines in automotive advertising. The decrease in national advertising revenues was primarily attributed to significant declines in advertising from companies in the telecommunications and financial services industries.

Increases in preprint, online and other advertising reflect the continued development of new print and electronic products and services. These products include niche publications such as community newspapers, lifestyle magazines, publications focused upon the classified advertising categories of real estate, employment and auto, and other publications aimed at younger readers. Additionally, our Internet sites had advertising revenues of $8.6 million in the third quarter of 2006 compared with $6.1 million in the third quarter of 2005. Year-to-date Internet advertising revenues were $25.0 million in 2006 compared with $15.5 million in 2005. We expect to continue to expand and enhance our online services and to use our local news platform to launch new products, such as streaming video and audio.

We expect total operating revenues at newspapers will increase slightly year-over-year in the fourth quarter of 2006.

Stock option expense recognized for the first time in 2006 increased employee compensation and benefits $0.8 million in the third quarter and $3.3 million year-to-date.

Newsprint and ink costs increased on similar increases in newsprint prices.

The increases in other segment costs and expenses is attributed to increased spending in online and print initiatives, primarily in our Florida markets.

We expect total costs and expenses to increase about 5% year-over-year in the fourth quarter of 2006.

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Joint Operating Agreements and Newspaper Partnerships:

Three of our newspapers are operated pursuant to the terms of joint operating agreements (JOAs). The table below provides certain information about our JOAs.

Newspaper	Publisher of Other Newspaper	Year JOA Entered Into	Year of JOA Expiration
The Albuquerque Tribune	Journal Publishing Company	1933	2022
The Cincinnati Post	Gannett Newspapers	1977	2007
Denver Rocky Mountain News	MediaNews Group, Inc.	2001	2051

Under the terms of a JOA, operating profits earned from the combined newspaper operations are distributed to the partners in accordance with the terms of the joint operating agreement. We receive a 50% share of the Denver JOA profits, a 40% share of the Albuquerque JOA profits, and approximately 20% to 25% of the Cincinnati JOA profits.

In February of 2006, we formed a newspaper partnership with MediaNews Group, Inc. (MediaNews) that will operate certain of both companies newspapers in Colorado, including their editorial operations. We have a 50% interest in the partnership.

Our share of the operating profit (loss) of JOAs and newspaper partnerships are reported as Equity in earnings of JOAs and other joint ventures in our financial statements.

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Operating results for our JOAs and newspaper partnerships were as follows:

(in thousands)	2006	Quarter Period Fav(Unf)	2005	2006	Year-to-date Fav(Unf)	2005
Equity in earnings of JOAs and newspaper partnerships included in segment profit:						
Denver	$ 1,736		$ (1,614)	$ 5,939	(63.0)%	$ 16,055
Cincinnati	5,341	(12.4)%	6,100	14,386	(16.1)%	17,138
Albuquerque	2,622	(5.8)%	2,783	7,958	(6.1)%	8,476
Colorado	402			957		
Other newspaper partnerships and joint ventures	(15)	16.7%	(18)	131	(37.3)%	209
Total equity in earnings of JOAs included in segment profit	10,086	39.1%	7,251	29,371	(29.9)%	41,878
Operating revenues of JOAs	43	(76.2)%	181	147	(55.6)%	331
Total	10,129	36.3%	7,432	29,518	(30.1)%	42,209
JOA editorial costs and expenses:						
Denver	5,973	0.5%	6,004	18,267	(0.4)%	18,198
Cincinnati	1,530	29.8%	2,178	5,131	16.8%	6,164
Albuquerque	1,058	1.9%	1,079	3,136	1.2%	3,173
Total JOA editorial costs and expenses	8,561	7.6%	9,261	26,534	3.6%	27,535
JOAs and newspaper partnerships contribution to segment profit:						
Denver	(4,213)	43.5%	(7,454)	(12,236)		(1,857)
Cincinnati	3,812	(2.8)%	3,922	9,256	(15.7)%	10,974
Albuquerque	1,582	(8.1)%	1,721	4,876	(8.8)%	5,348
Colorado	402			957		
Other newspaper partnerships and joint ventures	(15)	16.4%	(18)	131	(37.4)%	209
Total contribution to segment profit	$ 1,568		$ (1,829)	$ 2,984	(79.7)%	$ 14,674
Supplemental Information:						
Depreciation and amortization	$ 311		$ 377	$ 921		$ 1,119
Capital expenditures	125		527	1,153		1,452
Business acquisitions and other additions to long-lived assets	78		7,953	214		8,203

Additional depreciation incurred by the Denver News Agency reduced equity in earnings of JOAs by $3.0 million in the third quarter of 2006 and $9.1 million in the third quarter of 2005. Year-to-date equity in earnings of JOAs was reduced by $9.3 million in 2006. (See Note 5 to the Condensed Consolidated Financial Statements). Equity in earnings of JOAs was also impacted by lower advertising sales in our JOA markets.

The contribution to segment profit from JOA newspapers and other partnerships is expected to be about $4 million in the fourth quarter of 2006.

Gannett Newspapers has notified us of its intent to terminate the Cincinnati JOA upon its expiration in December 2007.

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Broadcast Television Broadcast television includes six ABC-affiliated stations, three NBC-affiliated stations and one independent. Our television stations reach approximately 10% of the nation s television households. Our broadcast television stations earn revenue primarily from the sale of advertising time to local and national advertisers.

National broadcast television networks offer affiliates a variety of programs and sell the majority of advertising within those programs. We may receive compensation from the network for carrying its programming. In addition to network programs, we broadcast locally produced programs, syndicated programs, sporting events, and other programs of interest in each station s market. News is the primary focus of our locally-produced programming.

The trends and underlying economic conditions affecting the operating performance of any of our broadcast television stations are substantially the same as those affecting all of our stations. The operating performance of our broadcast television group is most affected by the health of the economy, particularly conditions within the retail and auto markets, and by the volume of advertising time purchased by campaigns for elective office and for political issues. The demand for political advertising is significantly higher in even-numbered years, when congressional and presidential elections occur, than in odd-numbered years. From time-to-time, individual television stations may perform better or worse than our television station group as a whole due to specific conditions at that station or within its local economy. We do not expect such near-term variances to significantly affect the overall long-term operating performance of the broadcast television segment.

Operating results for broadcast television were as follows:

		Quarter Period			Year-to-date	
(in thousands)	**2006**	**Fav(Unf)**	**2005**	**2006**	**Fav(Unf)**	**2005**
Segment operating revenues:						
Local	$ 44,740	(0.7)%	$ 45,048	$ 152,236	6.7%	$ 142,665
National	21,969	(7.6)%	23,780	75,503	2.3%	73,794
Political	11,660		1,004	15,347		1,482
Network compensation	1,583	15.4%	1,372	3,603	(14.4)%	4,209
Other	1,715	6.9%	1,604	5,186	(15.0)%	6,101
Total segment operating revenues	81,667	12.2%	72,808	251,875	10.4%	228,251
Segment costs and expenses:						
Employee compensation and benefits	31,205	(2.8)%	30,355	96,396	(5.9)%	91,025
Programs and program licenses	11,844	3.1%	12,218	34,683	2.8%	35,680
Other segment costs and expenses	15,924	(2.6)%	15,521	49,198	(8.7)%	45,241
Total segment costs and expenses	58,973	(1.5)%	58,094	180,277	(4.8)%	171,946
Hurricane recoveries (losses), net						1,762
Segment profit	$ 22,694	54.2%	$ 14,714	$ 71,598	23.3%	$ 58,067
Supplemental Information:						
Payments for programming less (greater) than program cost amortization	$ (5)		$ 227	$ 428		$ (486)
Depreciation and amortization	4,565		4,984	14,257		14,725
Capital expenditures	3,076		3,495	6,072		6,803

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The broadcast of the Super Bowl on ABC and NBC s coverage of the Winter Olympics contributed to the year-to-date increase in local and national advertising. Advertising revenue related to the Super Bowl and Olympics broadcasts was approximately $9 million in 2006. In addition, our broadcast television stations benefited from primary election campaigns and the resulting increase in political advertising during the second and third quarters of 2006. We expect total operating revenues at our broadcast television stations to increase about 20% year-over-year in the fourth quarter of 2006.

Stock option expense increased 2006 employee compensation and benefits $0.4 million in the third quarter and $2.2 million year-to-date.

Broadcast television segment profit in 2005 was increased $1.8 million by recoveries on hurricane damage claims.

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Interactive Media - Interactive media includes our online comparison shopping services, Shopzilla and uSwitch.

Shopzilla, acquired on June 27, 2005, operates a product comparison shopping service that helps consumers find products offered for sale on the Web by online retailers. Shopzilla aggregates and organizes information on millions of products from thousands of retailers. Shopzilla also operates BizRate, a Web-based consumer feedback network that collects millions of consumer reviews of stores and products each year.

We acquired uSwitch on March 16, 2006. uSwitch operates an online comparison service that helps consumers compare prices and arrange for the purchase of a range of essential home services including gas, electricity, home phone, broadband providers and personal finance products primarily in the United Kingdom.

Our interactive media businesses earn revenue primarily from referral fees and commissions paid by participating online retailers and service providers.

Financial information for interactive media is as follows:

		Quarter Period			Year-to-date	
(in thousands)	**2006**	**Fav(Unf)**	**2005**	**2006**	**Fav(Unf)**	**2005**
Segment operating revenues	$ 60,864	72.9%	$ 35,210	$ 184,472		$ 36,257
Segment profit	$ 8,957	22.5%	$ 7,309	$ 39,341		$ 7,667
Supplemental Information:						
Depreciation and amortization	$ 10,265		$ 9,033	$ 37,020		$ 9,375
Capital expenditures	4,852		3,226	15,950		3,226
Business acquisitions and other additions to long-lived assets			189	372,157		535,984

On a pro-forma basis, assuming we had owned Shopzilla and uSwitch for all of 2006 and 2005, operating revenues for the third quarter would have been $60.9 million in 2006 and $41.0 million in 2005. Year-to-date operating revenues would have been $195 million in 2006 and $109 million in 2005. An increase in the use of comparison shopping sites by consumers has primarily contributed to the improvement in revenues.

Interactive media is expected to generate segment profits of about $26 million in the fourth quarter of 2006.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity is our cash flow from operating activities. Marketing services, including advertising and referral fees, provides approximately 80% of total operating revenues, so cash flow from operating activities is adversely affected during recessionary periods. Information about our use of cash flow from operating activities is presented in the following table:

	Nine months ended September 30,	
(in thousands)	**2006**	**2005**
Net cash provided by continuing operating activities	$ 412,407	$ 327,590
Net cash provided by discontinued operations	5,601	13,721
Proceeds from formation of Colorado partnership	20,029	
Dividends paid, including to minority interests	(97,328)	(92,823)
Employee stock option proceeds	13,935	28,017
Excess tax benefits on stock awards	2,319	
Other financing activities	(4,054)	(4,132)
Cash flow available for acquisitions, investments, debt repayment and share repurchase	$ 352,909	$ 272,373
Sources and uses of available cash flow:		
Business acquisitions and net investment activity	$ (384,985)	$ (524,641)
Capital expenditures	(50,037)	(35,421)
Other investing activity	4,143	261
Repurchase Class A Common shares	(50,222)	(26,790)
Increase in long-term debt	138,838	325,818

Our cash flow has been used primarily to fund acquisitions and investments and to develop new businesses.

Net cash provided by operating activities increased year-over-year due to the improved operating performance of our business segments. We expect cash flow from operating activities in 2006 will provide sufficient liquidity to continue the development of our emerging brands and to fund the capital expenditures necessary to support our businesses.

In the third quarter of 2006, we repurchased $10 million principal amount of our 3.75% notes due in 2008 for $9.8 million. In October of 2006, we repurchased $13.8 million principal amountof our 4.25% notes due in 2009 for $13.3 million.

In the third quarter of 2006, we reached an agreement to sell the five Shop At Home-affiliated broadcast television stations for cash consideration of $170 million. The sale of the stations is expected to be completed in multiple closings pending the timing of license transfers and other approvals by the Federal Communications Commission. We currently anticipate receiving approximately $98 million of the consideration in the fourth quarter of 2006. Receipt of the remaining consideration of approximately $72 million is expected to occur in 2007.

In the second quarter of 2006, we sold certain assets of our Shop At Home business to Jewelry Television for cash consideration of approximately $17 million. Cash expenditures associated with the termination of long-term agreements and employee termination benefits at Shop At Home totaled approximately $14.7 million through the third quarter of 2006. Expected future cash expenditures on remaining obligations totaled $2.2 million as of September 30, 2006.

In March 2006, we acquired 100% of the common stock of uSwitch for approximately $bottom:2px;padding-right:2px;border-top:1px solid #000000;">

$41 - $63[1]
Median $46

Aircraft condition adjustments

($3) - $0[2]
Net ($3)

(1) The range represents the sum of the highest and lowest values for all aircraft subject to fair value measurement, according to the third party aircraft valuation publications that we use in our valuation process.

(2) The negative amount represents the sum for all aircraft subject to fair value measurement, of all downward adjustments based on consideration of individual aircraft attributes and condition. The positive amount represents the sum of all such upward adjustments.

Fair Value Disclosures

The fair values and related carrying values of financial instruments that are not required to be remeasured at fair value on the Condensed Consolidated Statements of Financial Position were as follows:

	June 30, 2018				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$850	$834		$834	
Liabilities					
Debt, excluding capital lease obligations and commercial paper	(11,38[illegible])	(11,467)		(11,372)	($95)

	December 31, 2017				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets					
Notes receivable, net	$1,022	$1,046		$1,046	
Liabilities					
Debt, excluding capital lease obligations and commercial paper	(10,380)	(11,923)		(11,823)	($100)

The fair values of notes receivable are estimated with discounted cash flow analysis using interest rates currently offered on loans with similar terms to borrowers of similar credit quality. The fair value of our debt that is traded in the secondary market is classified as Level 2 and is based on current market yields. For our debt that is not traded in the secondary market, the fair value is classified as Level 2 and is based on our indicative borrowing cost derived from dealer quotes or discounted cash flows. The fair values of our debt classified as Level 3 are based on discounted cash flow models using the implied yield from similar securities. With regard to other financial instruments with off-balance sheet risk, it is not practicable to estimate the fair value of our indemnifications and financing commitments because the amount and timing of those

arrangements are uncertain. Items not included in the above disclosures include cash, restricted cash, time deposits and other deposits, commercial paper, money market funds, Accounts receivable, Unbilled receivables, Accounts payable and long-term payables. The carrying values of those items, as reflected in the Condensed Consolidated Statements of Financial Position, approximate their fair value at June 30, 2018 and December 31, 2017. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash (Level 1).

Note 18 – Legal Proceedings

Various legal proceedings, claims and investigations related to products, contracts, employment and other matters are pending against us.

In addition, we are subject to various U.S. government inquiries and investigations from which civil, criminal or administrative proceedings could result or have resulted in the past. Such proceedings involve or could involve claims by the government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures. Under government regulations, a company, or one or more of its operating divisions or subdivisions, can also be suspended or debarred from government contracts, or lose its export privileges, based on the results of investigations. We believe, based upon current information, that the outcome of any such legal proceeding, claim, or government dispute and investigation will not have a material effect on our financial position, results of operations, or cash flows.

Note 19 – Segment and Revenue Information

Our primary profitability measurements to review a segment's operating results are Earnings from operations and operating margins. We operate in four reportable segments: BCA, BDS, BGS, and BCC. All other activities fall within Unallocated items, eliminations and other. See page 6 for the Summary of Business Segment Data, which is an integral part of this note.

BCA develops, produces and markets commercial jet aircraft principally to the commercial airline industry worldwide. Revenue on commercial aircraft contracts is recognized at the point in time when an aircraft is completed and accepted by the customer. Revenue on certain military derivative aircraft contracts is recognized over time as costs are incurred.

BDS is engaged in the research, development, production and modification of the following products and related services: manned and unmanned military aircraft and weapons systems, surveillance and engagement, strategic defense and intelligence systems, satellite systems and space exploration. BDS revenue is generally recognized over the contract term (over time) as costs are incurred.

BGS provides parts, maintenance, modifications, logistics support, training, data analytics and information-based services to commercial and government customers worldwide. Revenue on commercial spare parts contracts is recognized at the point in time when a spare part is delivered to the customer. Revenue on other contracts is generally recognized over the contract term (over time) as costs are incurred.

BCC facilitates, arranges, structures and provides selective financing solutions for our Boeing customers.

The following tables present BCA, BDS and BGS revenues from contracts with customers disaggregated in a number of ways, such as geographic location, contract type and the method of revenue recognition. We believe these best depict how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors.

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BCA revenues by customer location consist of the following:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers:				
Europe	$5,307	$4,765	$2,108	$2,633
China	4,756	3,494	2,709	2,315
Asia, other than China	4,080	3,083	2,349	1,848
Middle East	2,333	4,580	1,872	2,182
Other	2,500	2,172	1,006	1,114
Total non-U.S. revenues	18,976	18,094	10,044	10,092
United States	8,349	8,248	4,010	3,827
Total revenues from contracts with customers	27,325	26,342	14,054	13,919
Intersegment revenues, eliminated on consolidation	808	891	427	361
Total segment revenues	$28,133	$27,233	$14,481	$14,280
Revenue recognized on fixed price contracts	100 %	100 %	100 %	100 %
Revenue recognized at a point-in-time	96 %	94 %	96 %	95 %

BDS revenues on contracts with customers, based on the customer's location, consist of the following:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers:				
U.S. customers	$8,023	$8,007	$3,797	$4,033
Non U.S. customers[1]	3,332	2,247	1,796	1,109
Total segment revenue from contracts with customers	$11,355	$10,254	$5,593	$5,142
Revenue recognized over time	98 %	98 %	99 %	100 %
Revenue recognized on fixed price contracts	65 %	64 %	63 %	64 %
Revenue from the U.S. government[1]	86 %	89 %	85 %	91 %

[1] Includes revenues earned from foreign military sales through the U.S. government.

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BGS revenues consist of the following:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers:				
Commercial	$4,845	$3,732	$2,743	$1,884
Government	3,095	3,447	1,313	1,655
Total revenues from contracts with customers	7,940	7,179	4,056	3,539
Intersegment revenues eliminated on consolidation	93	26	34	13
Total segment revenues	$8,033	$7,205	$4,090	$3,552
Revenue recognized at a point in time	53 %	48 %	52 %	48 %
Revenue recognized on fixed price contracts	89 %	89 %	90 %	90 %
Revenue from the U.S. government[1]	31 %	41 %	26 %	39 %

[1] Includes revenues earned from foreign military sales through the U.S. government.

Backlog

Our total backlog represents the estimated transaction prices on performance obligations to our customers for which work remains to be performed. Backlog is converted into revenue in future periods as work is performed, primarily based on the cost incurred or at delivery and acceptance of products, depending on the applicable accounting method. Our backlog at June 30, 2018 was $488,036. We expect approximately 27% to be converted to revenue through 2019 and approximately 70% through 2022, with the remainder thereafter.

Unallocated Items, Eliminations and other

Unallocated items, eliminations and other include common internal services that support Boeing’s global business operations, intercompany guarantees provided to BCC and eliminations of certain sales between segments. We generally allocate costs to business segments based on the U.S. federal cost accounting standards. Components of Unallocated items, eliminations and other are shown in the following table.

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Share-based plans	($36)	($46)	($18)	($25)
Deferred compensation	(56)	(96)	(27)	(46)
Amortization of previously capitalized interest	(48)	(46)	(23)	(22)
Eliminations and other unallocated items	(570)	(350)	(331)	(224)
Unallocated items, eliminations and other	($710)	($538)	($399)	($317)
Pension FAS/CAS service cost adjustment	$520	$540	$237	$278
Postretirement FAS/CAS service cost adjustment	162	163	80	79
FAS/CAS service cost adjustment	$682	$703	$317	$357

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Pension and Other Postretirement Benefit Expense

Pension costs, comprising GAAP service and prior service costs, are allocated to BCA and the commercial operations at BGS. Pension costs are allocated to BDS and BGS businesses supporting government customers using U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. These costs are allocable to government contracts. Other postretirement benefit costs are allocated to business segments based on CAS, which is generally based on benefits paid. FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. These expenses are included in Other income/(loss), net.

Assets

Segment assets are summarized in the table below:

	June 30 2018	December 31 2017
Commercial Airplanes	$64,592	$64,647
Defense, Space & Security	18,475	18,476
Global Services	12,884	12,491
Boeing Capital	3,046	3,156
Unallocated items, eliminations and other	14,198	13,592
Total	$113,195	$112,362

Assets included in Unallocated items, eliminations and other primarily consist of Cash and cash equivalents, Short-term and other investments, Deferred tax assets, capitalized interest and assets held centrally as well as intercompany eliminations.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of
The Boeing Company
Chicago, Illinois
Results of Review of Interim Financial Information
We have reviewed the accompanying condensed consolidated statement of financial position of The Boeing Company and subsidiaries (the “Company”) as of June 30, 2018, the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and of cash flows and equity for the six-month periods ended June 30, 2018 and 2017, and the related notes and schedules (collectively referred to as the "condensed consolidated interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.
We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, cash flows, and equity for the year then ended prior to retrospective adjustment for changes in the Company’s method of accounting for (i) revenue from contracts with customers and (ii) reclassification of certain tax effects from Accumulated other comprehensive income (not presented herein); and in our report dated February 12, 2018, we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments presented in Note 2 - Impact of Adoption of New Standards that were applied to retrospectively adjust the December 31, 2017 consolidated statement of financial position. In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated statement of financial position in deriving the accompanying retrospectively adjusted condensed consolidated statement of financial position as of December 31, 2017.
Basis for Review Results
This condensed consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Deloitte & Touche LLP

Chicago, Illinois
July 25, 2018

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FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “expects,” “intends,” “projects,” “plans,” “believes,” “estimates,” “targets,” “anticipates expressions generally identify these forward-looking statements. Examples of forward-looking statements include statements relating to our future financial condition and operating results, as well as any other statement that does not directly relate to any historical or current fact.

Forward-looking statements are based on expectations and assumptions that we believe to be reasonable when made, but that may not prove to be accurate. These statements are not guarantees and are subject to risks, uncertainties and changes in circumstances that are difficult to predict. Many factors could cause actual results to differ materially and adversely from these forward-looking statements. Among these factors are risks related to:

(1) general conditions in the economy and our industry, including those due to regulatory changes;

(2) our reliance on our commercial airline customers;

(3) the overall health of our aircraft production system, planned commercial aircraft production rate changes, our commercial development and derivative aircraft programs, and our aircraft being subject to stringent performance and reliability standards;

(4) changing budget and appropriation levels and acquisition priorities of the U.S. government;

(5) our dependence on U.S. government contracts;

(6) our reliance on fixed-price contracts;

(7) our reliance on cost-type contracts;

(8) uncertainties concerning contracts that include in-orbit incentive payments;

(9) our dependence on our subcontractors and suppliers as well as the availability of raw materials;

(10) changes in accounting estimates;

(11) changes in the competitive landscape in our markets;

(12) our non-U.S. operations, including sales to non-U.S. customers;

(13) threats to the security of our or our customers' information;

(14) potential adverse developments in new or pending litigation and/or government investigations;

(15) customer and aircraft concentration in our customer financing portfolio;

(16) changes in our ability to obtain debt on commercially reasonable terms and at competitive rates;

(17) realizing the anticipated benefits of mergers, acquisitions, joint ventures, strategic alliances or divestitures;

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(18) the adequacy of our insurance coverage to cover significant risk exposures;

(19) potential business disruptions, including those related to physical security threats, information technology or cyber attacks, epidemics, sanctions or natural disasters;

(20) work stoppages or other labor disruptions;

(21) substantial pension and other postretirement benefit obligations; and

(22) potential environmental liabilities.

Additional information concerning these and other factors can be found in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any forward-looking information speaks only as of the date on which it is made, and we assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Consolidated Results of Operations and Financial Condition
Earnings From Operations and Core Operating Earnings (Non-GAAP) The following table summarizes key indicators of consolidated results of operations:

(Dollars in millions, except per share data)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$47,640	$45,012	$24,258	$23,051
GAAP				
Earnings from operations	$5,585	$4,736	$2,710	$2,530
Operating margins	11.7 %	10.5 %	11.2 %	11.0 %
Effective income tax rate	13.9 %	27.8 %	15.1 %	29.0 %
Net earnings	$4,673	$3,328	$2,196	$1,749
Diluted earnings per share	$7.88	$5.41	$3.73	$2.87
Non-GAAP [1]				
Core operating earnings	$4,903	$4,033	$2,393	$2,173
Core operating margins	10.3 %	9.0 %	9.9 %	9.4 %
Core earnings per share	$6.97	$4.67	$3.33	$2.49

[1] These measures exclude certain components of pension and other postretirement benefit expense. See page 53 for important information about these non-GAAP measures and reconciliations to the most comparable GAAP measures.

Revenues
The following table summarizes Revenues:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Commercial Airplanes	$28,133	$27,233	$14,481	$14,280
Defense, Space & Security	11,355	10,254	5,593	5,142
Global Services	8,033	7,205	4,090	3,552
Boeing Capital	137	164	72	72
Unallocated items, eliminations and other	(18)	156	22	5
Total	$47,640	$45,012	$24,258	$23,051

Revenues for the six months ended June 30, 2018 increased by $2,628 million compared with the same period in 2017. Commercial Airplanes (BCA) revenues increased by $900 million primarily due to higher deliveries and favorable mix. Defense, Space & Security (BDS) revenues increased by $1,101 million primarily due to non-US contract awards for fighters and C-17 aircraft as well as higher weapons revenue. Global Services (BGS) revenues increased by $828 million, primarily due to growth across our services portfolio.

Revenues for the three months ended June 30, 2018 increased by $1,207 million compared with the same period in 2017. BCA revenues increased by $201 million primarily due to higher deliveries and mix. BDS revenues increased by $451 million primarily due to a non-US F/A-18 contract award and higher weapons revenue. BGS revenues increased by $538 million, primarily due to growth across our services portfolio.

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Earnings From Operations

The following table summarizes Earnings from operations:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Commercial Airplanes	$3,152	$2,152	$1,644	$1,282
Defense, Space & Security	1,170	1,163	521	614
Global Services	1,247	1,192	603	569
Boeing Capital	44	64	24	25
Segment operating profit	5,613	4,571	2,792	2,490
Pension FAS/CAS service cost adjustment	520	540	237	278
Postretirement FAS/CAS service cost adjustment	162	163	80	79
Unallocated Items, Eliminations and Other	(710)	(538)	(399)	(317)
Earnings from operations (GAAP)	$5,585	$4,736	$2,710	$2,530
FAS/CAS service cost adjustment *	(682)	(703)	(317)	(357)
Core operating earnings (Non-GAAP) **	$4,903	$4,033	$2,393	$2,173

* The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments.

** Core operating earnings is a Non-GAAP measure that excludes the FAS/CAS service cost adjustment. See page 53.

Earnings from operations for the six months ended June 30, 2018 increased by $849 million compared with the same period in 2017, primarily due to higher earnings at BCA. BCA's earnings increased $1,000 million primarily due to improved cost performance on airplane programs, higher deliveries and mix, and lower spending on research and development, partially offset by higher KC-46A Tanker charges.

Earnings from operations for the three months ended June 30, 2018 increased by $180 million compared with the same period in 2017, primarily due to higher earnings at BCA, partially offset by lower earnings at BDS. BCA's earnings increased $362 million primarily due to improved cost performance on airplane programs, higher deliveries and mix, and lower spending on research and development, partially offset by higher KC-46A Tanker charges. BDS earnings from operations for the three months ended June 30, 2018 decreased by $93 million, compared with the same period in 2017 primarily due to higher charges on the KC-46A Tanker program and lower earnings from other cumulative catch-up adjustments which more than offset earnings from the non-US F/A-18 contract award.

During the six months ended June 30, 2018 we recorded reach-forward losses related to the KC-46A Tanker program of $507 million, of which $359 million was recorded at BCA and $139 million at BDS. During the three months ended June 30, 2018 we recorded reach-forward losses related to the KC-46A Tanker program of $426 million, of which $307 million was recorded at BCA and $111 million at BDS. During the six months ended June 30, 2017, we recorded reach-forward losses of $132 million on the KC-46A Tanker program of which $118 million was recorded at BCA.

Core operating earnings for the six and three months ended June 30, 2018 increased by $870 million and $220 million compared with the same periods in 2017 primarily due to higher earnings at BCA.

Unallocated Items, Eliminations and Other The most significant items included in Unallocated items, eliminations and other are shown in the following table:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Share-based plans	($36)	($46)	($18)	($25)
Deferred compensation	(56)	(96)	(27)	(46)
Eliminations and other unallocated items	(470)	(396)	(206)	(246)
Litigation outcome	(148)		(148)	
Unallocated items, eliminations and other	($710)	($538)	($399)	($317)

The deferred compensation expense decreased by $40 million and $19 million for the six and three months ended June 30, 2018 compared with the same periods in 2017 primarily driven by changes in broad market conditions. In the second quarter of 2018, we recorded a charge of $148 million related to the outcome of the Spirit litigation, including the write-off of $137 million of receivables. See the discussion in Note 9 to our Condensed Consolidated Financial Statements.

Eliminations and other unallocated items increased by $74 million for the six months ended and decreased by $40 million for the three months ended June 30, 2018 compared with the same periods in 2017 primarily due to the timing of expense allocations and the elimination of profit on intercompany aircraft.

The components of net periodic benefit cost are shown in the following table:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
Pension Plans	2018	2017	2018	2017
Service cost	$215	$201	$107	$100
Interest cost	1,390	1,496	695	748
Expected return on plan assets	(2,005)	(1,922)	(1,003)	(961)
Amortization of prior service (credits)/costs	(28)	(20)	(14)	(10)
Recognized net actuarial loss	565	402	283	201
Settlement/curtailment/other losses	43	1	43	
Net periodic benefit cost	$180	$158	$111	$78

The increase in net periodic pension benefit cost for the six and three months ended June 30, 2018 of $22 million and $33 million compared with the same periods in 2017 is primarily higher amortization of actuarial losses driven by lower discount rates of 3.6% at December 31, 2017 compared with 4.0% at December 31, 2016 and higher costs related to curtailments and other benefit changes associated with certain of our defined benefit plans, partially offset by lower interest costs and improved expected returns, as a result of the higher value of plan assets at December 31, 2017 compared to 2016.

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A portion of service cost is recognized in Earnings from operations in the period incurred and the remainder is included in inventory at the end of the reporting period and recorded in Earnings from operations in subsequent periods. Net periodic pension benefit costs included in Earnings from operations were as follows:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
Pension Plans	2018	2017	2018	2017
Allocated to business segments	($678)	($793)	($313)	($400)
Pension FAS/CAS service cost adjustment	520	540	237	278
Net periodic benefit cost included in Earnings from operations	($158)	($253)	($76)	($122)

The pension FAS/CAS service cost adjustment recognized in earnings in 2018 is largely consistent with the same period in the prior year.

Other Earnings Items

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Earnings from operations	$5,585	$4,736	$2,710	$2,530
Other income/(loss), net	51	51	(15)	25
Interest and debt expense	(211)	(180)	(109)	(93)
Earnings from operations	5,425	4,607	2,586	2,462
Income tax expense	(752)	(1,279)	(390)	(713)
Net earnings from continuing operations	$4,673	$3,328	$2,196	$1,749

Other income/(loss), net decreased by $40 million during the three months ended June 30, 2018, primarily due to lower non-operating pension benefits and lower gains from foreign exchange, partially offset by higher interest income.

For discussion related to Income Taxes, see Note 4 to our Condensed Consolidated Financial Statements.

Total Costs and Expenses (“Cost of Sales”)

Cost of sales, for both products and services, consists primarily of raw materials, parts, sub-assemblies, labor, overhead and subcontracting costs. Our BCA segment predominantly uses program accounting to account for cost of sales. Under program accounting, cost of sales for each commercial airplane program equals the product of (i) revenue recognized in connection with customer deliveries and (ii) the estimated cost of sales percentage applicable to the total remaining program. For long-term contracts, the amount reported as cost of sales is recognized as incurred. Substantially all contracts at our BDS segment, certain military derivative aircraft contracts at BCA and certain contracts at our BGS segment are long-term contracts with the U.S. government and other customers that generally extend over several years. Costs on these contracts are recorded as incurred. Cost of sales for commercial spare parts is recorded at average cost. The following table summarizes cost of sales:

(Dollars in millions)	Six months ended June 30			Three months ended June 30		
	2018	2017	Change	2018	2017	Change
Cost of sales	$38,360	$36,775	$1,585	$19,536	$18,702	$834
Cost of sales as a % of Revenues	80.5 %	81.7 %	(1.2 %)	80.5 %	81.1 %	(0.6)%

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Cost of sales for the six and three months ended June 30, 2018 increased by $1,585 million, or 4% and by $834 million or 4% compared with the same periods in 2017, primarily due to a 6% and 5% increase in revenue during each period, partially offset by improved performance.

Research and Development The following table summarizes our Research and development expense:

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Commercial Airplanes	$1,099	$1,217	$550	$592
Defense, Space & Security	402	392	219	196
Global Services	71	63	37	35
Other	19	(23)	21	(10)
Total	$1,591	$1,649	$827	$813

Research and development expense for the six months ended June 30, 2018 decreased by $58 million compared with the same period in 2017 primarily due to lower 777X spend.

Backlog The following table summarizes our backlog, restated for the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606):

Total Backlog (Dollars in millions)	June 30 2018	December 31 2017
Commercial Airplanes	$415,723	$410,446
Defense, Space & Security	51,925	44,049
Global Services	20,388	19,605
Total Backlog	$488,036	$474,100
Contractual backlog	$464,237	$456,444
Unobligated backlog	23,799	17,656
Total Backlog	$488,036	$474,100

Contractual backlog of unfilled orders excludes purchase options, announced orders for which definitive contracts have not been executed, and unobligated U.S. and non-U.S. government contract funding. The increase during the six months ended June 30, 2018 was primarily due to orders and funding in excess of deliveries.

Unobligated backlog includes U.S. and non-U.S. government definitive contracts for which funding has not been authorized. The increase during the six months ended June 30, 2018 was primarily due to contract awards, partially offset by reclassifications to contractual backlog related to BDS and BGS contracts.

Additional Considerations

KC-46A Tanker In 2011, we were awarded a contract from the U.S. Air Force (USAF) to design, develop, manufacture and deliver four next generation aerial refueling tankers. The KC-46A Tanker is a derivative of our 767 commercial aircraft. This Engineering, Manufacturing and Development (EMD) contract is a fixed-price incentive fee contract valued at $4.9 billion and involves highly complex designs and systems integration. In 2015, we began work on low rate initial production (LRIP) aircraft for the USAF. In 2016, following our achievement of key flight testing milestones, the USAF authorized two LRIP lots for 7 and 12 aircraft valued at $2.8 billion and in 2017, the USAF authorized an additional LRIP lot for 15 aircraft valued at $2.1 billion. The contract contains production options for both LRIP aircraft and full rate production aircraft. If all options under the contract are exercised, we expect to deliver 179 aircraft for a total expected contract value of approximately $30 billion. The EMD contract is currently in the certification and flight testing phases and we expect deliveries to begin in the fourth quarter of 2018.

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During 2017, we recorded reach-forward losses of $446 million related to this program, primarily reflecting higher estimated costs associated with certification and incorporating changes into LRIP aircraft. In the first quarter of 2018, we recorded additional reach-forward losses of $81 million primarily reflecting higher estimated costs associated with certification and continued flight testing. In the second quarter of 2018, we recorded further reach-forward losses of $426 million, primarily reflecting higher estimated costs associated with change incorporation on six flight test and two early build aircraft. The additional rework required for the flight test and early build aircraft was identified during the second quarter upon completion of engineering and configuration studies. In addition, delays in certification and testing have resulted in higher costs and increased rework for both completed and in-production aircraft. As with any development program, this program remains subject to additional reach-forward losses and/or delivery delays if we experience further production, technical or quality issues, and delays in certification and/or flight testing.

Export-Import Bank of the United States Many of our non-U.S. customers finance purchases through the Export-Import Bank of the United States. Following the expiration of the bank’s charter on June 30, 2015, the bank’s charter was reauthorized in December 2015. The bank is now authorized through September 30, 2019. However, until the U.S. Senate confirms members sufficient to reconstitute a quorum of the bank’s board of directors, the bank will not be able to approve any transaction totaling more than $10 million. As a result, we may fund additional commitments and/or enter into new financing arrangements with customers. Certain of our non-U.S. customers also may seek to delay purchases if they cannot obtain financing at reasonable costs, and there may be further impacts with respect to future sales campaigns involving non-U.S. customers. We continue to work with our customers to mitigate risks associated with the lack of a quorum of the bank’s board of directors and assist with alternative third party financing sources.

Global Trade On June 1, 2018, the U.S. Government began imposing tariffs on steel and aluminum imports. In response to these tariffs, several major U.S. trading partners have imposed, or announced their intention to impose, tariffs on U.S. goods. We continue to monitor the potential for any extra costs that may result from these actions.

On July 6, 2018, the U.S. and China began imposing tariffs on approximately $34 billion of each other's exports. Certain aircraft parts and components that Boeing procures are subject to these tariffs. Both the U.S. and Chinese governments have identified additional tariffs that could be imposed in the third quarter. We continue to monitor the potential for disruption and adverse revenue and/or cost impacts that may result from these actions.

The U.S. Government continues to impose and/or threaten to impose sanctions on certain businesses and individuals in Russia. Although our operations or sales in Russia have not been impacted to date, we continue to monitor additional sanctions that may be imposed by the U.S. Government and any responses from Russia that could affect our supply chain, business partners or customers.

Segment Results of Operations and Financial Condition

Commercial Airplanes

Business Environments and Trends

Airline Industry Environment

Our updated 20-year forecast, published in July 2018, projects a long-term average growth rate of 4.7% per year for passenger traffic and 4.2% for cargo traffic. Based on long-term global economic growth projections of 2.8% average annual GDP growth, we project a $6.3 trillion market for 42,700 new airplanes over the next 20 years.

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Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$28,133	$27,233	$14,481	$14,280
Earnings from operations:	$3,152	$2,152	$1,644	$1,282
Operating margins	11.2 %	7.9 %	11.4 %	9.0 %

Revenues

Revenues for the six and three months ended June 30, 2018 increased by $900 million and $201 million, or 3% and 1%, compared with the same periods in 2017 primarily due to higher deliveries and favorable mix.

Commercial airplane deliveries, including intercompany deliveries, were as follows:

	737	*	747	†	767	777	787	Total
Deliveries during the first six months of 2018	269	(10)	3		9	25	72	378
Deliveries during the first six months of 2017	236	(9)	4	(1)	5	42	65	352
Deliveries during the second quarter of 2018	137	(5)	1		5	13	38	194
Deliveries during the second quarter of 2017	123	(4)	3		3	21	33	183
Cumulative deliveries as of 6/30/2018	7,001		1,545		1,115	1,559	708	
Cumulative deliveries as of 12/31/2017	6,732		1,542		1,106	1,534	636	

* Intercompany deliveries identified by parentheses

† Aircraft accounted for as revenues by BCA and as a note receivable in consolidation identified by parentheses

Earnings From Operations

Earnings from operations for the six and three months ended June 30, 2018 increased by $1,000 million and $362 million compared with the same periods in 2017. The increases reflect higher margins on airplane programs, improved cost performance, higher deliveries and favorable mix, and lower spending on research and development, partially offset by higher KC-46A Tanker charges.

During the six and three months ended June 30, 2018, Commercial Airplanes recorded reach-forward losses of $359 million and $307 million related to the KC-46A Tanker program. During the six months ended June 30, 2017, we recorded reach-forward losses of $118 million.

Backlog

Our total backlog represents the estimated transaction prices on unsatisfied and partially satisfied performance obligations to our customers where we believe it is probable that we will collect the consideration due and where no contingencies remain before we and the customer are required to perform. Backlog does not include prospective orders where customer controlled contingencies remain, such as the customer receiving approval from its board of directors, shareholders or government or completing financing arrangements. All such contingencies must be satisfied or have expired prior to recording a new firm order even if satisfying such conditions is highly certain. Backlog excludes options and BCC orders. A number of our customers may have contractual remedies that may be implicated by program delays. We address customer claims and requests for other contractual relief as they arise. The value of orders in backlog is adjusted as changes to price and schedule are agreed to with customers and is reported in accordance with the requirements of Topic 606.

BCA total backlog increased from $410,446 million as of December 31, 2017 to $415,723 million at June 30, 2018 primarily due to orders in excess of deliveries.

Accounting Quantity

The following table provides details of the accounting quantities and firm orders by program. Cumulative firm orders represent the cumulative number of commercial jet aircraft deliveries plus undelivered firm orders.

	Program							
As of 6/30/2018	737	†	747*	767	777	777X	787	†
Program accounting quantities	10,200		1,570	1,195	1,650	**	1,500	
Undelivered units under firm orders	4,667	(75)	23	109	96	326	655	(22)
Cumulative firm orders	11,668	(75)	1,568	1,224	1,655	326	1,363	(22)
As of 12/31/2017	737		747	767	777	777X	787	
Program accounting quantities	9,800		1,570	1,171	1,625	**	1,400	
Undelivered units under firm orders***	4,617		12	98	97	326	644	
Cumulative firm orders***	11,349		1,554	1,204	1,631	326	1,280	

† Aircraft ordered by BCC are identified in parentheses

* At June 30, 2018, the 747 accounting quantity has 24 undelivered aircraft, including one already completed aircraft that has not been sold and is being remarketed.

** The accounting quantity for the 777X will be determined in the year of first airplane delivery, targeted for 2020.

*** Cumulative firm orders adjusted to reflect the adoption of Topic 606 in the first quarter of 2018.

Program Highlights

737 Program The accounting quantity for the 737 program increased by 200 units during the three months ended June 30, 2018 and by 400 units during the six months ended June 30, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. The production rate increased from 47 per month to 52 per month in the second quarter of 2018. We plan to further increase the rate to 57 per month in 2019. We delivered the first 737 MAX 9 in March 2018.

747 Program In the first quarter of 2018, we received firm orders for 14 aircraft and we are currently producing at a rate of 0.5 aircraft per month. We continue to evaluate the viability of the 747 program and it is reasonably possible that we could decide to end production of the 747.

767 Program The accounting quantity for the 767 program increased by 24 units during the three months ended March 31, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. The 767 assembly line includes a 767 derivative to support the tanker program. We are currently producing at a rate of 2.5 per month and plan to increase to 3 per month in 2020.

777 Program The accounting quantity for the 777 program increased by 25 units during the three months ended June 30, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 5 per month. In 2013, we launched the 777X, which features a new composite wing, new engines and folding wing-tips. The 777X will have a separate program accounting quantity, which will be determined in the year of first airplane delivery, targeted for 2020.

787 Program The accounting quantity for the 787 program increased by 100 units during the three months ended June 30, 2018 due to the program's normal progress of obtaining additional orders and delivering airplanes. We are currently producing at a rate of 12 per month and plan to increase to 14 per month in 2019. We delivered the first 787-10 in March 2018.

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Additional Considerations
The development and ongoing production of commercial aircraft is extremely complex, involving extensive coordination and integration with suppliers and highly-skilled labor from employees and other partners. Meeting or exceeding our performance and reliability standards, as well as those of customers and regulators, can be costly and technologically challenging. In addition, the introduction of new aircraft and derivatives, such as the 777X, involves increased risks associated with meeting development, production and certification schedules. As a result, our ability to deliver aircraft on time, satisfy performance and reliability standards and achieve or maintain, as applicable, program profitability is subject to significant risks. Factors that could result in lower margins (or a material charge if an airplane program has or is determined to have reach-forward losses) include the following: changes to the program accounting quantity, customer and model mix, production costs and rates, changes to price escalation factors due to changes in the inflation rate or other economic indicators, performance or reliability issues involving completed aircraft, capital expenditures and other costs associated with increasing or adding new production capacity, learning curve, additional change incorporation, achieving anticipated cost reductions, flight test and certification schedules, costs, schedule and demand for new airplanes and derivatives and status of customer claims, supplier assertions and other contractual negotiations. While we believe the cost and revenue estimates incorporated in the consolidated financial statements are appropriate, the technical complexity of our airplane programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger termination provisions, order cancellations or other financially significant exposure.
Defense, Space & Security
Business Environment and Trends
United States Government Defense Environment Overview
The Bipartisan Budget Act of 2018, passed in February 2018, raised the 2011 Budget Control Act spending caps for fiscal years 2018 and 2019 (FY18 and FY19). In addition, the FY18 Omnibus spending bill signed into law on March 23, 2018 provides funding for the remainder of the fiscal year. However, the 2011 Budget Control Act continues to mandate limits on U.S. government discretionary spending and remains in effect for fiscal years 2020 and 2021. As a result, continued budget uncertainty and the risk of future sequestration cuts will remain unless Congress acts to repeal or suspend this law.
There continues to be uncertainty with respect to program-level appropriations for the U.S. DoD and other government agencies, including the National Aeronautics and Space Administration (NASA). Although FY19 spending topline levels have been agreed to, the lower budget caps and sequestration will take effect again in fiscal years 2020 and 2021 unless Congress acts to raise the caps or to repeal or suspend the law. Future budget cuts or investment priority changes could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company’s operations, financial position and/or cash flows.
Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$11,355	$10,254	$5,593	$5,142
Earnings from operations	$1,170	$1,163	$521	$614
Operating margins	10.3 %	11.3 %	9.3 %	11.9 %

Since our operating cycle is long-term and involves many different types of development and production contracts with varying delivery and milestone schedules, the operating results of a particular period may not be indicative of future operating results. In addition, depending on the customer and their funding sources, our orders might be structured as annual follow-on contracts, or as one large multi-year order or long-term award. As a result, period-to-period comparisons of backlog are not necessarily indicative of future workloads. The following discussions of comparative results among periods should be viewed in this context.
Deliveries of units for new-build production aircraft, including remanufactures and modifications, were as follows:

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
F/A-18 Models	5	12		6
F-15 Models	5	7	3	4
CH-47 Chinook (New)	9	4	5	1
CH-47 Chinook (Renewed)	8	19	4	10
AH-64 Apache (New)		5		2
AH-64 Apache (Remanufactured)	6	28		15
P-8 Models	8	9	4	5
Total	41	84	16	43

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Revenues

BDS revenues for the six months ended June 30, 2018 increased by $1,101 million, or 11% compared with the same period in 2017, primarily due to non-US contract awards for fighters and C-17 aircraft as well as higher weapons revenue. Net favorable cumulative contract catch-up adjustments to revenue for the six months ended June 30, 2018 were $236 million lower compared with the same period in 2017.

BDS revenues for the three months ended June 30, 2018 increased by $451 million, or 9% compared with the same period in 2017, primarily due to a non-US F/A-18 contract award and higher weapons revenue. Net favorable cumulative contract catch-up adjustments to revenue for the three months ended June 30, 2018, were $153 million lower compared with the same period in 2017.

Earnings From Operations

BDS earnings from operations for the six months ended June 30, 2018 increased by $7 million, compared with the same period in 2017 primarily due to non-US contract awards for fighters and C-17 aircraft partially offset by higher charges on the KC-46A Tanker program.

BDS earnings from operations for the three months ended June 30, 2018 decreased by $93 million, or 15% compared with the same period in 2017 primarily due to higher charges on the KC-46A Tanker program and lower earnings from other cumulative catch-up adjustments which more than offset earnings from the non-US F/A-18 contract award.

Net favorable cumulative contract catch-up adjustments in the six and three months ended June 30, 2018 were $291 million and $208 million lower than the same periods in the prior year reflecting higher reach-forward losses recorded on the KC-46A Tanker program in 2018 and larger net favorable cumulative contract catch-up adjustments in 2017 primarily related to the vertical lift and F-15 programs.

During the six and three months ended June 30, 2018, BDS recorded reach-forward losses of $139 million and $111 million related to the KC-46A Tanker program.

BDS earnings from operations include equity earnings of $91 million and $11 million for the six and three months ended June 30, 2018 compared to $113 million and $37 million for the same periods in 2017 primarily reflecting earnings on our United Launch Alliance (ULA) and non-US joint ventures.

Backlog

Total backlog increased from $44,049 million at December 31, 2017 to $51,925 million at June 30, 2018 primarily due to current year contract awards, including Ground-based Midcourse Defense, vertical lift, fighters and satellites, partially offset by revenue recognized on contracts awarded in prior years.

Additional Considerations

Our BDS business includes a variety of development programs which have complex design and technical challenges. Many of these programs have cost-type contracting arrangements. In these cases, the associated financial risks are primarily in reduced fees, lower profit rates or program cancellation if cost, schedule or technical performance issues arise. Examples of these programs include Ground-based Midcourse Defense, Proprietary and Space Launch System programs.

Some of our development programs are contracted on a fixed-price basis and BDS customers are increasingly seeking fixed priced proposals for new programs. New programs could have risk for reach-forward loss upon contract award and during the period of contract performance. Many development programs have highly complex designs. As technical or quality issues arise during development, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could result in a material charge or otherwise adversely affect our financial condition. These programs are ongoing, and while we believe the cost and fee estimates incorporated in the financial statements are appropriate, the technical complexity of these programs creates financial risk as additional completion costs may become necessary or scheduled delivery dates could be extended, which could trigger

termination provisions, the loss of satellite in-orbit incentive payments, or other financially significant exposure. These programs have risk for reach-forward losses if our estimated costs exceed our estimated contract revenues. Examples of significant fixed-price development programs include USAF KC-46A Tanker, Commercial Crew, Saudi F-15, and commercial and military satellites.
KC-46A Tanker See the discussion of the KC-46A Tanker program on page 42.
United Launch Alliance See the discussion of Indemnifications to ULA and Financing Commitments in Notes 5, 10 and 11 of our Condensed Consolidated Financial Statements.
Sea Launch See the discussion of the Sea Launch receivables in Note 9 to our Condensed Consolidated Financial Statements.
Commercial Crew See the discussion of Fixed-Price Development Contracts in Note 10 to our Condensed Consolidated Financial Statements.

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Global Services

Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$8,033	$7,205	$4,090	$3,552
Earnings from operations	$1,247	$1,192	$603	$569
Operating margins	15.5 %	16.5 %	14.7 %	16.0 %

Revenues

BGS revenues for the six and three months ended June 30, 2018 increased by $828 million and $538 million compared with the same periods in 2017 primarily due to growth across our services portfolio. Net favorable cumulative contract catch-up adjustments to revenue were $47 million lower and $33 million lower for the six and three months ended June 30, 2018 compared with the same periods in 2017.

Earnings From Operations

BGS earnings from operations for the six and three months ended June 30, 2018 increased by $55 million and $34 million compared with the same periods in 2017 primarily due to higher revenues. Net favorable cumulative contract catch-up adjustments were lower by $67 million and $39 million for the six and three months ended June 30, 2018 compared with the same periods in 2017.

Backlog

BGS total backlog increased from $19,605 million as of December 31, 2017 to $20,388 million at June 30, 2018, primarily due to current year contract awards, partially offset by revenue recognized on contracts awarded in prior years.

Additional Considerations

KLX See the discussion of the KLX acquisition in Note 11 to our Condensed Consolidated Financial Statements.

Boeing Capital

Results of Operations

(Dollars in millions)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$137	$164	$72	$72
Earnings from operations	$44	$64	$24	$25
Operating margins	32 %	39 %	33 %	35 %

Revenues

Boeing Capital (BCC) segment revenues consist principally of lease income from equipment under operating lease, interest income from financing receivables and notes, and other income. BCC's revenues for the six months ended June 30, 2018 decreased by $27 million compared with the same period in 2017 primarily due to lower lease income driven by a smaller portfolio.

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Earnings From Operations

BCC's earnings from operations are presented net of interest expense, provision for (recovery of) losses, asset impairment expense, depreciation on leased equipment and other operating expenses. Earnings from operations for the six months ended June 30, 2018 decreased by $20 million compared with the same periods in 2017, primarily due to lower revenues.

Financial Position

The following table presents selected financial data for BCC:

(Dollars in millions)	June 30 2018	December 31 2017
Customer financing and investment portfolio, net	$3,027	$3,003
Other assets, primarily cash and short-term investments	525	677
Total assets	$3,552	$3,680
Other liabilities, primarily deferred income taxes	$561	$653
Debt, including intercompany loans	2,492	2,523
Equity	499	504
Total liabilities and equity	$3,552	$3,680
Debt-to-equity ratio	5.0-to-1	5.0-to-1

BCC's customer financing and investment portfolio at June 30, 2018 increased slightly from December 31, 2017 primarily due to new volume of $452 million partially offset by note payoffs, asset sales and portfolio run-off.

At June 30, 2018, BCC had $68 million of assets that were held for sale or re-lease. In addition, aircraft subject to leases with a carrying value of approximately $50 million are scheduled to be returned off lease in the next 12 months. We are seeking to remarket these aircraft or have the leases extended.

BCC enters into certain transactions with Boeing, reflected in Unallocated items, eliminations and other, in the form of intercompany guarantees and other subsidies that mitigate the effects of certain credit quality or asset impairment issues on the BCC segment.

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Liquidity and Capital Resources
Cash Flow Summary

(Dollars in millions)	Six months ended June 30	
	2018	2017
Net earnings	$4,673	$3,328
Non-cash items	1,253	1,240
Changes in working capital	1,890	2,479
Net cash provided by operating activities	7,816	7,047
Net cash used by investing activities	(1,295)	(1,383)
Net cash used by financing activities	(7,177)	(5,774)
Effect of exchange rate changes on cash and cash equivalents	(36)	52
Net decrease in cash & cash equivalents, including restricted	(692)	(58)
Cash & cash equivalents, including restricted, at beginning of year	8,887	8,869
Cash & cash equivalents, including restricted, at end of period	$8,195	$8,811

Operating Activities Net cash provided by operating activities was $7.8 billion during the six months ended June 30, 2018, compared with $7.0 billion during the same period in 2017. The year-over-year improvement reflects higher earnings and lower spending on inventory, partially offset by lower advances. Advances and progress billings increased by $2.9 billion and $3.9 billion during the six months ended June 30, 2018 and 2017. Inventories decreased by $0.1 billion during the six months ended June 30, 2018, primarily due to lower expenditures on commercial airplane program inventory, primarily 787 compared with an increase of $1.2 billion during the same period in the prior year. Unbilled receivables increased by $1.7 billion during the six months ended June 30, 2018, reflecting revenue recognized on contracts awarded in the first half of 2018 compared with an increase of $1.0 billion during the comparable period in the prior year.

Investing Activities Cash used by investing activities was $1.3 billion during the six months ended June 30, 2018, compared with cash used of $1.4 billion during the same period in 2017, primarily due to the timing of investments and capital expenditures. In the six months ended June 30, 2018 and 2017, capital expenditures totaled $0.8 billion and $0.9 billion. We expect capital expenditures in 2018 to be higher than 2017.

Financing Activities Cash used by financing activities was $7.2 billion, compared with $5.8 billion during the same period in 2017, primarily reflecting higher share repurchases and dividend payments. During the six months ended June 30, 2018, net borrowings increased by $0.9 billion from $0.8 billion in the same period in 2017.

At June 30, 2018, the recorded balance of debt was $12.1 billion, of which $1.6 billion was classified as short-term. Debt, including intercompany loans, attributable to BCC totaled $2.5 billion, of which $0.5 billion was classified as short-term.

During the six months ended June 30, 2018 we repurchased 17.4 million shares totaling $6.0 billion through our open market share repurchase program. In addition, 0.7 million shares were transferred to us from employees for tax withholdings. At June 30, 2018, the amount available under the share repurchase plan, announced on December 11, 2017, totaled $12.0 billion.

Capital Resources We have substantial borrowing capacity. Any future borrowings may affect our credit ratings and are subject to various debt covenants as described below. We have a commercial paper program that serves as a source of short-term liquidity. At June 30, 2018 and December 31, 2017 commercial paper borrowings totaling $600 million were supported by unused commitments under the revolving credit agreement. Currently, we have $5.0 billion of unused borrowing capacity on revolving credit line agreements. We anticipate that these credit lines will primarily serve as backup liquidity to support our general corporate borrowing needs.

Financing commitments totaled $19.1 billion and $10.2 billion at June 30, 2018 and December 31, 2017.The increase primarily relates to commercial airplane orders received in 2018. We anticipate that we will not be required to fund a significant portion of our financing commitments as we continue to work with third party financiers to provide alternative financing to customers. Historically, we have not been required to fund significant amounts of outstanding commitments. However, there can be no assurances that we will not be required to fund greater amounts than historically required. In addition, many of our non-U.S. customers finance aircraft purchases through the Export-Import Bank of the United States. Following the expiration of the bank's charter on June 30, 2015, the bank's charter was reauthorized in December 2015. The bank is now authorized through September 30, 2019. However, until the U.S. Senate confirms members sufficient to reconstitute a quorum of the bank's board of directors, the bank will not be able to approve any transaction totaling more than $10 million. As a result, we may fund additional commitments and/or enter into new financing arrangements with customers.

In the event we require additional funding to support strategic business opportunities, our commercial aircraft financing commitments, unfavorable resolution of litigation or other loss contingencies, or other business requirements, we expect to meet increased funding requirements by issuing commercial paper or term debt. We believe our ability to access external capital resources should be sufficient to satisfy existing short-term and long-term commitments and plans, and also to provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise within the next year. However, there can be no assurance of the cost or availability of future borrowings, if any, under our commercial paper program or in the debt markets.

At June 30, 2018, we were in compliance with the covenants for our debt and credit facilities. The most restrictive covenants include a limitation on mortgage debt and sale and leaseback transactions as a percentage of consolidated net tangible assets (as defined in the credit agreements), and a limitation on consolidated debt as a percentage of total capital (as defined). When considering debt covenants, we continue to have substantial borrowing capacity.

Off-Balance Sheet Arrangements

We are a party to certain off-balance sheet arrangements including certain guarantees. For discussion of these arrangements, see Note 11 to our Condensed Consolidated Financial Statements.

Contingent Obligations

We have significant contingent obligations that arise in the ordinary course of business, which include the following:

Legal Various legal proceedings, claims and investigations are pending against us. Legal contingencies are discussed in Note 18 to our Condensed Consolidated Financial Statements.

Environmental Remediation We are involved with various environmental remediation activities and have recorded a liability of $534 million at June 30, 2018. For additional information, see Note 10 to our Condensed Consolidated Financial Statements.

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Non-GAAP Measures

Core Operating Earnings, Core Operating Margin and Core Earnings Per Share

Our unaudited condensed consolidated interim financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) which we supplement with certain non-GAAP financial information. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. We encourage investors to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure. Core operating earnings, and core operating margin and core earnings per share exclude the FAS/CAS service cost adjustment. The FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. Core earnings per share excludes both the FAS/CAS service cost adjustment and non-operating pension and postretirement expenses. Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. Pension costs, comprising service and prior service costs computed in accordance with GAAP are allocated to BCA and certain BGS businesses supporting commercial customers. Pension costs allocated to BDS and BGS businesses supporting government customers are computed in accordance with U.S. Government Cost Accounting Standards (CAS), which employ different actuarial assumptions and accounting conventions than GAAP. CAS costs are allocable to government contracts. Other postretirement benefit costs are allocated to all business segments based on CAS, which is generally based on benefits paid.

The Pension FAS/CAS service cost adjustments recognized in earnings were benefits of $520 million and $237 million for the six and three months ended June 30, 2018, largely consistent with the benefits of $540 million and $278 million during the same periods in 2017. The non-operating pension expenses included in Other income/(loss), net were benefits of $48 million and $6 million for the six and three months ended June 30, 2018 compared with $62 million and $28 million for the same periods in 2017. The benefits in 2018 reflect lower interest costs and improved expected returns, as a result of the higher value of plan assets at December 31, 2017 compared to 2016. These are more than offset by higher amortization of actuarial losses driven by lower discount rates, and charges of $43 million related to curtailments and other benefit changes associated with certain of our defined benefit plans recorded in the six and three months ended June 30, 2018.

For further discussion of pension and other postretirement costs see the Management's Discussion and Analysis on page 40 of this Form 10-Q and on page 43 of our 2017 Annual Report on Form 10-K. Management uses core operating earnings, core operating margin and core earnings per share for purposes of evaluating and forecasting underlying business performance. Management believes these core earnings measures provide investors additional insights into operational performance as unallocated pension and other postretirement benefit cost, primarily represent costs driven by market factors and costs not allocable to U.S. government contracts.

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Reconciliation of GAAP Measures to Non-GAAP Measures

The table below reconciles the non-GAAP financial measures of core operating earnings, core operating margin and core earnings per share with the most directly comparable GAAP financial measures of earnings from operations, operating margins and diluted earnings per share.

(Dollars in millions, except per share data)	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
Revenues	$47,640	$45,012	$24,258	$23,051
Earnings from operations, as reported	$5,585	$4,736	$2,710	$2,530
Operating margins	11.7 %	10.5 %	11.2 %	11.0 %
Pension FAS/CAS service cost adjustment [(1)]	($520)	($540)	($237)	($278)
Postretirement FAS/CAS service cost adjustment [(1)]	($162)	($163)	($80)	($79)
FAS/CAS service cost adjustment [(1)]	($682)	($703)	($317)	($357)
Core operating earnings (non-GAAP)	$4,903	$4,033	$2,393	$2,173
Core operating margins (non-GAAP)	10.3 %	9.0 %	9.9 %	9.4 %
Diluted earnings per share, as reported	$7.88	$5.41	$3.73	$2.87
Pension FAS/CAS service cost adjustment [(1)]	(0.88)	(0.88)	(0.40)	(0.46)
Postretirement FAS/CAS service cost adjustment [(1)]	(0.27)	(0.26)	(0.14)	(0.13)
Non-operating pension expense [(2)]	(0.08)	(0.10)	(0.01)	(0.05)
Non-operating postretirement expense [(2)]	0.08	0.10	0.04	0.05
Provision for deferred income taxes on adjustments [(3)]	0.24	0.40	$0.11	$0.21
Core earnings per share (non-GAAP)	$6.97	$4.67	$3.33	$2.49
Weighted average diluted shares (in millions)	592.9	615.3	588.7	609.6

(1) FAS/CAS service cost adjustment represents the difference between the FAS pension and postretirement service costs calculated under GAAP and costs allocated to the business segments. This adjustment is excluded from Core operating earnings (non-GAAP)

(2) Non-operating pension and postretirement expenses represent the components of net periodic benefit costs other than service cost. These expenses are included in Other income/(loss), net and are excluded from Core earnings per share (non-GAAP)

(3) The income tax impact is calculated using the U.S. corporate statutory tax rate

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes to our market risk since December 31, 2017.

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Item 4. Controls and Procedures

(a)Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of June 30, 2018 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b)Changes in Internal Control Over Financial Reporting.

There were no changes that occurred during the second quarter of 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Currently, we are involved in a number of legal proceedings. For a discussion of contingencies related to legal proceedings, see Note 18 to our Condensed Consolidated Financial Statements, which is hereby incorporated by reference.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information about purchases we made during the quarter ended June 30, 2018 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

(Dollars in millions, except per share data)

	(a)	(b)	(c)	(d)
	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs [(2)]
4/1/2018 thru 4/30/2018	3,000,599	$333.53	2,998,273	$14,000
5/1/2018 thru 5/31/2018	3,826,975	345.95	3,800,799	12,685
6/1/2018 thru 6/30/2018	1,776,265	366.06	1,774,530	12,035
Total	8,603,839	$345.77	8,573,602	

(1) We purchased an aggregate of 8,573,602 shares of our common stock in the open market pursuant to our repurchase program and 30,237 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. We did not purchase shares in swap transactions.

(2) On December 11, 2017, we announced a new repurchase plan for up to $18 billion of common stock, replacing the plan previously authorized in 2016.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

10.1	Deferred Compensation Plan for Employees of The Boeing Company, as amended and restated on June 25, 2018, effective July 1, 2018*
10.2	Supplemental Benefit Plan for Employees of The Boeing Company, as amended and restated on June 25, 2018, effective July 1, 2018*
12	Computation of Ratio of Earnings to Fixed Charges
15	Letter from Independent Registered Public Accounting Firm regarding unaudited interim financial information
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	THE BOEING COMPANY
	(Registrant)
July 25, 2018	/s/ Robert E. Verbeck
(Date)	Robert E. Verbeck – Senior Vice President, Finance and Corporate Controller

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