

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-07-28** | Period of Report: **1995-06-30**
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LEE ENTERPRISES INC

CIK: **58361** | IRS No.: **420823980** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-06227** | Film No.: **95557002**
SIC: **2711** Newspapers: publishing or publishing & printing

Mailing Address
400 PUTNAM BUILDING
215 N. MAIN STREET
DAVENPORT IA 52801

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400 PUTNAM BLDG
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DAVENPORT IA 52801
3193832100

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934
For Quarter Ended June 30, 1995

OR

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Commission File Number 1-6227

Lee Enterprises, Incorporated

A Delaware Corporation
215 N. Main Street, Davenport, Iowa 52801
Phone: (319) 383-2100

I.D. #42-0823980

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Class	Outstanding at June 30, 1995
Common Stock, \$2.00 par value	17,178,566
Class "B" Common Stock, \$2.00 par value	6,595,965

PART I. FINANCIAL INFORMATION

Item 1.

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands Except Per Share Data)

	Three Months		Nine Months	
	Ended June 30,		Ended June 30,	
	1995	1994	1995	1994
	(Unaudited)			
Operating revenue:				
Newspaper:				
Advertising	\$ 42,740	\$ 35,027	\$112,403	\$100,229
Circulation	19,427	16,585	53,372	49,433
Other	12,383	10,233	36,278	29,594
Broadcasting	25,061	23,179	76,129	67,006
Media products and services	15,785	15,439	44,297	46,511
Equity in net income of associated companies	1,710	2,559	6,356	7,259
	\$117,106	\$103,022	\$328,835	\$300,032

Operating expenses:				
Compensation costs	\$ 38,107	\$ 34,657	\$110,091	\$103,266
Newsprint and ink	8,567	6,113	21,710	16,828
Depreciation	3,270	2,692	9,090	8,024
Amortization of intangibles	3,553	3,130	9,578	9,463
Other	34,125	30,147	99,449	91,675
	\$ 87,622	\$ 76,739	\$249,918	\$229,256
Operating income	\$ 29,484	\$ 26,283	\$ 78,917	\$ 70,776
Financial (income) expense, net:				
Financial (income)	\$ (901)	\$ (760)	\$ (2,334)	\$ (2,009)
Financial expense	2,917	3,219	8,837	10,314
	\$ 2,016	\$ 2,459	\$ 6,503	\$ 8,305
Income before taxes on income	\$ 27,468	\$ 23,824	\$ 72,414	\$ 62,471
Income taxes	11,033	9,457	28,037	25,223
Net income	\$ 16,435	\$ 14,367	\$ 44,377	\$ 37,248
Weighted average number of shares	24,182	23,413	23,238	23,445
Earnings per share	\$.68	\$.61	\$ 1.91	\$ 1.59
Dividends per share	\$.22	\$.21	\$.66	\$.63

LEE ENTERPRISES, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	June 30, 1995	September 30, 1994
(Unaudited)		
ASSETS		
Cash and cash equivalents	\$ 56,513	\$ 18,784
Temporary investments	200	38,859
Accounts receivable, net	55,447	48,339
Inventories	13,289	13,147
Film rights and other	12,208	16,578
Total current assets	\$137,657	\$135,707
Investments, associated companies	\$ 10,629	\$ 21,969
Property and equipment, net	93,488	82,164
Intangibles and other assets	285,164	234,861
	\$526,938	\$474,701
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	\$129,244	\$ 99,730
Long-term debt, less current maturities	52,842	98,641
Deferred items	38,747	34,400
Stockholders' equity	306,105	241,930
	\$526,938	\$474,701

LEE ENTERPRISES, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	1995	1994
	(Unaudited)	
Nine Months Ended June 30:		
CASH PROVIDED BY OPERATIONS		
Net income	\$ 44,377	\$ 37,248
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	18,668	17,487
Distributions in excess of earnings of associated companies	1,769	785
Other balance sheet changes	(1,725)	8,671
Net cash provided by operations	\$ 63,089	\$ 64,191
CASH PROVIDED BY (REQUIRED FOR) INVESTING ACTIVITIES		
Acquisitions	\$ 7,144	\$ (4,083)
Purchase of temporary investments	(200)	(102,003)
Proceeds from maturities of temporary investments	38,859	100,728
Purchase of property and equipment	(10,643)	(11,953)
Net cash provided by (required for) investing activities	\$ 35,160	\$ (17,311)
CASH (REQUIRED FOR) FINANCING ACTIVITIES		

Purchase of common stock	\$ (26,450)	\$ (2,118)
Cash dividends paid	(9,827)	(9,688)
Payment of debt	(25,000)	(27,267)
Other, primarily stock options exercised	757	2,192
Net cash (required for) financing activities	\$ (60,520)	\$ (36,881)
Net increase in cash and cash equivalents	\$ 37,729	\$ 9,999
Cash and cash equivalents:		
Beginning	18,784	17,072
Ending	\$ 56,513	\$ 27,071

LEE ENTERPRISES, INCORPORATED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

NOTE 1. BASIS OF PRESENTATION

The information furnished reflects all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary to a fair presentation of the financial position as of June 30, 1995 and the results of operations for the three and nine month periods ended June 30, 1995 and 1994 and cash flows for the nine month periods ended June 30, 1995 and 1994.

NOTE 2. INVESTMENT IN ASSOCIATED COMPANIES

Condensed operating results of unconsolidated associated companies are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1995	1994	1995	1994
	(In Thousands) (Unaudited)			
Revenues	\$ 17,427	\$ 24,759	\$ 68,110	\$ 73,500
Operating expenses, except depreciation and amortization	11,502	16,236	46,276	49,405
Depreciation and amortization	444	428	1,708	1,352
Operating income	5,481	8,095	20,126	22,743
Financial income	312	438	1,212	1,323
Income before income taxes	5,793	8,533	21,338	24,066
Income taxes	2,339	3,406	8,579	9,538
Net income	3,454	5,127	12,759	14,528

- a. Madison Newspaper, Inc. (50% owned)
- b. Journal-Star Printing Co. (49.75% owned until March 31, 1995)
- c. Quality Information Systems (50% owned)

NOTE 3. INVENTORIES

Inventories consist of the following:

	June 30, 1995	September 30, 1994
	(In Thousands) (Unaudited)	
Newsprint	\$ 2,821	\$ 2,343
Media products and services:		
Raw material	5,765	5,684
Finished goods	4,703	5,120

LEE ENTERPRISES, INCORPORATED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

NOTE 4. CASH FLOWS INFORMATION

The components of other balance sheet changes are:

	Nine Months Ended June 30,	
	1995	1994
	(In Thousands)	
	(Unaudited)	
(Increase) in receivables	\$ (6,128)	\$ (4,623)
(Increase) in inventories, film rights and other	(428)	(406)
Increase in accounts payable, accrued expenses and unearned income	4,877	9,098
Increase in income taxes payable	277	4,661
Other, primarily deferred items	(323)	(59)
	\$ (1,725)	\$ 8,671

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating results:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	1995	1994	1995	1994

(Dollar Amounts in Thousands Except For Per Share Data)

Actual:

Revenue	\$117,106	\$103,022	\$328,835	\$300,032
Percent change	13.7%		9.6%	

Operating expenses	87,622	76,739	249,918	229,256
Percent change	14.2%		9.0%	
Operating income	29,484	26,283	78,917	70,776
Percent change	12.2%		11.5%	
Net income	16,435	14,367	44,337	37,248
Percent change	14.4%		19.1%	
Earnings per share	\$.68	\$.61	\$ 1.91	\$ 1.59
Percent change	11.5%		20.1%	

As if acquisition of Journal-Star Printing Co. had occurred on October 1, 1993.

Proforma:

Revenue	\$117,106	\$109,776	\$342,937	\$319,802
Percent change	6.7%		7.2%	
Operating expenses	87,622	82,377	260,725	246,240
Percent change	6.4%		5.9%	
Operating income	29,484	27,399	82,212	73,562
Percent change	7.6%		11.8%	
Net income	16,435	15,084	46,405	39,040
Percent change	9.0%		18.9%	
Earnings per share	\$.68	\$.60	\$ 1.91	\$ 1.56
Percent change	13.3%		22.4%	

Operations by line of business are as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	1995	1994	1995	1994
	(In Thousands)			
Revenue:				
Newspapers	\$ 76,274	\$ 64,398	\$208,452	\$186,398
Broadcasting	25,061	23,179	76,129	67,006
Media products and services	15,771	15,445	44,254	46,628
	\$117,106	\$103,022	\$328,835	\$300,032
Operating income:				
Newspapers	\$ 21,666	\$ 19,672	\$ 58,164	\$ 55,940
Broadcasting	7,259	6,207	23,268	16,639
Media products and services	3,916	3,694	7,994	9,531
Corporate and other	(3,357)	(3,290)	(10,509)	(11,334)
	\$ 29,484	\$ 26,283	\$ 78,917	\$ 70,776
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	1995	1994	1995	1994
	(In Thousands)			
Depreciation and amortization:				
Newspapers	\$ 3,572	\$ 2,787	\$ 9,094	\$ 8,109
Broadcasting	1,994	1,786	5,788	5,558
Media products and services	1,122	1,117	3,391	3,446
Corporate	135	132	395	374
	\$ 6,823	\$ 5,822	\$ 18,668	\$ 17,487
Capital expenditures:				
Newspaper	\$ 2,183	\$ 2,554	\$ 5,268	\$ 8,669
Broadcasting	1,870	746	5,066	2,983
Media products and services	15	33	61	167
Corporate	11	20	248	134
	\$ 4,079	\$ 3,353	\$ 10,643	\$ 11,953

There were no significant non-recurring items during the quarter ended June 30, 1995.

On March 31, 1995, the Company acquired the 50.25% interest in Journal-Star Printing Co. ("JSPC") not previously owned, making JSPC a wholly-owned subsidiary. In exchange the Company issued 1,646,643 shares of the Company's common stock and the transaction was accounted for as a purchase. The 49.75% interest previously owned by the Company is accounted for by the equity method through March 31, 1995.

As a result of the acquisition, deferred income taxes related to the undistributed income of the 49.75% interest in JSPC were recognized as a reduction of income tax expense and certain contract terminations, relocation or reorganization payments related to the 49.75% ownership interest were recognized as expense as of March 31, 1995. Without these one-time costs, operating income would have been \$80,150,000 as compared to \$70,776,000 in 1994, an increase of 13.2%. As a result of the \$838,000 tax benefit, the total effect of these transactions was not significant to net income for the nine month period ended June 30, 1995.

On March 31, 1995, the Company also purchased the assets of KREZ-TV, a CBS affiliate in Durango, Colorado, for \$1,750,000. The station will be operated as a satellite station of KRQE-TV in Albuquerque, New Mexico.

QUARTER ENDED JUNE 30, 1995

Newspapers:

All comparisons are in a proforma basis as if the JSPC acquisition had been effective October 1, 1993. Wholly-owned daily newspaper advertising revenue increased \$1,843,000, 4.5%. Advertising revenue from local merchants increased \$734,000, 3.1%. Local "run-of-press" advertising increased \$115,000 as a result of higher average rates which offset a 2.5% decrease in advertising inches. Local preprint units were up 9.7% while revenue increased \$619,000, 8.5%. Classified advertising revenue grew by \$839,000, 6.6% primarily as a result of higher average rates.

Circulation revenue increased \$857,000, 4.6% as a result of higher rates which offset an .8% decrease in volume.

Other revenue increased \$2,487,000, 25.1%. Higher editorial fees from an associated newspaper company contributed \$322,000, 21.0%. Commercial printing, target marketing and other new media products revenues increased \$1,138,000, 29.5%. Revenues from weekly newspapers, shoppers and specialty publications increased \$1,027,000, 22.8%. Of the 22.8% increase, 11.8% relates to properties acquired since the beginning of the first quarter of the last fiscal year.

Compensation expense increased \$1,203,000, 5.1% due primarily to increases in average compensation. Newsprint and ink costs increased \$1,387,000, 19.3%. A 20.6% increase in average unit costs was partially offset by conservation efforts.

A 3.1% increase in newsprint used for commercial printing was more than offset by reduced newspaper consumption for a net decrease of 1.3%. Other costs increased \$851,000, 5.2%.

Broadcasting:

Revenue for the quarter increased \$1,882,000, 8.1%, primarily due to growth in the Albuquerque, Huntington and Portland markets. Increases in network compensation accounted for approximately 30% of the revenue increase. Strong advertising demand offset the loss of approximately \$700,000 of political advertising revenue last year. Compensation costs increased \$309,000, 3.6%. Film amortization for the quarter declined \$226,000 primarily due to lower programming costs. Other cash costs increased \$642,000, 13.7% due to increases in consulting and contract labor expenses.

Media Products and Services:

Revenue increased \$346,000 and operating income increased \$180,000, respectively, which came in large part from operations of NAPP Systems Inc. Higher flexographic plate and equipment sales, along with higher average selling prices for letterpress plates, more than offset reduced letterpress plate volume.

Equity in Net Income of Associated Companies:

Equity in net income of associated companies decreased \$849,000 as operations of JSPC are now consolidated with operations of the Company.

Financial Expenses and Income Taxes:

Interest expense was reduced due to payments on long-term debt.

Income taxes were 40.2% of pretax income for the quarter ended June 30, 1995 and 39.7% of pretax income in the quarter ended June 30, 1994.

NINE MONTHS ENDED JUNE 30, 1995

Newspapers:

All comparisons are in a proforma basis as if the JSPC acquisition had been effective October 1, 1993. Wholly-owned daily newspaper advertising revenue increased \$6,832,000, 5.8%. Advertising revenue from local merchants increased \$3,244,000, 4.6%. Local "run-of-press" advertising increased \$1,428,000, 2.9%. Higher average rates were realized and advertising inches were flat. Local preprint units were up 8.0% while revenue increased \$1,816,000, 8.7%. Classified advertising revenue increased \$3,401,000, 10.1% as a result of a 3.5% increase in units and higher average rates.

Circulation revenue increased \$2,107,000, 3.8% as a result of higher rates which offset a .7% decrease in volume.

Other revenue increased \$7,563,000, 26.5%. Editorial fees from associated newspaper companies increased \$793,000, 16.1%. Commercial printing, target marketing and other new media products increased \$3,514,000, 31.5%. Revenues from weekly newspapers, shoppers and specialty publications increased \$3,256,000, 26.1%. Of the 26.1% increase, 17.6% came from properties acquired since the beginning of the first quarter of the last fiscal year.

Compensation expense increased \$4,133,000, 6.0% due to an increase in average compensation and a 2.1% increase in the number of hours worked. Newsprint and ink costs increased \$3,696,000, 18.3%, as higher prices accounted for 17.3% of the increase, with the balance due to an increase in newsprint used for commercial printing. Other costs increased \$4,291,000, 8.9% which includes the effect of the other commercial printing costs and the development costs of new products.

Broadcasting:

Revenue for the nine months increased \$9,123,000, 13.6% due to growth in local and national advertising and a \$3,837,000 increase in political advertising in the first quarter. Compensation costs increased \$1,134,000, 4.4% due to high average compensation costs and a 3.8% increase in the number of hours worked reflecting expanded news commitments. Programming costs declined \$465,000, 9.1% due to lower program acquisition costs. Other costs increased \$1,595,000, 11.3% for the nine month period due primarily to increases in sales and audience promotion and consulting and contract labor expenses.

Media Products and Services:

Media products and services revenue decreased \$2,214,000, as decreased

unit volume from NAPP's letterpress plate business was only partially offset by higher selling prices and growth in the flexographic printing plate business. Letterpress customers reduced inventory levels and several customers completed conversion to offset or flexographic printing. Revenue from the letterpress business is expected to decrease each year as conversions continue. Operating income decreased \$1,564,000, due to lower sales levels.

Equity in Net Income of Associated Companies:

Equity in net income of associated companies decreased \$903,000. As operations of JSPC have been consolidated with operations of the Company since March 31, 1995.

Financial Expense and Income Taxes:

Interest expense was reduced due to payments on long-term debt.

Income taxes were 38.7% of pretax income for the nine months ended June 30, 1995 and 40.4% of pretax income in the nine months ended June 30, 1994. The elimination of JSPC deferred income taxes discussed above decreased the 1995 effective tax rate by 1.2%.

Liquidity and capital resources:

Cash provided by operations, which is the Company's primary source of liquidity, generated \$63,089,000 for the nine months ended June 30, 1995. Available cash balances and cash flow from operations provide adequate liquidity. Up to \$50,000,000 in bank borrowings will be utilized to pay a portion of the \$48,750,000 purchase price of NBC affiliates KSNW-TV and KSNT-TV in Wichita and Topeka, Kansas, respectively, to continue the Company's annual stock repurchase program, and to prepay \$20,000,000 of long-term debt due on January 15, 1997. The acquisition is anticipated to close on or before August 23, 1995 following regulatory approval. The covenants related to the Company's credit agreements are not considered restrictive to operations and anticipated stockholder dividends.

LEE ENTERPRISES, INCORPORATED

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 11 - Computation of Earnings Per Share

(b) Reports on Form 8-K filed during the quarter for which this report is filed are as follows:

Items Reported	Financial Statements Filed	Date of Report
Acquisition of 50.25% of Journal-Star Printing Co.	See Below	May 8, 1995

(1) Financial statements of the business acquired: Journal Star Printing Co.

Financial statements and independent auditors' report on the financial statements of Journal-Star Printing Co. as of September 30, 1994 and for the year then ended.

Unaudited financial statements of Journal-Star Printing Co. as of March 31, 1995 and for the six months ended March 31, 1994 and 1995.

(2) Proforma financial information of Lee Enterprises, Incorporated and subsidiaries.

Unaudited proforma consolidated statements of income for the year ended September 30, 1994 and for the six months ended March 31, 1994 and 1995.

SIGNATURES

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.

LEE ENTERPRISES, INCORPORATED

DATE 7/28/95

/s/ G. C. Wahlig

G. C. Wahlig, Chief Accounting
Officer

LEE ENTERPRISES, INCORPORATED

PART I. EXHIBIT 11

Computation of Earnings Per Common Share
(In Thousands Except Per Share Amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1995	1994	1995	1994
	(Unaudited)			
Net income applicable to common shares	\$ 16,435	\$ 14,367	\$ 44,377	\$ 37,248
Shares:				
Weighted average common shares outstanding	23,807	23,129	22,902	23,112
Dilutive effect of certain stock options	375	284	336	333
Average common shares outstanding as adjusted	24,182	23,413	23,238	23,445
Earnings per common share	\$.68	\$.61	\$ 1.91	\$ 1.59

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FOR THE LEE ENTERPRISES JUNE 30, 1995 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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