LEE ENTERPRISES INC
Form 10-Q
May 15, 2002

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

FORM 10-Q

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended March 31, 2002

OR

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

Commission File Number 1-6227

Lee Enterprises, Incorporated
(Exact name of Registrant as specified in its Charter)

Delaware	42-0823980
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

215 N. Main Street, Davenport, Iowa 52801
(Address of principal executive offices)

(563) 383-2100
(Registrant's telephone number, including area code)

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 [x] No [ ]

As of March 31, 2002, 34,194,904 shares of Common Stock and 10,011,079 shares of Class B Common Stock of the Registrant were outstanding.

1

>

LEE ENTERPRISES, INCORPORATED

TABLE OF CONTENTS PAGE

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Income - Three months and six months ended March 31, 2002 and 2001 3

Consolidated Balance Sheets - March 31, 2002 and September 30, 2001 4

Consolidated Statements of Cash Flows - Six months ended March 31, 2002 and 2001 5

Notes to Consolidated Financial Statements 6 - 9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 10 - 15

Item 3. Quantitative and Qualitative Disclosures About Market Risk 15

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders 16

Item 6. Exhibits and Reports on Form 8-K 16

Signatures 17

2

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31		Six Months March 3
(Thousands, except per common share data)	2002	2001	2002
Operating revenue:			
Advertising	$ 62,305	$ 63,864	$ 135,157
Circulation	20,194	19,729	40,786
Other	15,815	17,046	31,821
Equity in net income of associated companies	1,752	1,318	3,929
	100,066	101,957	211,693
Operating expenses:			
Compensation	40,777	41,480	81,557
Newsprint and ink	8,321	9,957	18,320
Depreciation	3,590	4,287	7,659
Amortization of intangible assets	1,882	3,890	3,804
Other	24,776	26,749	51,276

	79,346	86,363	162,616
Operating income	20,720	15,594	49,077
Nonoperating income (expenses), net:			
Financial income	2,467	8,431	5,235
Financial expense	(2,843)	(3,181)	(5,882)
Loss on sales of assets	--	--	(40)
Other, net	--	(234)	(268)
	(376)	5,016	(955)
Income from continuing operations before income taxes	20,344	20,610	48,122
Income tax expense	7,220	7,469	16,998
Income from continuing operations	13,124	13,141	31,124
Discontinued operations:			
Gain (loss) on disposition, net of income tax effect	--	(85)	--
Net income	$ 13,124	$ 13,056	$ 31,124
Earnings per common share:			
Basic:			
Continuing operations	$ 0.30	$ 0.30	$ 0.71
Discontinued operations	--	--	--
Net income	$ 0.30	$ 0.30	$ 0.71
Diluted:			
Continuing operations	$ 0.30	$ 0.30	$ 0.70
Discontinued operations	--	--	--
Net income	$ 0.30	$ 0.30	$ 0.70
Dividends per common share	$ 0.17	$ 0.17	$ 0.34

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

3

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Thousands, except per share data)	March 31 2002	September 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 370,650	$ 272,
Temporary cash investments	108,380	211,
Accounts receivable, net	36,969	41,
Receivable from associated companies	--	1,
Inventories	4,003	3,
Other	8,039	7,
Total current assets	528,041	537,
Investments	31,469	32,
Property and equipment, net	114,984	119,

Intangible and other assets	301,482	311,
	$ 975,976	$ 1,000,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 23,200	$ 11,
Income taxes payable	9,309	57,
Other	60,572	56,
Total current liabilities	93,081	125,
Long-term debt, less current maturities	150,200	161,
Deferred items	30,709	31,
Stockholders' equity:		
Serial convertible preferred, no par value; authorized 500 shares: none issued	--	
Common, $2 par value; authorized 60,000 shares; issued and outstanding: March 31, 2002 34,195 shares September 30, 2001 33,659 shares	68,390	67,
Class B Common, $2 par value; authorized 30,000 shares; issued and outstanding: March 31, 2002 10,011 shares September 30, 2001 10,379 shares	20,022	20,
Additional paid-in capital	53,064	48,
Unearned compensation	(2,433)	(1,
Retained earnings	562,943	546,
Total stockholders' equity	701,986	681,
	$ 975,976	$ 1,000,

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

4

LEE ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended March 31	
(Thousands)	2002	2001
Cash provided by operating activities:		
Net income	$ 31,124	$ 284,958
Less: discontinued operations	--	(250,802)
Income from continuing operations	31,124	34,156
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	11,463	16,212
Distributions in excess of current earnings of associated companies	198	2,484
Other, net	(2,547)	(6,905)
Net cash provided by operating activities	40,238	45,947
Cash provided by (required for) investing activities:		

Sales (purchases) of temporary cash investments, net	102,841	(456,585)
Purchases of property and equipment	(4,235)	(4,920)
Acquisitions, net	(292)	(4,230)
Proceeds from sales of assets	7,130	--
Other	144	(1,992)
Net cash provided by (required for) investing activities	105,588	(467,727)
Cash provided by (required for) financing activities:		
Payments on short-term debt	--	(37,937)
Common stock transactions	(207)	(8,633)
Dividends paid	(7,503)	(7,382)
Other	3,560	5,355
Net cash required for financing activities	(4,150)	(48,597)
Net cash provided by (required for) discontinued operations	(43,195)	479,231
Net increase in cash and cash equivalents	98,481	8,854
Cash and cash equivalents:		
Beginning of period	272,169	29,427
End of period	$ 370,650	$ 38,281

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

5

LEE ENTERPRISES, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 Basis of Presentation

The consolidated financial statements included herein are unaudited. In the opinion of management, these statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Lee Enterprises, Incorporated and subsidiaries (the Company) as of March 31, 2002 and the results of operations and cash flows for the periods presented. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2001 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operations for the three months and six months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

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

2 Investment in Associated Companies

The Company has a 50% ownership interest in Madison Newspapers, Inc. (MNI), a company that publishes daily and Sunday newspapers and other publications in Madison, three other daily newspapers and various other publications in Wisconsin; and also holds interests in Internet service ventures.

Summarized financial information of MNI is as follows:

(Thousands)	Three Months Ended March 31 2002	2001	Six Months En March 31 2002	2
Revenue	$24,400	$24,557	$50,870	$54
Operating expenses, excluding depreciation and amortization	17,718	19,075	36,043	38
Depreciation and amortization	971	1,161	1,975	2
Operating income	5,711	4,321	12,852	12
Net income	3,503	2,637	7,859	7

In April 2002, a subsidiary of MNI acquired the assets of Citizen Newspapers, LLC, which owns the Beaver Dam Daily Citizen and various other publications published in Wisconsin.

3 Income Taxes

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

6

4 Earnings Per Common Share

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

(Thousands, except per common share data)	Three Months Ended March 31 2002	2001	Six Months March 2002
Income applicable to common stock:			
Continuing operations	$ 13,124	$ 13,141	$ 31,124
Discontinued operations	--	(85)	--
Net income	$ 13,124	$ 13,056	$ 31,124
Weighted average common shares outstanding	44,164	43,753	44,125
Less non-vested restricted stock	123	88	116
Basic average common shares	44,041	43,665	44,009
Dilutive stock options and restricted stock	290	367	277
Dilutive average common shares	44,331	44,032	44,286
Earnings per common share:			
Basic:			
Continuing operations	$ 0.30	$ 0.30	$ 0.71
Discontinued operations	--	--	--
Net income	$ 0.30	$ 0.30	$ 0.71
Diluted:			
Continuing operations	$ 0.30	$ 0.30	$ 0.70
Discontinued operations	--	--	--
Net income	$ 0.30	$ 0.30	$ 0.70

5 Sales of Assets

In December 2001, the Company sold all of the assets of its specialty publication in Klamath Falls, Oregon. In January 2002, the Company sold all of the operating assets of its specialty publications in Las Vegas, Nevada, Great Falls, Montana and St. George, Utah. In February 2002, the Company sold all of the operating assets of its specialty publication in Redding, California. Net proceeds from the sales totaled approximately $7,130,000. The Company realized a net loss on the transactions. The estimated loss, which was recognized in the year ended September 2001, approximates the actual amount.

6 Stock Ownership Plans

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

(Thousands, except per common share data)	Shares	Weighted Average Exercise Price Price
Outstanding at September 30, 2001	967	$ 26.44
Granted	269	35.46
Exercised	(125)	25.99
Cancelled	(18)	27.62
Outstanding at March 31, 2002	1,093	$ 28.69

Options to purchase 1,131,000 shares of common stock with a weighted average exercise price of $25.46 per share were outstanding at March 31, 2001.

7

7 Impact of Recently Issued Accounting Standards

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.

In August 2001, FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes FASB Statement No. 121, discussed above, but retains the fundamental provisions of Statement 121 with regard to recognition and measurement of impairment of long-lived assets.

The Company was required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, and Statements 142 and 144 effective no later than October 1, 2002. Furthermore, intangible assets determined to have an indefinite useful life and goodwill that are acquired in a purchase

business combination completed after June 30, 2001 will not be amortized. The Company elected to adopt Statements 141, 142 and 144 effective October 1, 2001.

Statement 141 requires, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and make any necessary reclassifications in order to conform with the new criteria for recognition apart from goodwill. Upon adoption of Statement 142, the Company reassessed the useful lives and residual values of all intangible assets acquired in purchase business combinations. In addition, the Company is required to test the intangible assets identified as having an indefinite useful life and goodwill for impairment in accordance with the provisions of Statement 142. There were no significant reclassifications or impairment losses identified as a result of adoption.

Changes in the carrying amount of goodwill are as follows:

	Three Months Ended March 31		Six M M
(Thousands)	2002	2001	2002
Goodwill, beginning of period	$ 228,753	$ 241,064	$ 230,2
Goodwill related to acquisitions	247	276	2
Goodwill related to sales of businesses	(8,153)	--	(9,6
Amortization	--	(1,991)	
Goodwill, end of period	$ 220,847	$ 239,349	$ 220,8

The impact of adoption of these statements is as follows:

	Three Months Ended March 31		Six Month March
(Thousands)	2002	2001	2002
Income from continuing operations, as reported	$ 13,124	$ 13,141	$ 31,124
Goodwill amortization, net of income tax benefit	--	1,488	--
Goodwill amortization of associated companies	--	59	--
Income from continuing operations, as adjusted	13,124	14,688	31,124
Discontinued operations	--	(85)	--
Net income, as adjusted	$ 13,124	$ 14,603	$ 31,124

8

The earnings per common share impact related to the adoption of these statements is as follows:

	Three Months Ended March 31		Six M
	2002	2001	200
Basic:			

Income from continuing operations, as reported	$ 0.30	$ 0.30	$ 0
Goodwill amortization	--	0.03	
Income from continuing operations, as adjusted	0.30	0.33	0
Discontinued operations	--	--	
Net income, as adjusted	$ 0.30	$ 0.33	$ 0
Diluted:			
Income from continuing operations, as reported	$ 0.30	$ 0.30	$ 0
Goodwill amortization	--	0.03	
Income from continuing operations, as adjusted	0.30	0.33	0
Discontinued operations	--	--	
Net income, as adjusted	$ 0.30	$ 0.33	$ 0

8 Subsequent Event

In April 2002, the Company acquired the stock of Howard Publications, Inc. (Howard), a privately owned company comprised of 16 daily newspapers, one of which is jointly owned, and related specialty publications. The transaction is valued at $694,000,000 and was funded in part with approximately $434,000,000 in cash and temporary cash investments. New bank borrowing funded the remainder of the purchase price. Certain non-publishing businesses are not included in the transaction.

The Company paid the purchase price and expenses related to the transaction from $434,000,000 of available funds, including proceeds from the sale of its broadcast properties, which was substantially completed in October 2000, and revolving loans under the terms of a five year, $350,000,000 credit agreement dated as of March 28, 2002 among the Company, Bank of America, N.A. (BofA), as administrative agent, and the other lenders party thereto. The initial interest rate of the revolving loans is, at the option of the Company, LIBOR plus 1.25% or a base rate equal to the greater of the federal funds rate plus 0.5% or the BofA prime rate. The credit agreement contains covenants, including interest coverage and leverage ratios, which are not expected to be restrictive to normal operations or historical amounts of stockholder dividends.

The representations and warranties of Howard stockholders are secured for varying amounts pursuant to an escrow agreement between the Company and the indemnifying Howard stockholders.

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

The following discussion includes comments and analysis relating to the Company's results of operations and financial condition as of and for the three months and six months ended March 31, 2002. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "Safe Harbor" for forward-looking statements. This report contains information that may be deemed forward-looking and that is based largely on the Company's current expectations and is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those anticipated. Among such risks, trends and other uncertainties are changes in advertising demand, newsprint prices, interest rates, labor costs, legislative and regulatory rulings and other results of operations or financial conditions, difficulties in integration of acquired business or maintaining employee and customer

relationships and increased capital and other costs. The words "may," "will," "would," "could," "believes," "expects," "anticipates," "intends," "plans," "projects," "considers" and similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. The Company does not undertake to publicly update or revise its forward-looking statements.

CONTINUING OPERATIONS - QUARTER ENDING MARCH 31, 2002

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

	Three Months Ended March 31		
(Thousands, except per common share data)	2002	2001	Percent Change
Operating revenue	$ 100,066	$ 101,957	(1.9)%
Income before interest, taxes, depreciation and amortization (EBITDA) (1)	26,192	23,771	10.2
Operating income	20,720	15,594	32.8
Nonoperating income (expense), net	(376)	5,016	NM
Income from continuing operations	13,124	13,141	(0.1)
Earnings per common share:			
Basic	$ 0.30	$ 0.30	--%
Diluted	0.30	0.30	--

(1) EBITDA is not a financial performance measurement under accounting principles generally accepted in the United States (GAAP), and should not be considered in isolation or as a substitute for GAAP performance measurements. EBITDA is also not reflected in the Consolidated Statements of Cash Flows, but it is a common and meaningful alternative performance measurement for comparison to other companies in the newspaper publishing industry. The computation also excludes other nonoperating items, primarily the gains and losses on sales of businesses and losses related to other ventures.

Revenue, as reported in the Consolidated Financial Statements, consists of the following:

	Three Months Ended March 31		
(Thousands)	2002	2001	Percent Change
Advertising:			
Retail	$ 37,451	$ 37,078	1.0%
National	2,485	2,560	(2.9)
Classified:			
Employment	5,144	6,589	(21.9)
Automotive	4,862	4,855	0.1
Real estate	3,690	3,613	2.1
All other	8,673	9,169	(5.4)
Total classified	22,369	24,226	(7.7)
Total advertising	62,305	63,864	(2.4)

Circulation	20,194	19,729	2.4
Other:			
Commercial printing	5,750	6,318	(9.0)
Internet/online	1,592	1,327	20.0
Niche publications and other	6,147	6,831	(10.0)
Editorial service contracts	2,326	2,570	(9.5)
	15,815	17,046	(7.2)
Equity in net income of associated companies	1,752	1,318	32.9
Total operating revenue	$ 100,066	$ 101,957	(1.9)%

Revenue and Operating Expenses - Same Property

The following discussion of revenue and operating expenses is presented on an operating basis, which includes 100% of the revenue and expenses of MNI, which is owned 50% by the Company and accounted for in the Consolidated Financial Statements using the equity method. It is also exclusive of acquisitions and divestitures. The Company believes such comparisons provide the most meaningful information for an understanding of its business.

The quarter ended March 31, 2002 had one more Sunday and one fewer Monday compared to the same period last year, which positively impacts substantially all categories of revenue.

Advertising lineage, as reported on an operating basis for daily newspapers only, consists of the following:

	Three Months Ended March 31		
(Thousands of Inches)	2002	2001	Percent Change
Advertising:			
Retail	581	584	(0.5)%
National	94	89	5.6
Classified	1,512	1,521	(0.6)
	2,187	2,194	(0.3)%

For the three months ended March 31, 2002, total revenue declined $715,000, or 0.6%, with a decline in total advertising revenue of $573,000, or 0.7%, and a decline in total advertising lineage of 7,000 inches, or 0.3%. Retail revenue increased $1,601,000, or 3.6%, and retail rates increased 4.3% during the same three-month period. Increased emphasis on rate discipline and new accounts helped offset declines in advertising volume caused by weak economic conditions.

Classified advertising revenue decreased approximately $2,155,000, or 7.0%, for the three months ended March 31, 2002. Higher margin employment advertising at the daily newspapers accounted for substantially all of the decrease and declined 24.6% for the period. The national help wanted index registered a 36% decline in employment advertising lineage for the same period. Real estate advertising increased 3.6% due in part to attractive mortgage rates. The automotive category was flat.

Circulation revenue increased $754,000, or 3.1%. The Company's unaudited daily newspaper circulation increased 1.6% and Sunday circulation increased 0.7% for the three months ended March 31, 2002. The Company remains focused on growing circulation units through a number of initiatives.

Other revenue decreased $896,000, or 4.3%. Commercial printing was down $582,000, or 7.3% for the quarter due to losses of, or declines in volume from, key customers. Internet/online revenue increased $298,000, or 20.6%, due to growth in advertising revenue and cross-selling with the Company's newspapers, partially offsetting the overall decline in other revenue.

The following table sets forth the percentage of revenue of certain operating expenses:

	Three Months Ended March 31	
	2002	2001
Compensation	39.9%	40.0%
Newsprint and ink	8.8	10.6
Other operating expenses	24.6	25.4
	73.3	76.0
EBITDA Margin	26.7	24.0
Depreciation and amortization	5.2	7.4
Operating margin	21.5%	16.6%

Costs other than depreciation and amortization decreased $3,730,000, or 4.0%. Compensation expense decreased $423,000, or 0.9%, due to workforce reductions, delayed salary increases and changes in benefit programs. Overall, full-time equivalent personnel declined 3.2%. Newsprint and ink costs decreased $2,216,000, or 17.0%, as the result of continued price decreases, offset partially by a 3.2% increase in consumption. Other operating costs, exclusive of depreciation and amortization, decreased $1,091,000, or 3.5%.

On October 1, 2001 the Company adopted the provisions of FASB Statements 141 and 142. As a result, goodwill acquired in a purchase business combination is no longer being amortized, but is tested for impairment annually. Amortization expense related to goodwill was $2,088,000 for the three months ended March 31, 2001.

Nonoperating Income and Income Taxes - As Reported

Financial income decreased $5,964,000 to $2,467,000 in 2002, due to a significant decline in reinvestment rates in the Company's investment portfolio and, to a lesser extent, investment in tax-exempt securities. Further, the Company's invested balances have decreased due to required income tax payments, offset to some extent by funds generated from operations.

Income taxes were 35.5% and 36.2% of income from continuing operations before income taxes for the three months ended March 31, 2002 and 2001, respectively. Municipal income in the current year reduced the effective tax rate. In addition, the prior year effective tax rate included the effect of goodwill amortization that was not deductible for tax purposes.

CONTINUING OPERATIONS - SIX MONTHS ENDING MARCH 31, 2002

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

	Six Months Ended March 31

(Thousands, except per common share data)	2002	2001	Percent Change
Operating revenue	$ 211,693	$ 220,679	(4.1)%
Income before interest, taxes, depreciation and amortization (EBITDA)	60,540	59,447	1.8
Operating income	49,077	43,235	13.5
Nonoperating income (expense), net	(955)	10,966	NM
Income from continuing operations	31,124	34,156	(8.9)
Earnings per common share:			
Basic	$ 0.71	$ 0.78	(9.0)%
Diluted	0.70	0.78	(10.3)

Revenue, as reported in the Consolidated Financial Statements, consists of the following:

	Six Months Ended March 31		
(Thousands)	2002	2001	Percent Change
Advertising:			
Retail	$ 84,351	$ 86,274	(2.2)%
National	5,159	5,614	(8.1)
Classified:			
Employment	10,263	13,889	(26.1)
Automotive	10,171	10,008	1.6
Real estate	7,574	7,529	0.6
All other	17,639	18,221	3.2
Total classified	45,647	49,647	(8.1)
Total advertising	135,157	141,535	(4.5)
Circulation	40,786	40,903	(0.3)
Other:			
Commercial printing	12,318	13,474	(8.6)
Internet/online	3,086	2,549	21.1
Niche publications and other	11,956	13,445	(11.1)
Editorial service contracts	4,461	4,889	(8.8)
	31,821	34,357	(7.4)
Equity in net income of associated companies	3,929	3,884	1.2
Total operating revenue	$ 211,693	$ 220,679	(4.1)%

Revenue and Operating Expenses - Same Property

The following discussion of revenue and operating expenses is presented on an operating basis, which includes 100% of the revenue and expenses of MNI, which is owned 50% by the Company and accounted for in the Consolidated Financial Statements using the equity method. It is also exclusive of acquisitions and divestitures. The Company believes such comparisons provide the most meaningful information for an understanding of its business.

The six months ended March 31, 2002 had the same number of Sundays and weekdays as the same period last year.

Advertising lineage, as reported on an operating basis for daily newspapers only, consists of the following:

	Six Months Ended March 31		
(Thousands of Inches)	2002	2001	Percent Change
Advertising:			
Retail	3,626	3,796	(4.5)%
National	191	213	(10.3)
Classified	3,128	3,182	(1.7)
	6,945	7,191	(3.4)%

For the six months ended March 31, 2002, total revenue declined $8,900,000, or 3.4%, with a decline in total advertising revenue of $6,733,000, or 3.9%, and a decline in total advertising lineage of 246,000 inches, or 3.4%. Retail revenue decreased $1,246,000, or 1.2%, while retail rates increased 3.3% during the same six-month period. Increased emphasis on rate discipline and new accounts helped offset declines in advertising volume caused by weak economic conditions.

Classified advertising revenue decreased approximately $4,979,000, or 8.0%, in 2002. Higher margin employment advertising at the daily newspapers accounted for substantially all of the decrease and declined 29% for the six-month period. The national help wanted index reflected a 37.8% decline in employment advertising lineage for the same period. Automotive and other categories were flat.

Circulation revenue was flat year over year. The Company's audited daily newspaper circulation increased 1.8% and Sunday circulation increased 0.4% for the six months ended March 31, 2002. The Company is focused on growing circulation units through a number of initiatives.

Other revenue decreased $2,113,000, or 5.1%. Commercial printing declined $1,016,000, or 6.0%, due to losses of, or declines in volume from, key customers. Internet/online revenue increased $529,000, or 18.8%, due to growth in advertising revenue and cross-selling with the Company's newspapers, partially offsetting the overall decline in other revenue.

The following table sets forth the percentage of revenue of certain operating expenses:

	Six Months Ended March 31	
	2002	2001
Compensation	38.0%	37.8%
Newsprint and ink	9.3	10.4
Other operating expenses	24.0	24.2
	71.3	72.4
EBITDA Margin	28.7	27.6
Depreciation and amortization	5.2	6.8
Operating margin	23.5%	20.8%

Costs other than depreciation and amortization decreased $9,073,000, or 4.7%. Compensation expense decreased $2,859,000, or 2.8%, due to workforce reductions, delayed salary increases and changes in benefit programs. Overall, full-time

equivalent personnel declined 3.4%. Newsprint and ink costs decreased $3,716,000, or 13.5%, as the result of continued price decreases offsetting a 0.9% increase in consumption. Other operating costs, exclusive of depreciation and amortization, decreased $2,498,000, or 3.9%.

On October 1, 2001 the Company adopted the provisions of FASB Statements 141 and 142. As a result, goodwill acquired in a purchase business combination is no longer being amortized, but is tested for impairment annually. Amortization expense related to goodwill was $4,176,000 for the six months ended March 31, 2001.

Nonoperating Income and Income Taxes - As Reported

Financial income decreased $12,707,000 to $5,235,000 in 2002, due to a significant decline in reinvestment rates in the Company's investment portfolio and, to a lesser extent, investment in tax-exempt securities. Further, the Company's invested balances have decreased due to required income tax payments, offset to some extent by funds generated from operations.

Income taxes were 35.3% and 37.0% of income from continuing operations before income taxes for the six months ended March 31, 2002 and 2001, respectively. Municipal income in the current year reduced the effective tax rate. In addition, the prior year effective tax rate included the effect of goodwill amortization that was not deductible for tax purposes.

Discontinued Operations

In March 2000, the Board of Directors of the Company made a determination to sell its broadcast properties. In May 2000 the Company entered into an agreement to sell substantially all of its broadcasting operations, consisting of eight network-affiliated and seven satellite television stations, to Emmis Communications Corporation and consummated the transaction in October 2000. The net proceeds of approximately $565,000,000 resulted in an after-tax gain for financial reporting purposes of approximately $250,800,000. The results for the broadcast properties have been classified as discontinued operations for all periods presented.

In July 2001, the Company completed the sale of its last broadcasting property. Net proceeds of the sale totaled approximately $7,600,000. The after-tax gain of approximately $4,000,000 on the sale is reflected in discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities of continuing operations was $40,238,000 for the six months ended March 31, 2002 and $45,947,000 for the same period in 2001. Reduced income from continuing operations and decreased depreciation and amortization offset changes in working capital.

Cash provided by investing activities totaled $105,588,000 during the six months ended March 31, 2002, and consumed $467,727,000 in the prior year. Changes in the Company's mix of investments account for the majority of the change.

The Company anticipates that funds necessary for capital expenditures, which are expected to total approximately $12,000,000 in 2002, and other requirements will be available from internally generated funds, its remaining investment portfolio and, if necessary, by accessing the capital markets.

The Company entered into a five year, $350,000,000 Credit Agreement in March 2002. The primary purposes of the agreement were to fund the acquisition of Howard Publications, Inc. as described in Note 8 to the Consolidated Financial Statements, and to provide liquidity for other corporate purposes.

Under the terms of the Company's 1998 Note Purchase Agreement (the 1998 Agreement), the Company was required to repay the outstanding balance of

$161,800,000 on October 1, 2002 unless the Company reinvested the net proceeds of the sale of its broadcast operations or obtained a waiver or amendment of that provision of the 1998 Agreement. The acquisition described in Note 8 to the Consolidated Financial Statements satisfies the conditions of the Company's 1998 Agreement with regard to reinvestment of the net proceeds of the sale of broadcast operations. If repayment had been required, a substantial prepayment penalty would have also been required, based upon interest rates in effect at that time. Other covenants under this agreement are not considered restrictive to normal operations or historical amounts of stockholder dividends.

Cash required for financing activities totaled $4,105,000 during the six months ended March 31, 2002, and $48,957,000 in the prior year. Debt repayments and lower stock activity account for the differences between years.

Cash required for discontinued operations totaled $43,195,000 during the six months ended March 31, 2002, primarily for income tax payments related to the gain on sale of discontinued operations. Cash provided by discontinued operations totaling $479,231,000 in the prior year primarily reflects net proceeds from the sale of such operations.

OTHER FACTORS

The Company has not been significantly impacted by inflationary pressures over the last several years. The Company anticipates that changing costs of newsprint, its basic raw material, may impact future operating costs. Price increases (or decreases) for the Company's products are implemented when deemed appropriate by management. The Company continuously evaluates price increases, productivity improvements and cost reductions to mitigate the impact of inflation.

MARKET RISK MANAGEMENT

The Company is exposed to market risk stemming from changes in interest rates and commodity prices. Changes in these factors could cause fluctuations in earnings and cash flows. In the normal course of business, exposure to certain of these market risks is managed as described below.

Interest Rates

Interest rate risk in the Company's investment portfolio is managed by investing only in securities with a maturity at date of acquisition of 180 days or less. The average maturity of the investment portfolio is 17 days at March 31, 2002. Only high-quality investments are considered. In April 2002, the Company liquidated substantially all of its investment portfolio, in conjunction with the acquisition of Howard Publications, Inc.

The Company's debt structure and interest rate risk are managed through the use of fixed and floating rate debt. The Company's primary exposure is to United States interest rates.

Commodities

Certain materials used by the Company are exposed to commodity price changes. The Company manages this risk through instruments such as purchase orders and non-cancelable supply contracts. The Company is also involved in continuing programs to mitigate the impact of cost increases through identification of sourcing and operating efficiencies. Primary commodity price exposures are newsprint and, to a lesser extent, ink.

A $10 per ton newsprint price increase would result in an annualized reduction in income from continuing operations before income taxes of approximately $650,000, excluding MNI.

Sensitivity to Changes in Value

The estimates that follow are intended to measure the maximum potential fair value or earnings the Company could lose in one year from adverse changes in market interest rates under normal market conditions. The calculations are not intended to represent actual losses in fair value or earnings that the Company expects to incur. The estimates do not consider favorable changes in market rates. The positions included in the calculations are temporary cash investments, which total $108,380,000 at March 31, 2002, and fixed-rate debt, which totals $173,400,000.

The table below presents the estimated maximum potential one-year loss in fair value and earnings before income taxes from a 100 basis point movement in interest rates on market risk sensitive instruments outstanding at March 31, 2002:

	Estimated Impact on	
(Thousands)	Fair Value	Income from Continuing Operations Before Income Taxes
Temporary cash investments	$ (50)	$(1,033)
Fixed rate debt	(6,900)	--

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information with respect to this item is included in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Market Risk Management."

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders the Company was held on January 23, 2002.

Rance E. Crain was re-elected, and Herbert W. Moloney III was elected, as directors for a three-year terms expiring at the 2005 annual meeting. Directors whose terms of office continued after the meeting are: Mary E. Junck, William E. Mayer, Mark Vittert, Gregory P. Schermer, Andrew E. Newman and Gordon D. Prichett.

Votes were cast, all by proxy, for nominees for director as follows:

	For	Withheld
Rance E. Crain	101,906,434	4,975,585
Herbert W. Moloney III	101,902,692	4,979,327

Item 6. Exhibits and Reports on Form 8-K

Exhibits: 3 Amended and restated By-Laws as of January 23, 2002.

The following reports on Form 8-K were filed during the three months ended March 31, 2002.

Date of Report: February 12, 2002

Item 9. The Company issued a news release on February 11 announcing plans to conduct a conference call and webcast on February 12, 2002.

Date of Report: February 12, 2002

Item 5. The Company announced plans to acquire all of the outstanding stock of Howard Publications, Inc. and a new $350,000,000 credit facility.

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

/s/ Carl G. Schmidt DATE: May 15, 2002

Carl G. Schmidt

Vice President, Chief Financial Officer,
and Treasurer
(Principal Financial and Accounting Officer)