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NEWS COMMUNICATIONS INC
Form 10QSB
August 23, 2004

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly period ended June 30, 2004

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

Commission File Number: 0-18299

NEWS COMMUNICATIONS, INC.

(Name of Small Business Issuer in Its Charter)

Nevada

13-3346991

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer
Identification No.)

2 Park Avenue, Suite 1405
New York, New York

10016

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 689-2500

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 par value

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 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 ☐
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The number of shares of common stock outstanding as of August 13, 2004 was
11,649,458.

Transitional Small Business Disclosure Format (check one) Yes ☐ No ☒
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PART I
Financial Information
ITEM 1 - Financial Statements
News Communications, Inc. and Subsidiaries
Consolidated Balance Sheet as of June 30, 2004
(Unaudited)

Assets

Current:

Cash and cash equivalents	\$199
Accounts receivable - net of allowance for doubtful accounts of \$392,229	1,862
Notes receivable	10
Other	275

Total current assets	2,346
Restricted cash	34
Notes receivable, net of current portion	90
Property and equipment at cost- net	301
Goodwill	314
Trade names, net	475
Other - net	25

Total assets	\$ 3,587
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Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 1,062
Accrued expenses	1,188
Income taxes payable	40
Note payable, current portion	9
Unearned revenue	163
Due to related parties	613
Capital lease, current portion	16

Total current liabilities	3,095
Due to related parties	253
Note payable, net of current portion	26
Capital lease, net of current portion	20

Total liabilities	3,396
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Commitments

Stockholders' equity:

Preferred stock, \$1.00 par value; 500,000 shares authorized: 177,529 shares issued and outstanding: \$1,864,000 aggregate liquidation value	177
Common stock, \$.01 par value; authorized 100,000,000 shares; 12,307,792 shares issued and 11,649,458 outstanding	123
Paid-in-capital preferred stock	1,568
Paid-in-capital common stock	27,086
Deficit	(27,862)

Less: Treasury stock, (658,334 common shares) - at cost	(901)
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Total stockholders' equity	190
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Total liabilities and equity	\$ 3,587
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See accompanying notes to unaudited financial statements

News Communications, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		
	June 30, 2004	June 30, 2003	June
Net revenues	\$ 4,094,917	\$ 3,225,430	\$
Expenses:			
Editorial	510,461	557,812	
Production and distribution	982,887	823,535	
Selling	926,171	845,312	
General and administrative	1,134,694	920,388	
Depreciation and amortization	46,861	46,908	
Total expenses	3,601,074	3,193,955	
Income (loss) before interest and provision for income taxes	493,843	31,475	
Interest income (expense), net	(13,207)	(10,162)	
Income (loss) before provision for income taxes	480,636	21,313	
Provision for income taxes	64,774	32,926	
Net income (loss)	\$ 415,862	\$ (11,613)	
Preferred stock dividends	(282)	(282)	
Net income or (loss) available to common stockholders	\$415,580	\$ (11,895)	
Preferred stock dividends	282	-	
Elimination of Interest on convertible debt	3,989	-	
Net income or (loss) applicable to common stockholders	\$419,851	\$ (11,895)	
Earnings (loss) per common share:			
Basic	\$ 0.04	\$ (0.00)	
Diluted	0.03	(0.00)	
Weighted-average number of common shares outstanding:			
Basic	11,644,666	10,358,641	1
Diluted	12,653,638	10,358,641	1

See accompanying notes to unaudited financial statements.

News Communications, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

Six months ended June 30,	2004
<hr/>	
Cash flows from operating activities:	
Net Loss	\$ (288,807)
Adjustments to reconcile net loss to net cash (used in) operating activities:	
Depreciation and amortization	93,300
Provision for doubtful accounts	134,900
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(1,043,773)
Other current assets	(74,486)
Other assets	(8,924)
Increase (decrease) in:	
Accounts payable and accrued expenses	151,684
Income taxes payable	40,977
Other liabilities	1,287
Related party payable	21,873
Net cash (used in) operating activities	(971,969)
<hr/>	
Cash flows from investing activities:	
Capital expenditures	(27,821)
Collection of note receivable	836,000
Net cash from (used in) investing activities	808,179
<hr/>	
Cash flows from financing activities:	
Proceeds from issuance of common stock	-
Payment of related party notes payable	(786,370)
Dividends on preferred stock	(564)
Payment of capital lease obligations	(11,809)
Payments on automobile loan	(4,947)
Net cash provided by (used in) financing activities	(803,690)
<hr/>	
Net increase (decrease) in cash	(967,480)
Cash, beginning of period	1,166,895
<hr/>	
Cash, end of period	\$ 199,415

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 88,560
Income taxes	21,716

Non-cash activities:

Purchases of equipment under capital leases	-
Conversion of preferred stock into common stock	50,000

See accompanying notes to unaudited financial statements

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NEWS COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Basis of Presentation:

In the opinion of News Communications, Inc.'s ("NCI" or "the Company") management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These consolidated financial statements are condensed and, therefore, do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. The results for the interim periods are not necessarily indicative of the results for a full year. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company is growing the operations of its core publications, Dan's Papers, Dan's Hampton Style (also called Dan's Magazine Hampton Style), Montauk Pioneer and The Hill. The Company intends to continue to finance these new business initiatives and its existing liabilities from working capital, from additional sales of equity securities, from the installment payments due to the Company from the sale of subsidiaries or by a sale of assets. A total of \$1,400,000 was raised in 2003 from the sale of the Company's common stock. The Company believes that it will have sufficient working capital to fund its operations and obligations through December 31, 2004, due to the seasonality of Dan's Papers and the anticipated traditionally stronger third quarter results.

These consolidated financial statements should be read in conjunction with NCI's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 and the related audited financial statements included therein.

B. Earnings (Loss) per Share:

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"), which provides for the calculation of "basic" and "diluted" earnings per share. Basic earnings per share include no dilution and are computed by dividing income

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available to common shareholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of shares of common stock issuable upon exercise of common stock equivalents.

Convertible preferred shares convertible into 755,822 weighted average shares of common stock and convertible notes convertible into 253,150 shares of common stock were considered in the computation of diluted earnings per share for the three months ended June 30, 2004. Weighted average options to purchase 768,153 and 744,823 shares of common stock for the three and six months ended June 30, 2004 and 2003 were excluded from the computation of earnings per diluted share. In each of these periods the exercise prices of the options exceeded the average fair market value of our common stock and the effect would have been anti-dilutive.

For the six months ended June 30, 2004 convertible preferred shares convertible into 758,363 weighted average shares of common stock were not considered in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the three months and six months ended June 30, 2003, convertible preferred shares convertible into 765,214 and 767,663 weighted average shares of common stock, respectively were not considered in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the three months ended June 30, 2004 and 2003 and the six months ended June 30, 2004 and 2003, warrants to purchase 3,315,873 shares of common stock were not considered in computation of diluted earnings per share were excluded from the computation of earnings per diluted common share because in each of these periods the exercise prices of the warrants exceeded the average fair market value of our common stock and the effect would have been anti-dilutive. Convertible notes convertible into 237,106 shares of common stock for the three months ended June 30, 2003 and 253,150 shares and 237,106 shares for the six months ended June 30, 2004 and 2003, respectively, were not considered in the computation of diluted earnings per share because the effect would have been anti-dilutive. The options and warrants, which expire from July 27, 2004 through November 28, 2015, were all outstanding at June 30, 2004.

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

	Three Months Ended	
	June 30, 2004	June 30, 2003
Weighted-average number of shares on which earnings per share calculations are based:		
Basic	11,644,666	10,358,641
Add - incremental shares associated with convertible preferred stock	755,822	-
Add - incremental shares associated with convertible debt	253,150	-
Diluted	12,653,638	10,358,641
Net income (loss) applicable to common stockholders - basic computation	\$ 415,862	\$ (11,613)
Elimination of preferred stock dividend requirements upon assumed conversion preferred stock	(282)	-
Elimination of interest on convertible preferred debt	3,989	-
Net income on which diluted earnings per share are calculated	\$ 419,569	\$ (11,613)

Earnings (loss) per share of common stock

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Basic	\$ 0.04	\$ (0.00)
Diluted	0.03	(0.00)

C. Accounting for Stock-Based Compensation:

The Company has several stock-based employee compensation plans in effect that were entered into in 1987, 1993, and 1999. The Company accounts for all transactions under which employees receive shares of stock or other equity instruments in the Company based on the price of its stock in accordance with the provisions of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." No stock-based employee compensation cost is reflected in net income/loss, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. There were no options granted and no options were vested during the three and six months ended June 30, 2004 and 2003.

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NEWS COMMUNICATIONS, INC. AND SUBSIDIARIES

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The information contained in this Item 2, Management's Discussion and Analysis or Plan of Operation, contains "forward looking statements" within the meaning of Section 27A of the Securities Act 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual future results will not be different from the expectations expressed in this report.

News Communications, Inc. is an established publisher of various advertiser-supported newspapers and magazines. As of June 30, 2004, we published 3 newspapers (The Hill, Dan's Papers, and Montauk Pioneer) and expanded our publications with a new magazine in the Hamptons in New York. Dan's Hampton Style (also called Dan's Magazine Hampton Style). Dan's Hampton Style will be published on approximately a weekly basis during July and August and on approximately a monthly basis thereafter.

Dan's Papers Inc. introduced Dan's Hampton Sports in June 2004, an expansion of the Dan's Magazines brand. The Hamptons have long been known as the "playground of the rich and famous." From spring until fall, on a monthly basis, Dan's Hampton Sports will chronicle the activities that have contributed to the Hamptons' reputation as the place to vacation and play.

The following discussion and analysis of the financial condition and operating results are based upon the consolidated financial statements of the Company, which have been prepared in accordance with generally accepted accounting

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principles ("GAAP") in the United States of America.

Throughout this Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), management discusses financial measures in accordance with GAAP and also on a non-GAAP basis. The Company's definition of EBITDA is earnings before interest, income taxes, depreciation and amortization. EBITDA does not include gains or losses from the sale of subsidiaries. All references in this MD&A to EBITDA are to a non-GAAP financial measure. EBITDA, a measure widely used among media related businesses, is used in this report because management believes that it is an effective way of monitoring the operating performance of our company relative to the industry. Additionally, the Company believes that the use of non-GAAP financial measures enables it and investors to evaluate, and compare from period to period, the results from ongoing operations in a more meaningful and consistent manner. A reconciliation of GAAP to non-GAAP financial measures is included on page 9.

Results of Operations:

Three Months Ended June 30, 2004 Compared With Three Months Ended June 30, 2003

Revenues

Revenues increased \$869,487 or 27% in the second quarter of 2004 to \$4,094,917 from \$3,225,430 for the second quarter of 2003 primarily due to an increase in advertising pages sold. Variances in specific revenue categories for the three month period were as follows: display advertising, which represented 83% of total revenues, increased 24% to \$3,392,512 in the second quarter of 2004 compared with \$2,728,235 in the second quarter of 2003. Classified advertising, which represented 14% of revenues, increased 32% to \$554,026 from \$418,836 in the second quarter of 2003. Other revenue increased \$70,019 to \$148,379 in the second quarter of 2004, largely due to management fees of \$62,500 from Marquis Who's Who LLC.

Among our individual publications, at Dan's Papers classified advertising was strong and increased 35% and display advertising increased 5%. Display revenues at Dan's Hampton Style and Dan's Hampton Sports, increased 156% to \$428,049 from \$167,400 compared to the second quarter of 2003. This is

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attributed to the publication of three issues of Dan's Hampton Style and the introductory issue of Dan's Hampton Sports in the second quarter of 2004 compared with the publication of two issues of Dan's Hampton Style in the same period of 2003. Revenues at The Hill increased 26%, due in part to the introduction of a third regular weekly issue in February 2004. Classified advertising increased 6%.

Operating Expenses

Operating expenses for the second quarter of 2004 were \$3,601,074, an increase of 13%, compared with operating expenses of \$3,193,955 during the second quarter of 2003. Excluding operating expenses of \$193,303 from a sold publication (GSN: Government Security News which was sold in September 2003) operating expenses increased 20% to \$3,601,074 in the second quarter of 2004 compared with

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\$3,000,652 for the second quarter of 2003. This is largely attributed to the investment in operating costs associated with the expansion of The Hill and Dan's Hampton Style. A third regular weekly issue of The Hill was added to the publication schedule in February 2004. Previously in March 2003, expansion at The Hill began with the publication of a second regular weekly issue. Further operating costs were incurred in the second quarter of 2004 on the expanded publication schedule for Dan's Hampton Style and on the introduction of Dan's Hampton Sports.

Variances in specific expense categories excluding the sold publication were as follows: editorial, production, and distribution were 10% higher compared to the three months ended June 30, 2003, due in part to the costs associated with Dan's Hampton Style and Dan's Hampton Sports, and with publication of a third regular weekly issue of The Hill, which was introduced in February 2004. Selling expenses were 35% higher for the three months ended June 30, 2004 compared to the same quarter in 2003 due in part to the addition of sales staff for Dan's Hampton Style and Dan's Hampton Sports and to higher sales commissions on the revenue gains at Dan's Papers, Dan's Hampton Style, Dan's Hampton Sports and The Hill. General and administrative expenses increased 25% for the three months ended June 30, 2004 compared to the three months ended June 30, 2003 due in part to higher employer taxes, office and overhead costs for the establishment of Dan's Hampton Style and Dan's Hampton Sports, and an \$80,000 reduction of bad debt expense in 2003.

Provision for Income Taxes

The provision for state and local income taxes for the three months ended June 30, 2004 was \$64,774 compared with \$32,926 for the same period in 2003.

Income

EBITDA (earnings before interest, taxes, depreciation and amortization) for the three months ended June 30, 2004, increased \$462,321 from \$78,383 in the second quarter of 2003 to \$540,704 in the second quarter of 2004. Revenues increased \$869,487 and there were gains in all categories at each publication. Editorial, production, distribution, and selling costs were higher driven by the increase in the publication schedule of Dan's Hampton Style, the introduction of Dan's Hampton Sports, and to the addition of a third weekly issue of The Hill. Operating expenses for the sold business (GSN which was sold in September 2003) for the second quarter of 2003 were \$193,303. General and administrative costs were higher for the three months ended June 30, 2004 due in part to higher employer taxes, office and overhead costs for the establishment of Dan's Hampton Style and Dan's Hampton Sports, and an \$80,000 reduction of bad debt expense in 2003.

Reconciliations of GAAP to Non-GAAP Financial Measures. Reconciliations of GAAP to non-GAAP financial measures are provided below. As previously explained, EBITDA is a measure widely used among media related businesses and is used in this report because management believes that it is an effective way of monitoring the operating performance of our company relative to the industry. EBITDA does not include capital gains or losses from the sale of subsidiaries.

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Three months ended	June 30, 2004	June 30, 2003

Earnings before interest, taxes, depreciation and amortization (EBITDA)		
Income (loss) from operations	\$ 493,843	\$ 31,475
Depreciation and amortization	46,861	46,908

EBITDA	\$ 540,704	\$ 78,383
=====		

EBITDA, excluding the operating expenses of GSN: Government Security News which was sold in September 2003, increased by \$269,018, or 99% to 540,704, compared to \$271,686 for the same period in 2003. Revenues increased \$869,486, production, editorial and distribution costs increased \$137,543 at Dan's Papers Inc. and The Hill as previously explained, and selling expenses increased \$238,137 due largely to the establishment of a sales staff for Dan's Hampton Style and Dan's Hampton Sports and to higher sales commissions and marketing costs. General and administrative costs increased \$224,790 because of the overhead costs associated with the establishment of Dan's Hampton Style and Dan's Hampton Sports, higher employer taxes, and a reduction in 2003 of bad debts.

Three months ended	June 30, 2004	June 30, 2003

EBITDA	\$ 540,704	\$ 78,383
Less: EBITDA from GSN	-	193,303

EBITDA, excluding sold publication	\$ 540,704	\$ 271,686
=====		

The Company generated a net profit of \$415,862 in the second quarter of 2004 compared with a net loss of \$11,613 for the second quarter of 2003. Revenues increased \$869,487 and operating expenses increased \$407,119. Net interest expense increased \$3,045, and the tax provision for the second quarter of 2004 was \$64,774 compared with a tax provision of \$32,926 for second quarter of 2003.

On a per share basis, the net income was \$0.04 for the second quarter of 2004 compared with \$0.0 per share for the second quarter of 2003. Diluted net income per share was \$0.03 due to the assumed conversion of convertible preferred stock and convertible debt.

Six Months Ended June 30, 2004 Compared With Six Months Ended June 30, 2003 Revenues

Revenues increased \$1,181,836 or 25% from \$4,796,492 to \$5,978,328 compared with the six months ended June 30, 2003. Variances in specific revenue categories for the six months ended June 30, 2004 were as follows: display advertising, which represented 80% of total revenues, increased 23% to \$4,790,015 in 2004 compared with \$3,886,800 in 2003 and classified advertising increased 27% to \$923,083 compared to \$726,017 in 2003. Other revenue increased \$81,555 to \$265,230 in 2004 compared with \$183,675 in 2003, largely due to management fees of \$125,000

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from Marquis Who's Who LLC.

Among our individual publications, classified advertising was strong at Dan's Papers Inc. increasing by \$178,103, or 27%, in 2004 compared to 2003 and display advertising increased 11% in 2004 compared to 2003. Display revenues for Dan's Hampton Style and Dan's Hampton Sports increased \$260,649 or 156%. Revenues at The Hill increased by \$468,551, or 20%, due largely to the gains in display revenue from a third regular weekly issue which was introduced in February 2004.

Operating Expenses

Operating expenses were \$6,173,162 for the six months ended June 30, 2004, an increase of 16%, compared with operating expenses of \$5,303,672 for the same period in 2003. Excluding expenses from a sold publication (GSN: Government Security News which was sold in September 2003), operating expenses increased 21% to \$6,173,162 from \$5,110,369 in 2003. This is largely attributed to the investment in operating costs associated with the expansion of Dan's Hampton Style and Dan's Hampton Sports, and with the addition of a third regular weekly

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issue of The Hill which was introduced in February 2004.

Variances in specific expense categories, excluding the sold publication were as follows: editorial, production, and distribution increased \$438,335, or 21%, compared to 2003. This is primarily due to the costs associated with the expansion of Dan's Magazines and The Hill, as previously discussed. Selling expenses increased \$326,494, or 27%, for the six months ended June 30, 2004, compared to 2003, primarily due to higher sales commissions on the revenue gains and to the addition of a sales staff for Dan's Hampton Style and Dan's Hampton Sports. General and administrative expenses increased \$297,697, or 17%, for the six months ended June 30, 2004 compared to the same period for 2003 due primarily to the overhead costs associated with the establishment of Dan's Hampton Style and Dan's Hampton Sports and to the reduction of bad debt expenses in 2003 of \$145,000.

Provision for Income Taxes

The Company recorded provisions for state and local income taxes of \$64,774 and \$34,926, respectively, for the six months ended June 30, 2004 and 2003.

Income

EBITDA (earnings before interest, taxes, depreciation and amortization) for the six months ended June 30, 2004, improved by \$312,513 from a loss of \$414,147 in the first six months of 2003 to a loss of \$101,534 in the first six months of 2004. Revenues increased \$1,181,836 and there were gains in all categories at each publication. Editorial, production, distribution, and selling costs were higher driven by the increase in the publication schedule of Dan's Hampton Style and Dan's Hampton Sports and to the addition of a third weekly issue of The Hill. Operating expenses for the sold business (GSN which was sold in September 2003) for the six months ended June 30, 2003 were \$193,303. General and administrative costs were higher for the three months ended June 30, 2004 due in part to higher employer taxes, office and overhead costs for the establishment

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of Dan's Hampton Style and Dan's Hampton Sports, and an \$145,000 reduction of bad debt expense in 2003.

Reconciliations of GAAP to Non-GAAP Financial Measures. Reconciliations of GAAP to non-GAAP financial measures are provided below. As previously explained, EBITDA is a measure widely used among media related businesses and is used in this report because management believes that it is an effective way of monitoring the operating performance of our company relative to the industry. EBITDA does not include gains or losses from the sale of subsidiaries.

Six months ended	June 30, 2004	June 30, 2003
-----	-----	-----
Earnings before interest, taxes, depreciation and amortization (EBITDA)		
Loss from operations	\$ (194,834)	\$ (507,180)
Depreciation and amortization	93,300	93,033
-----	-----	-----
EBITDA	\$ (101,534)	\$ (414,147)
=====	=====	=====

EBITDA, excluding the operating expenses of the sold publication, for the first six months of 2004 improved by \$119,310 to a loss of \$101,534 compared to loss of \$220,844 for the same period in 2003. This is primarily attributed to the revenue gains of \$1,181,836, an increase in editorial, production and distribution costs of \$438,335, and increase in selling expenses of \$326,494, and an increase in general and administrative costs of \$297,697.

Six months ended	June 30, 2004	June 30, 2003
-----	-----	-----
EBITDA	\$ (101,534)	\$ (414,147)
Less: EBITDA from GSN	-	193,303
-----	-----	-----
EBITDA, excluding sold publication	\$ (101,534)	\$ (220,844)
=====	=====	=====

The net loss for the first six months of 2004 decreased \$270,813 to \$288,807 from a net loss of \$559,620 for the first six months of 2003. This is due in part to the operating costs of approximately \$193,303 generated in the first six months of 2003 by the publication that was sold. Additionally, the improvement is due to revenue gains of \$1,181,836 in the first six months of 2004, an increase in operating costs of \$1,062,793. Net interest expense increased \$11,685 and the provision for state and local income taxes increased \$29,848 in

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the first six months of 2004.

The \$0.02 loss per share in the first six months of 2004 improved from a \$0.05 loss per share in the first six months of 2003.

Liquidity and Capital Resources

Cash as of June 30, 2004 was \$199,415, excluding restricted cash of \$34,102, compared with \$538,496, excluding restricted cash of \$34,102, for the same period in 2003. For the six months ended June 30, 2004, total cash used in operating activities was \$971,969, compared to cash used in operating activities of \$279,392 for the same period in 2003. This was primarily attributable to the net loss of \$288,807 in 2004, an increase in accounts receivable of \$1,043,773 and an increase in other assets of \$83,410. This was partially offset by cash provided by an increase in accounts payable and accrued expenses of \$151,684, an increase in income taxes payable of \$40,977, and an increase in related party payable of approximately \$21,873. Depreciation and amortization expense was \$93,300 and the bad debt provision was approximately \$134,900.

Capital expenditures were \$27,821. Cash from investing activities was \$808,179 and was primarily attributed to \$836,000 in cash collected on notes receivable. Cash expenditures for financing activities was \$803,690 and was largely due to payment of related party notes payable of \$786,370. Payments related to capital lease obligations were \$11,809, payments on automobile loans were \$4,947, and dividends of \$564 on preferred stock were accrued.

As of June 30, 2004, the Company had current assets of \$2,346,611, including cash of \$199,415. At June 30, 2004, the Company had an excess of current liabilities over current assets in the amount of \$749,241. This deficit reflects the seasonality of Dan's Papers, Dan's Hampton Style, Montauk Pioneer, and Dan's Hampton Sports (new in summer of 2004) which are resort area publications. The third fiscal quarter is the most significant in terms of revenues and operating income and is expected to fully fund the deficit. Included in the current liabilities is a \$600,000 payment due to the former minority shareholder of Dan's Papers, which amount can be paid in 2005 without violating the terms of the Company's agreement with the minority shareholder.

At June 30, 2004, there were no material changes in the ordinary course of business to the contractual obligations of the Company. The Company is not party to any off-balance sheet arrangements.

Historically, in addition to cash from operations, the Company has relied on financing in the form of sales of equity securities, sales of convertible notes, and a \$1,000,000 Revolving Credit Facility, extended by a shareholder which has since been terminated, to meet its working capital requirements. The Company also generated cash from sale of subsidiaries.

The Company is continuing to grow the operations of its core publications, Dan's Papers, Dan's Hampton Style and The Hill. These investments in operating costs during the six months ended June 30, 2004 were self-funded, in part, by the growth in advertising revenues. Dan's Hampton Style was originally introduced in 2003 to compliment Dan's Papers, its weekly newspaper. During the second quarter of 2004, the Company began expansion of the publication of Dan's Hampton Style and introduced Dan's Hampton Sports. In February of 2004, the Company continued weekly publication of a third issue of The Hill, which was published certain weeks of the fourth quarter of 2003. Previously in March 2003, the Company expanded publication of The Hill to twice a week on Tuesdays.

The Company intends to continue to finance these business initiatives and its existing liabilities from working capital, from additional sales of equity securities, from the installment payments due to the Company from the sale of

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subsidiaries or by a sale of assets. A total of \$1,400,000 was raised in 2003 from the sale of the Company's common stock and a total of \$661,000 was received in the first quarter of 2004, and \$175,000 in the

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second quarter of 2004 from payments due to the Company from the sale of publications. The Company believes that it will have sufficient working capital to fund its operations and obligations through December 31, 2004, due to the seasonality of Dan's Papers and the anticipated traditionally stronger third quarter results.

ITEM 3. CONTROLS AND PROCEDURES

As of June 30, 2004, the Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including the Company's consolidated subsidiaries) required to be included in periodic reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In designing and evaluating the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

There have not been any significant changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during our fiscal second quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

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

Item 1. Election of Directors.

The Company held its annual meeting on June 3, 2004. During the annual meeting, the stockholders elected James A. Finkelstein, Jerry Finkelstein, Wilbur L. Ross, Jr., Martin A. Bell, Gary Weiss, Martin Mendelsohn and Matthew Doull, to serve as directors for a term expiring at the next annual meeting:

Name of Director	Votes For	Votes Withheld
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James A. Finkelstein	8,743,109	9,014
Jerry Finkelstein	8,743,109	9,014
Wilbur L. Ross, Jr.	8,743,109	9,014
Martin A. Bell	8,743,109	9,014
Gary Weiss	8,749,554	2,569
Martin Mendelsohn	8,704,554	2,569
Matthew Doull	8,749,552	2,531

Item 2. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The stockholders ratified the selection of BDO Seidman LLP as the Company's independent registered public accounting firm for fiscal year 2004. There were 8,750,025 votes for ratification; 1,885 votes against; 213 votes abstaining; and no broker non-votes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

- 31.1+ Chief Executive Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2+ Chief Financial Officer's Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1+ Chief Executive Officer's Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2+ Chief Financial Officer's Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Indicates that exhibit is attached hereto.

Reports on Form 8-K:
None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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Date: August 23, 2004

/s/ James A. Finkelstein

James A. Finkelstein

President and Chief Executive Officer

Date: August 23, 2004

/s/ E. Paul Leishman

E. Paul Leishman

Chief Financial Officer