

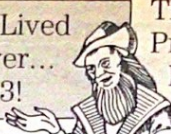
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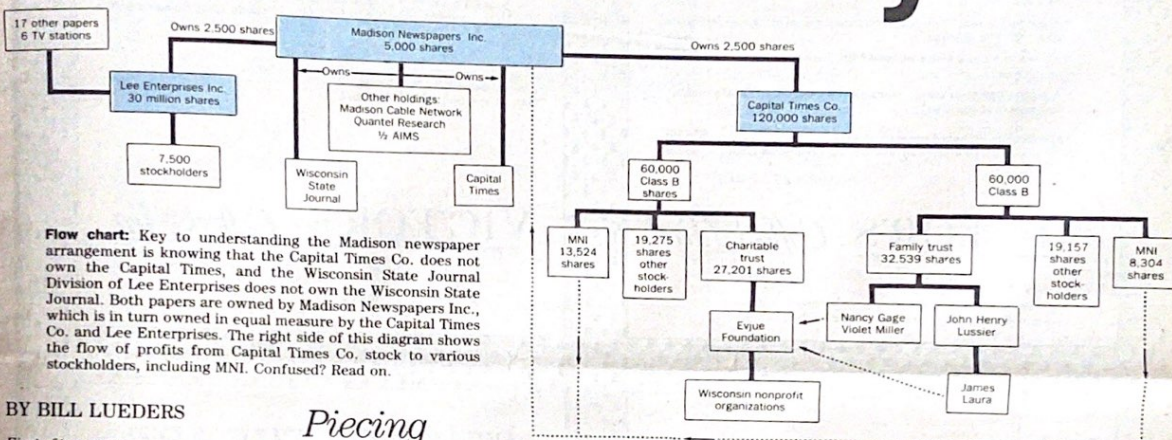
ISTHMUS

THE WEEKLY NEWSPAPER OF MADISON

SECOND CLASS
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AT MADISON, WI

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The MNI Story



Flow chart: Key to understanding the Madison newspaper arrangement is knowing that the Capital Times Co. does not own the Capital Times, and the Wisconsin State Journal Division of Lee Enterprises does not own the Wisconsin State Journal. Both papers are owned by Madison Newspapers Inc., which is in turn owned in equal measure by the Capital Times Co. and Lee Enterprises. The right side of this diagram shows the flow of profits from Capital Times Co. stock to various stockholders, including MNI. Confused? Read on.

BY BILL LUEDERS

First of two parts.

Few mysteries in Madison have withstood years of inquiry with more resilience than the operating agreement that binds the city's two daily newspapers, the Wisconsin State Journal and the Capital Times. The agreement, forged in 1948, established an enormously profitable joint operation at the same time that it

Piecing together Madison's most puzzling marriage pact.

preserved the fragile tradition of a two-paper town. It's an agreement that has often been debated, though seldom understood.

"This is a very complicated situation here in Madison," says Gordon Sinykin, legal counsel to the Capital Times Co. "Most people, when you explain it to them, are surprised that the Capital Times is owned not by the Capital Times

Co. but by MNI [Madison Newspapers Inc., a third entity created by the 1948 pact] and that the State Journal is owned not by Lee Enterprises but by MNI. And then, when you start explaining that the Capital Times Co. and Lee Enterprises each own half of MNI, people get all confused and mixed up." Indeed. The arrangement, whereby

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Culture in the City of Angels?

Underneath LA's glitzy exterior there beats the heart of a refined metropolis.

An accommodating city, Los Angeles is always ready to fulfill the expectations of its visitors. Step off the plane and all the cliched images soon turn into realities, from the bodybuilders on Venice Beach to the stars swallowing sushi in Beverly Hills. But somewhere among the freeway killers, amusement parks, mansions, canyons, wax museums and Cajun/Mexican delicatessens, there must be another L.A., one where culture means more than low-fat yogurt

TRAVEL

BY KRISTIN VISSER

and history does not begin with classic Steven Spielberg.

For those who seek something other than footprints in concrete and vacuous starlets (or vacuous stars, for that matter), the city does possess a hidden depth. If you require a more solid Midwestern approach to life, delve beneath that mindless, hedonistic exterior and you'll discover a stimulating mixture of art, history and architecture, topped off by an ethnic mix unequalled in any other city. And, of course, there's the almost perfect climate, the spectacular topography and the blue Pacific.

The first thing you'll need is a car. Rent one. Everyone drives everywhere in L.A. There are buses, but they take hours, sometimes days, to get across town. Along with the car, get a good map of the L.A. metropolitan area, and take off. The freeways really aren't bad if you study your map, plan ahead and avoid rush hour, which lasts from 6:30 to 9:30 a.m. and from 3:30 to 6:30 p.m. during the week. Weekends, the freeways are uncrowded (by L.A. standards).

Now, where should you go in that snappy red convertible? For more sophisticated pursuits than picking up bodybuilders on Venice pier, you might

want to trade up to a more refined vehicle, like a Mercedes sedan. We're talking heavy culture here.

FOLLOW THAT MUSE

A Mercedes will fit in perfectly at the J. Paul Getty Museum, which is right along the Pacific Coast Highway in *tres riche* Malibu. Thanks to a humongous endowment by the late billionaire Getty, the museum is among the richest in the world. Admission is free, but you have to call a week in advance to reserve your parking space (213-458-2003); the locals don't want tourist vehicles cluttering up the highway and parking in front of their hillside mansions.

The Getty and its surrounding gardens are a replica of a Roman villa destroyed by the eruption of Mount Vesuvius in A.D. 79. The museum is home to one of the world's most important collections of Greek and Roman antiquities, including marble and bronze sculptures, vases, mosaics and relief carvings. The antiquities are displayed on the museum's first floor in reproductions of Roman rooms, giving the viewer an idea of how the pieces originally may have been displayed.

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MNI STORY

Continued from Page 1

MNI handles all the business-side functions of production, advertising and distribution, has confounded even the staffers of the newspapers themselves. Capital Times editor Dave Zweifel recalls that in the 1960s the accord used to spark arguments among members of the Newspaper Guild: "I don't think anybody was really sure what the hell it was." Nor was the matter any clearer in 1977, when MNI precipitated a strike that resulted in five unions, including the Newspaper Guild, being driven from the plant.

To this day, serious misunderstandings exist at the highest level of the operation. Listen to Clayton Frink, general manager of Madison Newspapers Inc. and one of the Lee Enterprises representatives on the MNI board: "I don't know that Madison Newspapers owns the name of the newspapers; I don't believe that's true." Yet this is precisely the case—MNI owns and publishes both papers, and contracts with the companies that own it to provide editorial content.

If the folks at the dailies have a hard time grasping the complexities of the situation, they are in good company. For almost two decades the U.S. Justice Department formally considered the Madison papers to have a joint operating agreement (JOA) under the 1970 Newspaper Preservation Act, only to reverse its classification last year. And a 1982 Isthmus article on the local papers contained several false assumptions, the most serious of which was conveyed in the statement that the arrangement between them "is not unique."

This report is based on more than two dozen interviews and hundreds of pages of previously undisclosed internal documents. Part one traces the history of the agreement from its earliest inception to the present. Part two examines its legal and practical consequences.

LOVE AT FIRST BLIGHT

Significantly, the practice of business-side collaboration between the Wisconsin State Journal and the Capital Times preceded 1948 by more than a decade. In June 1934 the two papers entered an agreement whereby advertising was sold at a combination rate and net profits were divided on a 50-50 basis. To accomplish this, the two companies formed two new corporations, the Wisconsin State Journal Publishing Co. and Capital Times Publishing Co., each of whom owned all 500 shares of its own voting stock and all 500 shares of the other's nonvoting stock. Together, these two new corporations went by the name Madison Newspapers.

Key players in this early agreement, as well as the agreement in 1948, were William T. Evjue, editor and publisher of the Capital Times, and Don Anderson, associate publisher and (after 1942) publisher of the State Journal. Both men are now deceased.

Evjue, a feisty progressive, founded the Capital Times in 1917 (Dec. 13 marks the 70th anniversary of its first edition) after resigning due to editorial differences from the State Journal, where he had served as reporter, managing editor and finally business manager. The paper survived considerable adversity during its early years, thanks largely to Evjue's sale of \$1 stock to supporters.

Anderson, a prolific letter-writer and recorder of events, joined the State Journal shortly after it was acquired in 1919 by Lee Group Newspapers (later Lee Enterprises). Then as now, all business decisions affecting the State Journal were subject to the approval of the Lee firm's leaders in Davenport, Iowa.

According to Anderson, the original pact was "a shotgun wedding, conceived through the realization of both parties that we were broke." The agreement eliminated many competitive practices—which in turn had the effect of boosting profits and, more importantly, establishing the players'



STATE HISTORICAL SOCIETY OF WISCONSIN
William T. Evjue in 1953.

confidence in each other. (Evjue even began buying stock in the Times Co., a Lee group firm.)

But there were problems. Both papers needed new presses and more space; both were displeased with growing labor and production costs; and both were increasingly worried about being prosecuted under state and federal

antitrust statutes. In a long letter to E.P. Adler, then head of the Lee syndicate, Anderson noted that the papers had one close call in 1944 when they were investigated by the Department of Justice: "I think we got out of that trouble mainly because the person filing the charges based his complaint on a poor example of our practices."

Peter Carstensen, a UW law professor and antitrust expert who reviewed some of the internal documents, says the 1934 accord constituted a "blatant violation of antitrust laws," even under the relatively relaxed standards of the time. Although the papers would have disputed this, they knew they could not get away with the sort of extensive collusion they were contemplating. As Anderson wrote Adler: "...We preserve immunity only by refusing to make agreements affecting rates, advertising combinations or methods of doing business. That keeps us from doing many of the things that good business management would dictate."

So in December 1947 the two papers began drawing up a plan that would allow them to share printing and production facilities, fix prices and pool profits without violating antitrust laws. The means to this end was a consolidation. As Anderson put it, "[Since 1934] we have lived together in a common-law marriage and have gotten along well enough to go to the minister and have the rites solemnized."

MAKING IT OFFICIAL

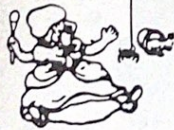
Producing two papers with a single press meant that one would have to be printed in the morning and one in the afternoon. Since both the State Journal and the Capital Times had always been afternoon papers, it was decided that whoever shifted to the morning field would get the Sunday paper to offset the anticipated circulation loss.

Evjue, who had built his paper around a blue-collar constituency that traditionally favored afternoon papers, wanted to retain the p.m. slot. Anderson, who years later boasted that his

Continued on Next Page

In December 1947 the two papers began drawing up a plan to share facilities, fix prices and pool profits.

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MNI STORY

Continued from Page 12
Fighting Editor, and an estate valued at more than \$3 million. The largest share of this was his majority holdings of the Capital Times Co.'s voting (Class A) and nonvoting (Class B) stocks.

(All Capital Times stock—60,000 shares each of Class A and Class B—is privately owned. There are 132 Class A and 140 Class B stockholders.)

Evjue's will directed that his 32,539 shares of Class A stock (54%) be used to establish the William T. Evjue Charitable Trust, with all dividends earmarked for the Evjue Foundation. Named as trustees were five members of Evjue's inner circle, including three relatives. Today all five trustees are members of Evjue's family.

The Evjue Foundation, charged with funding Wisconsin "religious, charitable, scientific or educational" organizations, was set up by Evjue in 1958 with a modest portfolio. After

Evjue's death, it became a major force. (During the year ending May 31, 1987, the foundation contributed a total of \$788,093 to more than 100 mostly local causes.)

Evjue's decision to create a charitable trust may not be as purely altruistic as it first appears. According to Irvin Kreisman, a retired Capital Times reporter and current stockholder, this was the only way Evjue could allow his select group to retain a majority interest—otherwise they would have had to sell a significant number of shares to pay inheritance taxes. "The irony of Evjue's life," says Kreisman, "is that he always editorialized against tax dodgers and left the biggest tax dodge of all when he wrote his will."

Eventually, Evjue's trustees did have to part with a significant number of shares. According to Capital Times publisher Frederick Miller, the Tax Reform Act of 1969 mandated that charitable foundations divest themselves of majority interest in any

private firm. And so the board unanimously assented to sell 5,338 shares...to MNI.

Why MNI? According to Miller, no one else wanted it. The stock, he says, "wasn't that hot at that time." The Methodist Hospital Foundation offers the same explanation for why it sold MNI the 7,477 shares of both Class A and B stock bequeathed to it in 1982 by the Capital Times' Harry Sage. Foundation head James Marshall says "we looked around for buyers and didn't exclude anyone," but only MNI was willing to pay the appraised price. A 1984 inventory just prior to the sale assessed the shares at \$2.2 million; Sage's estate received \$239,264 in dividend checks—better than 10% of value—in 1982.

At any rate, MNI, with other acquisitions, now owns 13,524 shares, or 22% of the voting stock of the Capital Times Co., as well as 8,304 shares of Class B stock. The implication of this arrangement is that more than

one-sixth of the dividends MNI pays to the Capital Times Co. return to MNI to be divided again with its other shareholder, Lee Enterprises. This appears as inefficient as it is peculiar, as taxes must be paid each time dividends are issued.

Miller says that under the same IRS law that forced the first sale, the charitable trust will have to get down to 35% ownership of the Capital Times Co. by 1996. (As in the earlier case, all proceeds from sold shares will be used to buy other stock.) He insists that 35% will still be enough to retain effective control.

But what if this impending sale of shares—a total of 6,201—is also made to MNI? That would give MNI 19,725 shares, or 32% of the voting stock, only 3% less than the trust. Wouldn't MNI then be in a position to gain control? Not a chance, says Miller: The MNI board can't do anything without the approval of its Capital Times Co. reps.

Continued on Page 16

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MNI STORY

Continued from Page 14

ALL IN THE FAMILY

Evjue's will also established a second, equally substantial trust. Bequeathed to the Evjue Family Trust were all 32,539 shares of his Class B (nonvoting) stock, along with a small portfolio of other stocks. Evjue directed that the dividends from these stocks be divided equally between two sets of relatives—three on his side of the family and three on the side of his deceased wife. Upon the death of any of these six individuals, the money would go to "their children in being [i.e., already born] at the time of my death," or, if their were none, divided up among the remaining heirs in each set of three.

Currently, the trust has three recipients—Nancy Gage, daughter of Frederick Gage, whose deceased wife was Mrs. Evjue's niece; Violet Bagley Miller, Mrs. Evjue's other niece and the wife of Fred Miller; and John Henry Lussier, Evjue's nephew and only remaining blood relative. Because Lussier is the only survivor on Mr. Evjue's side, he receives roughly half of the dividends, while the other half is split between Violet Miller and Nancy Gage.

For the year ending March 31, 1987, Lussier received \$457,990.50 in dividends from the family trust, and Mrs. Miller and Gage each received \$233,555.32. During this year the trust received \$943,631 in dividends on its 32,539 shares of Class B stock, or \$29 per share. These shares, approximately one-fourth of the Capital Times Co.'s 120,000 total, had an assessed market value of \$13,829,075, or \$425 each.

At \$29 per share, that means the Capital Times Co. paid its stockholders \$3.4 million for this fiscal year. Because all MNI dividends are passed directly on to Capital Times Co. stockholders—the company as such having no operating expenses—and because the Capital Times Co.'s 2,500 shares of MNI constitute more than 90% of its holdings, these dividends serve as a relatively



BRENNI MCGASTON

accurate measure of MNI's profitability. In other words, for the fiscal year ending March 31, 1987, MNI's dividends to its two stockholders—the Capital Times Co. and Lee Enterprises—must have totaled around \$7 million.

(Besides the two newspapers, MNI owns Madison Cable Network, which sells advertising for local cable channels and runs cable channel 25; Quantel Research, a market research arm; and half of Audience Information Measurement Systems, which makes television monitors. The company also prints the regional edition of the Chicago Tribune and such papers as the Badger Herald. Miller confirms that MNI does about \$30 million in total sales per year.)

The trustees of these various arrangements aren't doing too poorly either. Fred Miller, Violet Miller, Fred Gage, Nancy Gage and Lussier all serve on the Evjue Foundation, which meets quarterly and pays its directors \$4,800 each per year, and the charitable trust, which meets roughly twice as often and pays \$7,200. These five individuals also serve on the Capital Times Co. board and are the company's representatives on the MNI board, for which they

Apparently, MNI's two stockholders are splitting around \$7 million in profits on \$30 million in sales per year.

receive undisclosed additional fees. Lussier, Fred Miller and Fred Gage also serve on the board of the Evjue Family Trust, which after a raise they gave themselves last December is paying \$9,000 per year.

In the case of Violet Miller, Nancy Gage and Lussier, these fees are in addition to the nearly \$1 million annually they split among themselves in family trust dividends. In the case of publisher Miller, they are in addition to his salary.

MONUMENT

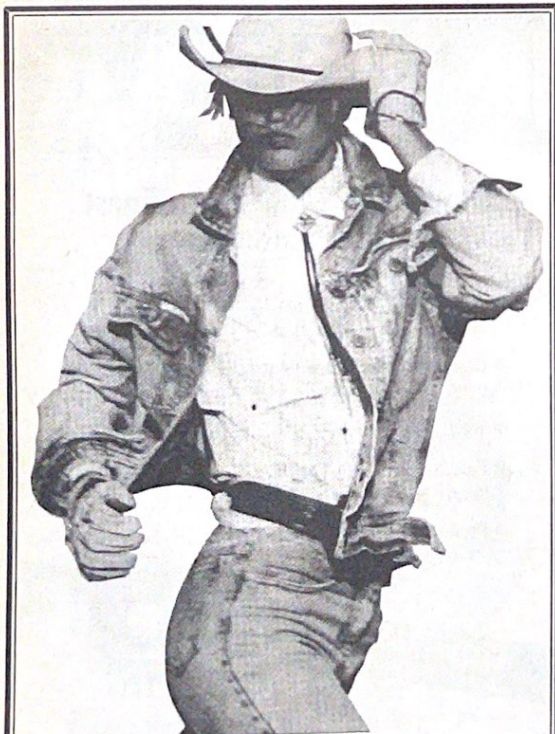
A final provision of Evjue's will insures

that if MNI's tremendous profitability continues, Madison as a whole will ultimately benefit. Upon the death of the last heirs on each side of the Evjue Family Trust, the assets of that half of the trust are to be "distributed absolutely" to the Evjue Foundation to carry on its charitable activities.

Violet Miller, 71, and Nancy Gage, 35, are the last in line for benefits on Mrs. Evjue's side; John Henry Lussier has two children, Laura and James, both in their 30s, who upon his death will receive his half-share of benefits. Upon the death of these individuals, or 30 years after the death of the last original trustee (Lussier, Fred Miller and Fred Gage remain)—whichever comes first—the assets of the trust will go to the foundation, and the amount of money available for distribution to area causes will more than double.

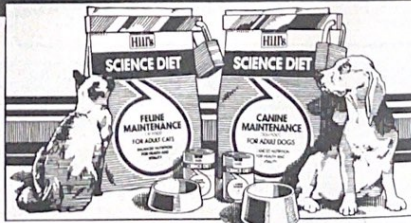
"When the foundation gets control of this stock, it will really be something for the city of Madison," says Miller. "[Evjue] was always interested in public welfare. His will is a lasting monument to his concern for the people who've never had a chance." ■

Next week: The rest of the story.



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