

MEDIA GENERAL INC  
Form 10-Q  
November 04, 2004  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC. 20549

---

**Form 10-Q**

---

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 26, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-6383

---

**MEDIA GENERAL, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: MEDIA GENERAL INC - Form 10-Q

---

Commonwealth of Virginia  
(State or other jurisdiction of

54-0850433  
(I.R.S. Employer

incorporation or organization)

Identification No.)

333 E. Franklin St., Richmond, VA  
(Address of principal executive offices)

23219  
(Zip Code)

(804) 649-6000

(Registrant's telephone number, including area code)

N/A

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

---

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 2, 2004.

Class A Common shares:	23,174,808
Class B Common shares:	555,992

---

**Table of Contents**

MEDIA GENERAL, INC.

TABLE OF CONTENTS

FORM 10-Q REPORT

September 26, 2004

	<b>Page</b>
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Condensed Balance Sheets – September 26, 2004, and December 28, 2003</u>	1
<u>Consolidated Condensed Statements of Operations – Third quarter and nine months ended September 26, 2004, and September 28, 2003</u>	3
<u>Consolidated Condensed Statements of Cash Flows – Nine months ended September 26, 2004, and September 28, 2003</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 4. <u>Controls and Procedures</u>	25
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	25
Item 6. <u>Exhibits</u>	25
<u>Signatures</u>	26

**Table of Contents**

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

	(Unaudited)	
	September 26,	December 28,
	2004	2003
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,150	\$ 10,575
Accounts receivable - net	104,738	113,226
Inventories	7,751	6,171
Other	40,534	32,649
	<u>          </u>	<u>          </u>
Total current assets	162,173	162,621
	<u>          </u>	<u>          </u>
Investments in unconsolidated affiliates	90,328	89,994
Other assets	57,922	60,277
Property, plant and equipment - net	428,146	434,088
Excess of cost over fair value of net identifiable assets of acquired businesses - net	832,004	832,004
FCC licenses and other intangibles - net	795,444	807,771
	<u>          </u>	<u>          </u>
	<u>\$ 2,366,017</u>	<u>\$ 2,386,755</u>

See accompanying notes.

**Table of Contents**

## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

	(Unaudited)	
	September 26, 2004	December 28, 2003
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,898	\$ 22,210
Accrued expenses and other liabilities	89,406	83,424
Income taxes payable		8,769
	<u>          </u>	<u>          </u>
Total current liabilities	111,304	114,403
	<u>          </u>	<u>          </u>
Long-term debt	485,454	531,969
Borrowings of consolidated variable interest entities	95,320	95,320
Deferred income taxes	379,284	362,769
Other liabilities and deferred credits	146,861	174,833
Stockholders' equity:		
Preferred stock (\$5 cumulative convertible), par value \$5 per share:		
Authorized 5,000,000 shares; none outstanding		
Common stock, par value \$5 per share:		
Class A, authorized 75,000,000 shares; issued 23,172,200 and 22,989,506 shares	115,861	114,947
Class B, authorized 600,000 shares; issued 555,992 shares	2,780	2,780
Additional paid-in capital	43,705	34,595
Accumulated other comprehensive loss	(51,371)	(50,984)
Unearned compensation	(9,974)	(11,670)
Retained earnings	1,046,793	1,017,793
	<u>          </u>	<u>          </u>
Total stockholders' equity	1,147,794	1,107,461
	<u>          </u>	<u>          </u>
	<u>\$ 2,366,017</u>	<u>\$ 2,386,755</u>

See accompanying notes.

**Table of Contents**

## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(000 s except for per share data)

	Third Quarter Ended		Nine Months Ended	
	Sept. 26, 2004	Sept. 28, 2003	Sept. 26, 2004	Sept. 28, 2003
Revenues	\$ 217,644	\$ 205,086	\$ 650,690	\$ 611,890
Operating costs:				
Production	94,333	89,487	280,037	267,007
Selling, general and administrative	75,876	73,089	230,757	218,021
Depreciation and amortization	15,709	16,327	49,280	49,976
Total operating costs	185,918	178,903	560,074	535,004
Operating income	31,726	26,183	90,616	76,886
Other income (expense):				
Interest expense	(7,643)	(8,409)	(23,171)	(26,262)
Investment income (loss) unconsolidated affiliates	523	(1,044)	330	(4,552)
Other, net	335	1,295	1,028	9,530
Total other expense	(6,785)	(8,158)	(21,813)	(21,284)
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	24,941	18,025	68,803	55,602
Income taxes	9,228	6,580	25,457	20,297
Income from continuing operations before cumulative effect of change in accounting principle	15,713	11,445	43,346	35,305
Income from discontinued operations (net of tax)		301		957
Cumulative effect of change in accounting principle (net of income tax benefit)		(8,079)		(8,079)
Net income	\$ 15,713	\$ 3,667	\$ 43,346	\$ 28,183
Earnings per common share:				
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.67	\$ 0.50	\$ 1.86	\$ 1.53
Discontinued operations		0.01		0.04
Cumulative effect of change in accounting principle		(0.35)		(0.35)
Net income	\$ 0.67	\$ 0.16	\$ 1.86	\$ 1.22
Earnings per common share assuming dilution:				

Edgar Filing: MEDIA GENERAL INC - Form 10-Q

Income from continuing operations before cumulative effect of change in accounting principle	0.66	\$ 0.49	\$ 1.83	\$ 1.51
Discontinued operations		0.01		0.04
Cumulative effect of change in accounting principle		(0.34)		(0.34)
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Net income	\$ 0.66	\$ 0.16	\$ 1.83	\$ 1.21
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Dividends paid per common share	\$ 0.20	\$ 0.19	\$ 0.60	\$ 0.57
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>

See accompanying notes.

**Table of Contents**

## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

	Nine Months Ended	
	September 26, 2004	September 28, 2003
Operating activities:		
Net income	\$ 43,346	\$ 28,183
Adjustments to reconcile net income:		
Cumulative effect of change in accounting principle		8,079
Depreciation and amortization	49,280	50,034
Deferred income taxes	21,844	17,710
Investment (income) loss - unconsolidated affiliates	(330)	4,552
Gain on sale of investment		(5,746)
Retirement plan contributions	(35,014)	(21,000)
Change in assets and liabilities:		
Accounts receivable and inventories	6,908	7,088
Accounts payable, accrued expenses, and other liabilities	1,331	(1,136)
Income taxes payable	(11,872)	(1,844)
Reduction in advance from unconsolidated newsprint affiliate		(6,667)
Other	4,232	307
Net cash provided by operating activities	<u>79,725</u>	<u>79,560</u>
Investing activities:		
Capital expenditures	(29,505)	(22,761)
Proceeds from sale of investment		16,840
Contribution to unconsolidated newsprint affiliate		(2,000)
Purchase of investments	(2,147)	(3,185)
Other, net	1,384	26
Net cash used by investing activities	<u>(30,268)</u>	<u>(11,080)</u>
Financing activities:		
Increase in debt	244,500	216,000
Payment of debt	(291,015)	(277,464)
Dividends paid	(14,208)	(13,328)
Other, net	9,841	3,326
Net cash used by financing activities	<u>(50,882)</u>	<u>(71,466)</u>
Net decrease in cash and cash equivalents	(1,425)	(2,986)
Cash and cash equivalents at beginning of year	10,575	11,279
Cash and cash equivalents at end of period	<u>\$ 9,150</u>	<u>\$ 8,293</u>

Edgar Filing: MEDIA GENERAL INC - Form 10-Q

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest (net of amount capitalized)	\$ 25,068	\$ 24,178
Income taxes	\$ 11,807	\$ 8,460

See accompanying notes.

**Table of Contents**

## MEDIA GENERAL, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting, and with applicable quarterly reporting regulations of the Securities and Exchange Commission. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 28, 2003.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of interim financial information, have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full fiscal year. Certain prior-year financial information has been reclassified to conform with the current year's presentation.

2. Inventories are principally raw materials (primarily newsprint).

3. In March 2003, the Company sold its shares of Hoover's (a provider of business information) for \$16.8 million and reported a gain of \$5.7 million (\$3.7 million net of income taxes) which is included in the line item Other, net. Proceeds from the sale were used to repay debt.

4. The following table provides the components of net periodic benefit cost for the Company's benefit plans for the third quarter and nine months ended 2004 and 2003:

	Third Quarter Ended			
	Pension Benefits		Other Benefits	
	September 26, 2004	September 28, 2003	September 26, 2004	September 28, 2003
	(In thousands)			
Service cost	\$ 3,072	\$ 2,769	\$ 99	\$ 97
Interest cost	5,210	4,901	515	635
Expected return on plan assets	(6,154)	(5,489)		
Amortization of prior-service cost	88	111		
Amortization of net loss	1,051		42	99
Net periodic benefit cost	\$ 3,267	\$ 2,292	\$ 656	\$ 831

Edgar Filing: MEDIA GENERAL INC - Form 10-Q

	Nine Months Ended			
	Pension Benefits		Other Benefits	
	September 26, 2004	September 28, 2003	September 26, 2004	September 28, 2003
Service cost	\$ 9,215	\$ 8,306	\$ 297	\$ 292
Interest cost	15,631	14,703	1,544	1,905
Expected return on plan assets	(18,463)	(16,467)		
Amortization of prior-service cost	264	333		
Amortization of net loss	3,153		126	297
Net periodic benefit cost	<u>\$ 9,800</u>	<u>\$ 6,875</u>	<u>\$ 1,967</u>	<u>\$ 2,494</u>

**Table of Contents**

In December of 2003 Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act reformed Medicare in such a way that the Company expects to receive subsidy payments beginning in 2006 for continuing retiree prescription drug benefits and expects a reduction in the rate of participation by current employees in the plan. In the second quarter, based on currently available guidance, the Company adopted (retroactive to the beginning of 2004) FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. Upon retroactive adoption of the Act, the accumulated postretirement benefit obligation (APBO) was reduced by \$5.6 million, which resulted in a decrease in the Company's net periodic postretirement benefit cost of approximately \$195,000 for each of the first two quarters of 2004. A comparable decrease was recognized in the third quarter and a similar decrease is anticipated in the final quarter of the year. Certain definitions and interpretations, yet to be issued by the federal government, could require the Company to adjust future estimates.

5. The following table sets forth the Company's current and prior-year financial performance by segment for 2004:

<i>(In thousands)</i>	<u>Publishing</u>	<u>Broadcasting</u>	<u>Interactive Media</u>	<u>Eliminations</u>	<u>Total</u>
<b>Three Months Ended September 26, 2004</b>					
Consolidated revenues	\$ 137,659	\$ 77,308	\$ 3,526	\$ (849)	\$ 217,644
Segment operating cash flow	\$ 35,286	\$ 24,397	\$ (1,202)		\$ 58,481
Allocated amounts:					
Equity in net income of unconsolidated affiliate	207				207
Depreciation and amortization	(5,847)	(4,215)	(303)		(10,365)
Segment profit (loss)	\$ 29,646	\$ 20,182	\$ (1,505)		48,323
Unallocated amounts:					
Interest expense					(7,643)
Investment income - SP Newsprint					316
Acquisition intangibles amortization					(4,109)
Corporate expense					(9,636)
Other					(2,310)
Consolidated income before income taxes					\$ 24,941
<b>Three Months Ended September 28, 2003</b>					
Consolidated revenues	\$ 132,226	\$ 70,865	\$ 2,612	\$ (617)	\$ 205,086
Segment operating cash flow	\$ 34,453	\$ 20,585	\$ (1,396)		\$ 53,642
Allocated amounts:					
Equity in net income of unconsolidated affiliate	170				170
Depreciation and amortization	(6,434)	(5,245)	(319)		(11,998)
Segment profit (loss)	\$ 28,189	\$ 15,340	\$ (1,715)		41,814
Unallocated amounts:					
Interest expense					(8,409)
Investment loss - SP Newsprint					(1,214)
Acquisition intangibles amortization					(3,012)
Corporate expense					(9,575)
Other					(1,579)

Consolidated income from continuing operations before income taxes and cumulative effect of change in accounting principle	<u>\$ 18,025</u>
---	------------------

**Table of Contents**

<i>(In thousands)</i>	<b>Publishing</b>	<b>Broadcasting</b>	<b>Interactive Media</b>	<b>Eliminations</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Nine Months Ended September 26, 2004</b>					
Consolidated revenues	\$ 413,893	\$ 229,434	\$ 10,010	\$ (2,647)	\$ 650,690
Segment operating cash flow	\$ 105,023	\$ 73,175	\$ (3,625)		\$ 174,573
Allocated amounts:					
Equity in net income of unconsolidated affiliate	355				355
Depreciation and amortization	(17,771)	(14,183)	(1,053)		(33,007)
Segment profit (loss)	\$ 87,607	\$ 58,992	\$ (4,678)		141,921
Unallocated amounts:					
Interest expense					(23,171)
Investment loss - SP Newsprint					(25)
Acquisition intangibles amortization					(12,327)
Corporate expense					(30,994)
Other					