

MEDIA GENERAL INC  
Form 10-Q  
August 05, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC. 20549

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**Form 10-Q**

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

For the quarterly period ended June 27, 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

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**MEDIA GENERAL, INC.**

(Exact name of registrant as specified in its charter)

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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.)

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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 August 1, 2004.

|                        |            |
|------------------------|------------|
| Class A Common shares: | 23,171,157 |
| Class B Common shares: | 555,992    |

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June 27, 2004

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

|  | (Unaudited)<br>June 27,<br>2004 | December 28,<br>2003 |
|--|---------------------------------|----------------------|
|  | <u>          </u>               | <u>          </u>    |
| <b>ASSETS</b>  |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$ 9,834                        | \$ 10,575            |
| Accounts receivable - net  | 109,015                         | 113,226              |
| Inventories  | 7,039                           | 6,171                |
| Other  | 27,328                          | 32,649               |
|  | <u>          </u>               | <u>          </u>    |
| Total current assets   | 153,216                         | 162,621              |
|  | <u>          </u>               | <u>          </u>    |
| Investments in unconsolidated affiliates   | 89,804                          | 89,994               |
| Other assets   | 59,526                          | 60,277               |
| Property, plant and equipment - net  | 430,297                         | 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   | 799,553                         | 807,771              |
|  | <u>          </u>               | <u>          </u>    |
|  | <u>\$ 2,364,400</u>             | <u>\$ 2,386,755</u>  |

See accompanying notes.

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## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

|  | (Unaudited)<br>June 27,<br>2004 | December 28,<br>2003 |
|--|---------------------------------|----------------------|
|  | <u>          </u>               | <u>          </u>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                    |                                 |                      |
| Current liabilities:   |                                 |                      |
| Accounts payable   | \$ 21,158                       | \$ 22,210            |
| Accrued expenses and other liabilities   | 78,148                          | 83,424               |
| Income taxes payable   | 1,536                           | 8,769                |
|  | <u>          </u>               | <u>          </u>    |
| Total current liabilities  | 100,842                         | 114,403              |
|  | <u>          </u>               | <u>          </u>    |
| Long-term debt   | 513,952                         | 531,969              |
| Borrowings of consolidated variable interest entities                          | 95,320                          | 95,320               |
| Deferred income taxes  | 374,493                         | 362,769              |
| Other liabilities and deferred credits   | 142,225                         | 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 23,171,101 and 22,989,506 shares | 115,855                         | 114,947              |
| Class B, authorized 600,000 shares; issued 555,992 shares                      | 2,780                           | 2,780                |
| Additional paid-in capital   | 43,634                          | 34,595               |
| Accumulated other comprehensive loss   | (50,037)                        | (50,984)             |
| Unearned compensation  | (10,539)                        | (11,670)             |
| Retained earnings  | 1,035,875                       | 1,017,793            |
|  | <u>          </u>               | <u>          </u>    |
| Total stockholders' equity   | 1,137,568                       | 1,107,461            |
|  | <u>          </u>               | <u>          </u>    |
|  | <u>\$ 2,364,400</u>             | <u>\$ 2,386,755</u>  |

See accompanying notes.

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## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(000 s except for per share data)

|   | Second Quarter Ended |                  | Six Months Ended |                  |
|---|----------------------|------------------|------------------|------------------|
|   | June 27,<br>2004     | June 29,<br>2003 | June 27,<br>2004 | June 29,<br>2003 |
| Revenues  | \$ 224,890           | \$ 210,715       | \$ 433,046       | \$ 406,803       |
| Operating costs:                                      |                      |                  |                  |                  |
| Production  | 92,608               | 87,455           | 185,704          | 177,520          |
| Selling, general and administrative                   | 79,614               | 71,515           | 154,881          | 144,931          |
| Depreciation and amortization                         | 16,303               | 16,576           | 33,571           | 33,649           |
| Total operating costs                                 | 188,525              | 175,546          | 374,156          | 356,100          |
| Operating income                                      | 36,365               | 35,169           | 58,890           | 50,703           |
| Other income (expense):                               |                      |                  |                  |                  |
| Interest expense                                      | (7,557)              | (7,985)          | (15,528)         | (17,853)         |
| Investment loss - unconsolidated affiliates           | (24)                 | (1,292)          | (193)            | (3,508)          |
| Other, net  | 634                  | 1,255            | 693              | 8,235            |
| Total other expense                                   | (6,947)              | (8,022)          | (15,028)         | (13,126)         |
| Income from continuing operations before income taxes | 29,418               | 27,147           | 43,862           | 37,577           |
| Income taxes  | 10,885               | 9,909            | 16,229           | 13,717           |
| Income from continuing operations                     | 18,533               | 17,238           | 27,633           | 23,860           |
| Income from discontinued operations (net of tax)      |                      | 267              |                  | 656              |
| Net income  | \$ 18,533            | \$ 17,505        | \$ 27,633        | \$ 24,516        |
| Earnings per common share:                            |                      |                  |                  |                  |
| Income from continuing operations                     | \$ 0.79              | \$ 0.75          | \$ 1.19          | \$ 1.03          |
| Discontinued operations                               |                      | 0.01             |                  | 0.03             |
| Net income  | \$ 0.79              | \$ 0.76          | \$ 1.19          | \$ 1.06          |
| Earnings per common share - assuming dilution:        |                      |                  |                  |                  |
| Income from continuing operations                     | \$ 0.78              | \$ 0.74          | \$ 1.16          | \$ 1.02          |
| Discontinued operations                               |                      | 0.01             |                  | 0.03             |
| Net income  | \$ 0.78              | \$ 0.75          | \$ 1.16          | \$ 1.05          |

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|                                 |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
| Dividends paid per common share | \$ 0.20 | \$ 0.19 | \$ 0.40 | \$ 0.38 |
|---------------------------------|---------|---------|---------|---------|

See accompanying notes.

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## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

|  | Six Months Ended |                  |
|--|------------------|------------------|
|  | June 27,<br>2004 | June 29,<br>2003 |
| <b>Operating activities:</b>                                 |                  |                  |
| Net income   | \$ 27,633        | \$ 24,516        |
| <b>Adjustments to reconcile net income:</b>                  |                  |                  |
| Depreciation and amortization                                | 33,571           | 33,692           |
| Deferred income taxes  | 15,727           | 6,191            |
| Investment loss - unconsolidated affiliates                  | 193              | 3,508            |
| Gain on sale of investment                                   |                  | (5,746)          |
| <b>Change in assets and liabilities:</b>                     |                  |                  |
| Retirement plan contribution                                 | (35,014)         |                  |
| Income taxes payable   | (7,202)          | 1,468            |
| Reduction in advance from unconsolidated newsprint affiliate |                  | (6,000)          |
| Other, net   | 2,674            | 1,751            |
| <b>Net cash provided by operating activities</b>             | <b>37,582</b>    | <b>59,380</b>    |
| <b>Investing activities:</b>                                 |                  |                  |
| Capital expenditures   | (19,604)         | (14,490)         |
| Proceeds from sale of investment                             |                  | 16,840           |
| Other, net   | (1,067)          | (3,449)          |
| <b>Net cash used by investing activities</b>                 | <b>(20,671)</b>  | <b>(1,099)</b>   |
| <b>Financing activities:</b>                                 |                  |                  |
| Increase in debt   | 172,000          | 130,000          |
| Payment of debt  | (190,017)        | (180,994)        |
| Dividends paid   | (9,463)          | (8,881)          |
| Other, net   | 9,828            | 780              |
| <b>Net cash used by financing activities</b>                 | <b>(17,652)</b>  | <b>(59,095)</b>  |
| <b>Net decrease in cash and cash equivalents</b>             | <b>(741)</b>     | <b>(814)</b>     |
| Cash and cash equivalents at beginning of year               | 10,575           | 11,279           |
| <b>Cash and cash equivalents at end of period</b>            | <b>\$ 9,834</b>  | <b>\$ 10,465</b> |

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:



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|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Interest (net of amount capitalized) | \$ 13,963 | \$ 16,548 |
| Income taxes                         | \$ 4,027  | \$ 6,314  |

See accompanying notes.

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## 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 second quarter and six months ended 2004 and 2003:

| <i>(In thousands)</i>              | Second Quarter Ended |                  |                  |                  |
|------------------------------------|----------------------|------------------|------------------|------------------|
|                                    | Pension Benefits     |                  | Other Benefits   |                  |
|                                    | June 27,<br>2004     | June 29,<br>2003 | June 27,<br>2004 | June 29,<br>2003 |
| Service cost                       | \$ 3,156             | \$ 2,769         | \$ 81            | \$ 98            |
| Interest cost                      | 5,323                | 4,901            | 412              | 635              |
| Expected return on plan assets     | (6,053)              | (5,489)          |                  |                  |
| Amortization of prior-service cost | (789)                | 111              |                  |                  |
| Amortization of net loss           | 2,102                |                  | (79)             | 99               |
| <b>Net periodic benefit cost</b>   | <b>\$ 3,739</b>      | <b>\$ 2,292</b>  | <b>\$ 414</b>    | <b>\$ 832</b>    |

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| <i>(In thousands)</i>              | Six Months Ended |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
|                                    | Pension Benefits |                  | Other Benefits   |                  |
|                                    | June 27,<br>2004 | June 29,<br>2003 | June 27,<br>2004 | June 29,<br>2003 |
| Service cost                       | \$ 6,143         | \$ 5,537         | \$ 198           | \$ 195           |
| Interest cost                      | 10,421           | 9,802            | 1,029            | 1,270            |
| Expected return on plan assets     | (12,309)         | (10,978)         |                  |                  |
| Amortization of prior-service cost | 176              | 222              |                  |                  |
| Amortization of net loss           | 2,102            |                  | 84               | 198              |
| Net periodic benefit cost          | <u>\$ 6,533</u>  | <u>\$ 4,583</u>  | <u>\$ 1,311</u>  | <u>\$ 1,663</u>  |

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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 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, accumulated postretirement benefit obligation (APBO) was reduced by \$5.6 million, which resulted in a reduction in net periodic postretirement benefit cost of approximately \$195,000 for each of the first two quarters of 2004, with similar reductions anticipated for the last two quarters 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>                            | Interactive |              |            |              | Total      |
|--|-------------|--------------|------------|--------------|------------|
|  | Publishing  | Broadcasting | Media      | Eliminations |            |
| <b>Three Months Ended June 27, 2004</b>          |             |              |            |              |            |
| Consolidated revenues                            | \$ 140,586  | \$ 81,869    | \$ 3,475   | \$ (1,040)   | \$ 224,890 |
| Segment operating cash flow                      | \$ 37,791   | \$ 28,882    | \$ (1,139) |              | \$ 65,534  |
| Allocated amounts:                               |             |              |            |              |            |
| Equity in net income of unconsolidated affiliate | 48          |              |            |              | 48         |
| Depreciation and amortization                    | (5,929)     | (4,551)      | (360)      |              | (10,840)   |
| Segment profit (loss)                            | \$ 31,910   | \$ 24,331    | \$ (1,499) |              | 54,742     |
| Unallocated amounts:                             |             |              |            |              |            |
| Interest expense                                 |             |              |            |              | (7,557)    |
| Investment loss - SP Newsprint                   |             |              |            |              | (72)       |
| Acquisition intangibles amortization             |             |              |            |              | (4,109)    |
| Corporate expense                                |             |              |            |              | (11,284)   |
| Other  |             |              |            |              | (2,302)    |
| Consolidated income before income taxes          |             |              |            |              | \$ 29,418  |
| <b>Three Months Ended June 29, 2003</b>          |             |              |            |              |            |
| Consolidated revenues                            | \$ 135,005  | \$ 74,002    | \$ 2,275   | \$ (567)     | \$ 210,715 |
| Segment operating cash flow                      | \$ 37,895   | \$ 25,512    | \$ (1,302) |              | \$ 62,105  |
| Allocated amounts:                               |             |              |            |              |            |
| Equity in net income of unconsolidated affiliate | 279         |              |            |              | 279        |
| Depreciation and amortization                    | (6,523)     | (5,505)      | (436)      |              | (12,464)   |
| Segment profit (loss)                            | \$ 31,651   | \$ 20,007    | \$ (1,738) |              | 49,920     |
| Unallocated amounts:                             |             |              |            |              |            |
| Interest expense                                 |             |              |            |              | (7,985)    |
| Investment loss - SP Newsprint                   |             |              |            |              | (1,571)    |
| Acquisition intangibles amortization             |             |              |            |              | (2,990)    |
| Corporate expense                                |             |              |            |              | (8,549)    |
| Other  |             |              |            |              | (1,678)    |

Consolidated income from continuing operations before  
income taxes

\$ 27,147

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| <i>(In thousands)</i>  | <b>Publishing</b> | <b>Broadcasting</b> | <b>Interactive<br/>Media</b> | <b>Eliminations</b> | <b>Total</b> |
|--|-------------------|---------------------|------------------------------|---------------------|--------------|
| <b>Six Months Ended June 27, 2004</b>                              |                   |                     |                              |                     |              |
| Consolidated revenues  | \$ 276,234        | \$ 152,126          | \$ 6,484                     | \$ (1,798)          | \$ 433,046   |
| Segment operating cash flow  | \$ 69,737         | \$ 48,778           | \$ (2,423)                   |                     | \$ 116,092   |
| Allocated amounts:   |                   |                     |                              |                     |              |
| Equity in net income of unconsolidated affiliate                   | 148               |                     |                              |                     | 148          |
| Depreciation and amortization                                      | (11,924)          | (9,968)             | (750)                        |                     | (22,642)     |
| Segment profit (loss)  | \$ 57,961         | \$ 38,810           | \$ (3,173)                   |                     | 93,598       |
| Unallocated amounts:   |                   |                     |                              |                     |              |
| Interest expense   |                   |                     |                              |                     | (15,528)     |
| Investment loss - SP Newsprint                                     |                   |                     |                              |                     | (341)        |
| Acquisition intangibles amortization                               |                   |                     |                              |                     | (8,218)      |
| Corporate expense  |                   |                     |                              |                     | (21,358)     |
| Other  |                   |                     |                              |                     | (4,291)      |
| Consolidated income before income taxes                            |                   |                     |                              |                     | \$ 43,862    |
| <b>Six Months Ended June 29, 2003</b>                              |                   |                     |                              |                     |              |
| Consolidated revenues  | \$ 265,372        | \$ 138,134          | \$ 4,412                     | \$ (1,115)          | \$ 406,803   |
| Segment operating cash flow  | \$ 68,316         | \$ 40,348           | \$ (2,616)                   |                     | \$ 106,048   |
| Allocated amounts:   |                   |                     |                              |                     |              |
| Equity in net income of unconsolidated affiliate                   | 176               |                     |                              |                     | 176          |
| Gain on sale of Hoover's common stock                              |                   |                     | 5,746                        |                     | 5,746        |
| Depreciation and amortization                                      | (13,264)          | (11,219)            | (873)                        |                     | (25,356)     |
| Segment profit   | \$ 55,228         | \$ 29,129           | \$ 2,257                     |                     | 86,614       |
| Unallocated amounts:   |                   |                     |                              |                     |              |
| Interest expense   |                   |                     |                              |                     | (17,853)     |
| Investment loss - SP Newsprint                                     |                   |                     |                              |                     | (3,684)      |
| Acquisition intangibles amortization                               |                   |                     |                              |                     | (6,031)      |
| Corporate expense  |                   |                     |                              |                     | (18,099)     |
| Other  |                   |                     |                              |                     | (3,370)      |
| Consolidated income from continuing operations before income taxes |                   |                     |                              |                     | \$ 37,577    |

6. The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

| <i>(In thousands, except per share amounts)</i> | <b>Quarter Ended June 27, 2004</b> | <b>Quarter Ended June 29, 2003</b> |
|---|------------------------------------|------------------------------------|
|---|------------------------------------|------------------------------------|

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|   | <u>Income</u><br>(Numerator) | <u>Shares</u><br>(Denominator) | <u>Per Share</u><br><u>Amount</u> | <u>Income</u><br>(Numerator) | <u>Shares</u><br>(Denominator) | <u>Per Share</u><br><u>Amount</u> |
|---|------------------------------|--------------------------------|-----------------------------------|------------------------------|--------------------------------|-----------------------------------|
| <i>Basic EPS</i>  |                              |                                |                                   |                              |                                |                                   |
| Income from continuing operations available to common stockholders                          | \$ 18,533                    | 23,364                         | \$ 0.79                           | \$ 17,238                    | 23,044                         | \$ 0.75                           |
| <i>Effect of dilutive securities</i>  |                              |                                |                                   |                              |                                |                                   |
| Stock options   |                              | 225                            |                                   |                              | 127                            |                                   |
| Restricted stock and other  | (7)                          | 202                            |                                   | (15)                         | 151                            |                                   |
| <i>Diluted EPS</i>  |                              |                                |                                   |                              |                                |                                   |
| Income from continuing operations available to common stockholders plus assumed conversions | \$ 18,526                    | 23,791                         | \$ 0.78                           | \$ 17,223                    | 23,322                         | \$ 0.74                           |

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| <i>(In thousands, except per share amounts)</i>   | Six Months Ended June 27, 2004 |                         |                     | Six Months Ended June 29, 2003 |                         |                     |
|---|--------------------------------|-------------------------|---------------------|--------------------------------|-------------------------|---------------------|
|   | Income<br>(Numerator)          | Shares<br>(Denominator) | Per Share<br>Amount | Income<br>(Numerator)          | Shares<br>(Denominator) | Per Share<br>Amount |
| <b>Basic EPS</b>  |                                |                         |                     |                                |                         |                     |
| Income from continuing operations available to common stockholders                          | \$ 27,633                      | 23,308                  | \$ 1.19             | \$ 23,860                      | 23,041                  | \$ 1.03             |
| <b>Effect of dilutive securities</b>  |                                |                         |                     |                                |                         |                     |
| Stock options   |                                | 216                     |                     |                                | 121                     |                     |
| Restricted stock and other  | (16)                           | 202                     |                     | (31)                           | 146                     |                     |
| <b>Diluted EPS</b>  |                                |                         |                     |                                |                         |                     |
| Income from continuing operations available to common stockholders plus assumed conversions | \$ 27,617                      | 23,726                  | \$ 1.16             | \$ 23,829                      | 23,308                  | \$ 1.02             |

Options to purchase 344,500 shares of common stock at \$56.025 per share, granted on January 29, 2003, were not included in the computation of 2003's diluted EPS because the options' exercise price was greater than the average market price of the common shares at that time (i.e., anti-dilutive). The options, which expire on January 29, 2013, were still outstanding at the time of last year's EPS calculation on June 29, 2003.

7. The Company's comprehensive income consisted of the following:

| <i>(In thousands)</i>  | Quarter Ended    |                  | Six Months Ended |                  |
|--|------------------|------------------|------------------|------------------|
|  | June 27,<br>2004 | June 29,<br>2003 | June 27,<br>2004 | June 29,<br>2003 |
| Net income   | \$ 18,533        | \$ 17,505        | \$ 27,633        | \$ 24,516        |
| Unrealized gain on derivative contracts (net of deferred taxes)                            | 1,256            | 261              | 2,239            | 2,219            |
| Change in minimum pension liability  |                  | (176)            | 4                | (570)            |
| Unrealized holding gain (loss) on equity securities (net of deferred taxes)                | 39               | 873              | (1,296)          | 873              |
| Less: reclassification adjustment for gains included in net income (net of deferred taxes) |                  |                  |                  | (3,607)          |
| Comprehensive income   | \$ 19,828        | \$ 18,463        | \$ 28,580        | \$ 23,431        |

8. The Company accounts for its stock-based compensation utilizing the intrinsic value method in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 2004 and 2003, respectively: risk-free interest rates of 3.8% and 3.7%; dividend yields of 1.4% and 1.4%; volatility factors of .48 and .40; and an expected life of 8 years.





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|   | Quarter Ended    |                  | Six Months Ended |                  |
|---|------------------|------------------|------------------|------------------|
|   | June 27,<br>2004 | June 29,<br>2003 | June 27,<br>2004 | June 29,<br>2003 |
| <i>(In thousands, except per share amounts)</i>   |                  |                  |                  |                  |
| Net income, as reported   | \$ 18,533        | \$ 17,505        | \$ 27,633        | \$ 24,516        |
| Deduct: total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects | (1,346)          | (1,114)          | (2,524)          | (2,153)          |
| Pro forma net income  | \$ 17,187        | \$ 16,391        | \$ 25,109        | \$ 22,363        |
| Earning per share:  |                  |                  |                  |                  |
| Basic as reported   | \$ 0.79          | \$ 0.76          | \$ 1.19          | \$ 1.06          |
| Basic pro forma   | \$ 0.74          | \$ 0.71          | \$ 1.08          | \$ 0.97          |
| Diluted as reported   | \$ 0.78          | \$ 0.75          | \$ 1.16          | \$ 1.05          |
| Diluted pro forma   | \$ 0.72          | \$ 0.70          | \$ 1.06          | \$ 0.96          |

In March 2004, the FASB issued a proposed statement, *Share-Based Payment*, that would require that such transactions be accounted for using a fair-value-based method to recognize compensation expense. The Company continues to monitor the status of this proposed standard.

9. As part of the September 2000 sale of Garden State Paper Company, the Company entered into a financial newsprint swap agreement with Enron North America Corporation (Enron). In late November 2001, the Company terminated the newsprint swap agreement for reasons including misrepresentations made by Enron at the time the contract was signed. Enron filed for bankruptcy shortly thereafter. The Company believes that no further payments are due by either party under the agreement. Enron disputes the Company's position and, in late 2003, filed a claim for \$26.7 million plus interest and certain declaratory relief. The Company believes that its position is correct and has filed various motions to dismiss the claim or to remove it from the bankruptcy court. There was a mandatory mediation session held late in the second quarter. Additional sessions are possible but have not been scheduled. The Company does not believe that resolution of this matter will be material to its results of operations, financial position or cash flow.

10. In October 2003, the Company sold Media General Financial Services, Inc. (MGFS), a component of its Interactive Media Division, to CenterPoint Data, Inc. The Company recorded an after-tax gain of \$6.8 million (net of income taxes of \$3.9 million). The results of MGFS, which have been presented as income from discontinued operations in the accompanying consolidated statements of operations, were as follows for the second quarter and first six months of 2003: revenues of \$1.2 million and \$2.6 million, costs and expenses of \$.7 million and \$1.5 million, and income from discontinued operations of \$.3 million and \$.7 million (net of \$.2 million and \$.4 million in income taxes).

11. The Company has a one-third partnership interest in SP Newsprint Company (SPNC) which it accounts for under the equity method. The Company has agreed to contribute additional equity (up to \$4.7 million) if SPNC's liquidity, as defined, were to fall below a minimum threshold. This agreement terminates on December 31, 2005.

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12. In August 2001, the Company filed a universal shelf registration for combined public debt or equity securities totaling up to \$1.2 billion. The Company's subsidiaries are 100% owned except for certain VIEs; all subsidiaries except those in the non-guarantor column (which includes the VIEs and the Company's discontinued operations) currently guarantee the debt securities issued from the shelf. These guarantees are full and unconditional and on a joint and several basis. The following financial information presents condensed consolidating balance sheets, statements of operations, and statements of cash flows for the parent company, the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries, together with certain eliminations.

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Media General, Inc.

Condensed Consolidating Balance Sheets

As of June 27, 2004

(In thousands)

|   | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u>   | <u>Media General<br/>Consolidated</u> |
|---|------------------------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| <b>ASSETS</b>   |                                    |                                   |                                       |                       |                                       |
| Current Assets:   |                                    |                                   |                                       |                       |                                       |
| Cash and cash equivalents   | \$ 6,394                           | \$ 3,440                          | \$                                    | \$                    | \$ 9,834                              |
| Accounts receivable, net  |                                    | 109,015                           |                                       |                       | 109,015                               |
| Inventories   | 2                                  | 7,037                             |                                       |                       | 7,039                                 |
| Other   | 42,223                             | 46,376                            | 264                                   | (61,535)              | 27,328                                |
| <b>Total current assets</b>   | <b>48,619</b>                      | <b>165,868</b>                    | <b>264</b>                            | <b>(61,535)</b>       | <b>153,216</b>                        |
| Investments in unconsolidated affiliates  | 10,569                             | 79,235                            |                                       |                       | 89,804                                |
| Investments in and advances to subsidiaries   | 1,679,247                          | 953,903                           | 5,721                                 | (2,638,871)           |                                       |
| Other assets  | 35,661                             | 22,741                            | 1,124                                 |                       | 59,526                                |
| Property, plant and equipment, net  | 20,858                             | 330,545                           | 81,294                                | (2,400)               | 430,297                               |
| Excess of cost over fair value of net identifiable assets of acquired businesses, net |                                    | 832,004                           |                                       |                       | 832,004                               |
| FCC licenses and other intangibles, net   |                                    | 799,553                           |                                       |                       | 799,553                               |
| <b>Total assets</b>   | <b>\$ 1,794,954</b>                | <b>\$ 3,183,849</b>               | <b>\$ 88,403</b>                      | <b>\$ (2,702,806)</b> | <b>\$ 2,364,400</b>                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                    |                                   |                                       |                       |                                       |
| Current liabilities:  |                                    |                                   |                                       |                       |                                       |
| Accounts payable  | \$ 9,242                           | \$ 11,922                         | \$                                    | \$ (6)                | \$ 21,158                             |
| Accrued expenses and other liabilities  | 61,757                             | 77,662                            | 264                                   | (61,535)              | 78,148                                |
| Taxes on income   |                                    | 1,536                             |                                       |                       | 1,536                                 |
| <b>Total current liabilities</b>  | <b>70,999</b>                      | <b>91,120</b>                     | <b>264</b>                            | <b>(61,541)</b>       | <b>100,842</b>                        |
| Long-term debt  | 513,952                            |                                   | 95,320                                |                       | 609,272                               |
| Deferred income taxes   | (60,869)                           | 435,362                           |                                       |                       | 374,493                               |
| Other liabilities and deferred credits  | 135,157                            | 5,281                             |                                       | 1,787                 | 142,225                               |
| Stockholders equity   |                                    |                                   |                                       |                       |                                       |
| Common stock  | 118,635                            | 4,872                             |                                       | (4,872)               | 118,635                               |
| Additional paid-in capital  | 43,634                             | 2,027,288                         | 4,187                                 | (2,031,475)           | 43,634                                |
| Accumulated other comprehensive income (loss)   | (52,062)                           | 2,025                             |                                       |                       | (50,037)                              |
| Unearned compensation   | (10,539)                           |                                   |                                       |                       | (10,539)                              |
| Retained earnings   | 1,036,047                          | 617,901                           | (11,368)                              | (606,705)             | 1,035,875                             |
| <b>Total stockholders equity</b>  | <b>1,135,715</b>                   | <b>2,652,086</b>                  | <b>(7,181)</b>                        | <b>(2,643,052)</b>    | <b>1,137,568</b>                      |

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|   |              |              |           |                |              |
|---|--------------|--------------|-----------|----------------|--------------|
| Total liabilities and stockholders equity | \$ 1,794,954 | \$ 3,183,849 | \$ 88,403 | \$ (2,702,806) | \$ 2,364,400 |
|---|--------------|--------------|-----------|----------------|--------------|

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Media General, Inc.

Condensed Consolidating Balance Sheets

As of December 28, 2003

(In thousands)

|   | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u>   | <u>Media General<br/>Consolidated</u> |
|---|------------------------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| <b>ASSETS</b>   |                                    |                                   |                                       |                       |                                       |
| Current Assets:   |                                    |                                   |                                       |                       |                                       |
| Cash and cash equivalents   | \$ 7,343                           | \$ 3,232                          | \$                                    | \$                    | \$ 10,575                             |
| Accounts receivable, net  |                                    | 113,226                           |                                       |                       | 113,226                               |
| Inventories   | 2                                  | 6,169                             |                                       |                       | 6,171                                 |
| Other   | 41,742                             | 53,260                            | 261                                   | (62,614)              | 32,649                                |
| <b>Total current assets</b>   | <b>49,087</b>                      | <b>175,887</b>                    | <b>261</b>                            | <b>(62,614)</b>       | <b>162,621</b>                        |
| Investments in unconsolidated affiliates  | 10,418                             | 79,576                            |                                       |                       | 89,994                                |
| Investments in and advances to subsidiaries   | 1,691,763                          | 906,696                           | 5,721                                 | (2,604,180)           |                                       |
| Other assets  | 33,492                             | 25,450                            | 1,335                                 |                       | 60,277                                |
| Property, plant and equipment, net  | 21,027                             | 332,734                           | 82,727                                | (2,400)               | 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   |                                    | 807,771                           |                                       |                       | 807,771                               |
| <b>Total assets</b>   | <b>\$ 1,805,787</b>                | <b>\$ 3,160,118</b>               | <b>\$ 90,044</b>                      | <b>\$ (2,669,194)</b> | <b>\$ 2,386,755</b>                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                    |                                   |                                       |                       |                                       |
| Current liabilities:  |                                    |                                   |                                       |                       |                                       |
| Accounts payable  | \$ 9,352                           | \$ 12,864                         | \$                                    | \$ (6)                | \$ 22,210                             |
| Accrued expenses and other liabilities  | 60,497                             | 85,281                            | 261                                   | (62,615)              | 83,424                                |
| Taxes on income   |                                    | 8,769                             |                                       |                       | 8,769                                 |
| <b>Total current liabilities</b>  | <b>69,849</b>                      | <b>106,914</b>                    | <b>261</b>                            | <b>(62,621)</b>       | <b>114,403</b>                        |
| Long-term debt  | 531,969                            |                                   | 95,320                                |                       | 627,289                               |
| Deferred income taxes   | (66,494)                           | 429,263                           |                                       |                       | 362,769                               |
| Other liabilities and deferred credits  | 166,238                            | 6,808                             |                                       | 1,787                 | 174,833                               |
| Stockholders equity   |                                    |                                   |                                       |                       |                                       |
| Common stock  | 117,727                            | 4,872                             |                                       | (4,872)               | 117,727                               |
| Additional paid-in capital  | 34,595                             | 2,027,288                         | 4,187                                 | (2,031,475)           | 34,595                                |
| Accumulated other comprehensive income (loss)   | (54,304)                           | 3,320                             |                                       |                       | (50,984)                              |
| Unearned compensation   | (11,670)                           |                                   |                                       |                       | (11,670)                              |
| Retained earnings   | 1,017,877                          | 581,653                           | (9,724)                               | (572,013)             | 1,017,793                             |
| <b>Total stockholders equity</b>  | <b>1,104,225</b>                   | <b>2,617,133</b>                  | <b>(5,537)</b>                        | <b>(2,608,360)</b>    | <b>1,107,461</b>                      |

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|   |              |              |           |                |              |
|---|--------------|--------------|-----------|----------------|--------------|
| Total liabilities and stockholders equity | \$ 1,805,787 | \$ 3,160,118 | \$ 90,044 | \$ (2,669,194) | \$ 2,386,755 |
|---|--------------|--------------|-----------|----------------|--------------|

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## Media General, Inc.

## Condensed Consolidating Statements of Operations

Three Months Ended June 27, 2004

(In thousands)

|  | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Media General<br/>Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues   | \$ 42,624                          | \$ 254,681                        | \$                                    | \$ (72,415)         | \$ 224,890                            |
| Operating costs:                                   |                                    |                                   |                                       |                     |                                       |
| Production   |                                    | 92,608                            |                                       |                     | 92,608                                |
| Selling, general and administrative                | 41,285                             | 111,223                           |                                       | (72,894)            | 79,614                                |
| Depreciation and amortization                      | 636                                | 14,950                            | 717                                   |                     | 16,303                                |
| Total operating costs                              | 41,921                             | 218,781                           | 717                                   | (72,894)            | 188,525                               |
| Operating income (loss)                            | 703                                | 35,900                            | (717)                                 | 479                 | 36,365                                |
| Operating income (expense):                        |                                    |                                   |                                       |                     |                                       |
| Interest expense                                   | (7,016)                            | (2)                               | (539)                                 |                     | (7,557)                               |
| Investment income (loss) unconsolidated affiliates | 48                                 | (72)                              |                                       |                     | (24)                                  |
| Investment income (loss) consolidated affiliates   | 22,362                             |                                   |                                       | (22,362)            |                                       |
| Other, net   | 323                                | 311                               | 479                                   | (479)               | 634                                   |
| Total other income (expense)                       | 15,717                             | 237                               | (60)                                  | (22,841)            | (6,947)                               |
| Income (loss) before income taxes                  | 16,420                             | 36,137                            | (777)                                 | (22,362)            | 29,418                                |
| Income tax expense (benefit)                       | (2,113)                            | 12,998                            |                                       |                     | 10,885                                |
| Net income (loss)                                  | 18,533                             | 23,139                            | (777)                                 | (22,362)            | 18,533                                |
| Other comprehensive income (net of tax)            | 1,256                              | 39                                |                                       |                     | 1,295                                 |
| Comprehensive income (loss)                        | \$ 19,789                          | \$ 23,178                         | \$ (777)                              | \$ (22,362)         | \$ 19,828                             |



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Media General, Inc.

Condensed Consolidating Statements of Operations

Six Months Ended June 27, 2004

(In thousands)

|   | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Media General<br/>Consolidated</u> |
|---|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues  | \$ 84,787                          | \$ 492,345                        | \$                                    | \$ (144,086)        | \$ 433,046                            |
| Operating costs:                                      |                                    |                                   |                                       |                     |                                       |
| Production  |                                    | 185,704                           |                                       |                     | 185,704                               |
| Selling, general and administrative                   | 81,955                             | 217,952                           |                                       | (145,026)           | 154,881                               |
| Depreciation and amortization                         | 1,276                              | 30,861                            | 1,434                                 |                     | 33,571                                |
| Total operating costs                                 | 83,231                             | 434,517                           | 1,434                                 | (145,026)           | 374,156                               |
| Operating income (loss)                               | 1,556                              | 57,828                            | (1,434)                               | 940                 | 58,890                                |
| Operating income (expense):                           |                                    |                                   |                                       |                     |                                       |
| Interest expense                                      | (14,463)                           | (3)                               | (1,062)                               |                     | (15,528)                              |
| Investment income (loss)<br>unconsolidated affiliates | 148                                | (341)                             |                                       |                     | (193)                                 |
| Investment income (loss) consolidated<br>affiliates   | 34,692                             |                                   |                                       | (34,692)            |                                       |
| Other, net  | 581                                | 112                               | 940                                   | (940)               | 693                                   |
| Total other income (expense)                          | 20,958                             | (232)                             | (122)                                 | (35,632)            | (15,028)                              |
| Income (loss) before income taxes                     | 22,514                             | 57,596                            | (1,556)                               | (34,692)            | 43,862                                |
| Income tax expense (benefit)                          | (5,119)                            | 21,348                            |                                       |                     | 16,229                                |
| Net income (loss)                                     | 27,633                             | 36,248                            | (1,556)                               | (34,692)            | 27,633                                |
| Other comprehensive income (loss) (net<br>of tax)     | 2,243                              | (1,296)                           |                                       |                     | 947                                   |
| Comprehensive income (loss)                           | \$ 29,876                          | \$ 34,952                         | \$ (1,556)                            | \$ (34,692)         | \$ 28,580                             |

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## Media General, Inc.

## Condensed Consolidating Statements of Operations

Three Months Ended June 29, 2003

(In thousands)

|  | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Media General<br/>Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues   | \$ 41,123                          | \$ 240,035                        | \$                                    | \$ (70,443)         | \$ 210,715                            |
| Operating costs:   |                                    |                                   |                                       |                     |                                       |
| Production   |                                    | 87,455                            |                                       |                     | 87,455                                |
| Selling, general and administrative                          | 39,212                             | 102,746                           |                                       | (70,443)            | 71,515                                |
| Depreciation and amortization                                | 1,124                              | 15,452                            |                                       |                     | 16,576                                |
| Total operating costs  | 40,336                             | 205,653                           |                                       | (70,443)            | 175,546                               |
| Operating income   | 787                                | 34,382                            |                                       |                     | 35,169                                |
| Operating income (expense):                                  |                                    |                                   |                                       |                     |                                       |
| Interest expense   | (7,982)                            | (3)                               |                                       |                     | (7,985)                               |
| Investment income (loss) unconsolidated affiliates           | 279                                | (1,571)                           |                                       |                     | (1,292)                               |
| Investment income (loss) consolidated affiliates             | 20,649                             |                                   |                                       | (20,649)            |                                       |
| Other, net   | 1,355                              | (100)                             |                                       |                     | 1,255                                 |
| Total other income (expense)                                 | 14,301                             | (1,674)                           |                                       | (20,649)            | (8,022)                               |
| Income (loss) from continuing operations before income taxes | 15,088                             | 32,708                            |                                       | (20,649)            | 27,147                                |
| Income tax expense (benefit)                                 | (2,417)                            | 12,326                            |                                       |                     | 9,909                                 |
| Income (loss) from continuing operations                     | 17,505                             | 20,382                            |                                       | (20,649)            | 17,238                                |
| Income from discontinued operations                          |                                    |                                   | 267                                   |                     | 267                                   |
| Net income (loss)  | 17,505                             | 20,382                            | 267                                   | (20,649)            | 17,505                                |
| Other comprehensive income (loss) (net of tax)               | (221)                              | 1,179                             |                                       |                     | 958                                   |
| Comprehensive income (loss)                                  | \$ 17,284                          | \$ 21,561                         | \$ 267                                | \$ (20,649)         | \$ 18,463                             |

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## Media General, Inc.

## Condensed Consolidating Statements of Operations

Six Months Ended June 29, 2003

(In thousands)

|  | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Media General<br/>Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues   | \$ 79,832                          | \$ 465,420                        | \$                                    | \$ (138,449)        | \$ 406,803                            |
| Operating costs:   |                                    |                                   |                                       |                     |                                       |
| Production   |                                    | 177,520                           |                                       |                     | 177,520                               |
| Selling, general and administrative                          | 79,362                             | 204,018                           |                                       | (138,449)           | 144,931                               |
| Depreciation and amortization                                | 2,263                              | 31,386                            |                                       |                     | 33,649                                |
| <b>Total operating costs</b>                                 | <b>81,625</b>                      | <b>412,924</b>                    |                                       | <b>(138,449)</b>    | <b>356,100</b>                        |
| Operating income (loss)                                      | (1,793)                            | 52,496                            |                                       |                     | 50,703                                |
| Operating income (expense):                                  |                                    |                                   |                                       |                     |                                       |
| Interest expense   | (17,849)                           | (4)                               |                                       |                     | (17,853)                              |
| Investment income (loss) unconsolidated affiliates           | 176                                | (3,684)                           |                                       |                     | (3,508)                               |
| Investment income (loss) consolidated affiliates             | 34,971                             |                                   |                                       | (34,971)            |                                       |
| Other, net   | 2,657                              | 5,578                             |                                       |                     | 8,235                                 |
| <b>Total other income (expense)</b>                          | <b>19,955</b>                      | <b>1,890</b>                      |                                       | <b>(34,971)</b>     | <b>(13,126)</b>                       |
| Income (loss) from continuing operations before income taxes | 18,162                             | 54,386                            |                                       | (34,971)            | 37,577                                |
| Income tax expense (benefit)                                 | (6,354)                            | 20,071                            |                                       |                     | 13,717                                |
| Income (loss) from continuing operations                     | 24,516                             | 34,315                            |                                       | (34,971)            | 23,860                                |
| Income from discontinued operations                          |                                    |                                   | 656                                   |                     | 656                                   |
| Net income (loss)  | 24,516                             | 34,315                            | 656                                   | (34,971)            | 24,516                                |
| Other comprehensive income (loss) (net of tax)               | 2,003                              | (3,088)                           |                                       |                     | (1,085)                               |
| <b>Comprehensive income (loss)</b>                           | <b>\$ 26,519</b>                   | <b>\$ 31,227</b>                  | <b>\$ 656</b>                         | <b>\$ (34,971)</b>  | <b>\$ 23,431</b>                      |

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Media General, Inc.

Condensed Consolidating Statements of Cash Flows

Six Months Ended June 27, 2004

(In thousands)

|  | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Media General<br/>Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| <b>Cash flows from operating activities:</b>         |                                    |                                   |                                       |                                       |
| Net cash provided by operating activities            | \$ 17,545                          | \$ 19,949                         | \$ 88                                 | \$ 37,582                             |
| <b>Cash flows from investing activities:</b>         |                                    |                                   |                                       |                                       |
| Capital expenditures                                 | (958)                              | (18,646)                          |                                       | (19,604)                              |
| Other, net   | 28                                 | (1,095)                           |                                       | (1,067)                               |
| Net cash used by investing activities                | (930)                              | (19,741)                          |                                       | (20,671)                              |
| <b>Cash flows from financing activities:</b>         |                                    |                                   |                                       |                                       |
| Increase in debt                                     | 172,000                            |                                   |                                       | 172,000                               |
| Repayment of debt                                    | (190,017)                          |                                   |                                       | (190,017)                             |
| Cash dividends paid                                  | (9,463)                            |                                   |                                       | (9,463)                               |
| Other, net   | 9,916                              |                                   | (88)                                  | 9,828                                 |
| Net cash used by financing activities                | (17,564)                           |                                   | (88)                                  | (17,652)                              |
| Net increase (decrease) in cash and cash equivalents | (949)                              | 208                               |                                       | (741)                                 |
| Cash and cash equivalents at beginning of year       | 7,343                              | 3,232                             |                                       | 10,575                                |
| Cash and cash equivalents at end of period           | \$ 6,394                           | \$ 3,440                          | \$                                    | \$ 9,834                              |

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Media General, Inc.

Condensed Consolidating Statements of Cash Flows

Six Months Ended June 29, 2003

(In thousands)

|  | <u>Media General<br/>Corporate</u> | <u>Guarantor<br/>Subsidiaries</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Media General<br/>Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| <b>Cash flows from operating activities:</b>     |                                    |                                   |                                       |                                       |
| Net cash provided (used) by operating activities | \$ 59,394                          | \$ (25)                           | \$ 11                                 | \$ 59,380                             |
| <b>Cash flows from investing activities:</b>     |                                    |                                   |                                       |                                       |
| Capital expenditures                             | (383)                              | (14,096)                          | (11)                                  | (14,490)                              |
| Other, net                                       | (358)                              | 13,749                            |                                       | 13,391                                |
| Net cash used by investing activities            | (741)                              | (347)                             | (11)                                  | (1,099)                               |
| <b>Cash flows from financing activities:</b>     |                                    |                                   |                                       |                                       |
| Increase in debt                                 | 130,000                            |                                   |                                       | 130,000                               |
| Repayment of debt                                | (180,994)                          |                                   |                                       | (180,994)                             |
| Cash dividends paid                              | (8,881)                            |                                   |                                       | (8,881)                               |
| Other, net                                       | 780                                |                                   |                                       | 780                                   |
| Net cash used by financing activities            | (59,095)                           |                                   |                                       | (59,095)                              |
| Net decrease in cash and cash equivalents        | (442)                              | (372)                             |                                       | (814)                                 |
| Cash and cash equivalents at beginning of year   | 6,932                              | 4,347                             |                                       | 11,279                                |
| Cash and cash equivalents at end of period       | \$ 6,490                           | \$ 3,975                          | \$                                    | \$ 10,465                             |

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

**OVERVIEW**

Media General is an independent, publicly owned communications company situated primarily in the Southeast with interests in newspapers, television stations, interactive media and diversified information services.

The Company's fiscal year ends on the last Sunday in December.

**RESULTS OF OPERATIONS**

Net income in 2004's second quarter increased \$1 million (5.9%) over the equivalent prior-year quarter. The Company's improved performance was attributable to a 22% increase in Broadcast segment operating profit, as Political revenues flourished in this election year, and to a significantly reduced loss from the Company's share of SP Newsprint's (SPNC) results. Although the Company's share of SPNC's results in the quarter was a loss of \$.1 million, this represented a \$1.5 million improvement from the prior year. The amelioration of SPNC's results was due to a rise in average newsprint selling price and to moderately higher sales volume. Taken as a whole, the Company's improved second quarter performance was dampened by several factors, including: increased intangibles amortization due to the re-institution of amortization of network affiliation, the inclusion of expenses associated with the Company's Variable Interest Entities (VIE) in 2004 (which did not begin until the third quarter of 2003 when FASB Interpretation 46 was adopted by the Company), and increased legal and consulting fees (largely related to initial compliance with Sarbanes-Oxley and other projects).

Net income of \$27.6 million in the first half of 2004 was up \$3.1 million (12.7%) over the prior year's same period. The year-ago results benefited from an after-tax gain of \$3.7 million (\$0.16 per diluted share) attributable to the Company's sale of its Hoover's stock to Dun & Bradstreet in March 2003; excluding this item, current-year income would have shown a \$6.8 million increase. The increase was accounted for by a \$12.7 million (16%) rise in segment operating profits (excluding the Hoover's sale) combined with a lower year-over-year loss from SPNC (\$3.7 million in 2003 vs. \$.3 million in 2004). SPNC's improved performance was principally attributable to higher newsprint prices and, to a lesser degree, to increased sales volume. In the Publishing Division, segment profits were up nearly 5% due primarily to good Classified advertising growth. Broadcast Division segment profits represented a 33% improvement over the prior year as revenues continued to thrive on particularly robust Political advertising. Partially offsetting the strong segment profit growth and improved SPNC performance were all of the same factors which impacted the second quarter: increased intangibles amortization, higher VIE expense, and increased legal and consulting fees. Additionally, Media General Financial Services, Inc. (MGFS), which had earned \$.7 million in the first half of last year, was sold in the third quarter of 2003.

**PUBLISHING**

Due to higher operating expense levels, operating income for the Publishing Division was up only nominally in the second quarter, despite a \$5.6 million increase in revenues—the seventh consecutive quarter of revenue growth over the equivalent prior-year period. Operating income increased \$2.7 million in the first half of 2004 on a \$10.9 million rise in revenues as compared to the equivalent prior-year period. As illustrated by the following chart, Classified revenues posted solid gains in both the quarter and year to date and Preprints were up slightly, while Retail and National



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revenues reflected continued softness. Classified advertising revenues contributed more than two-thirds of the Division's overall revenue gain in both the quarter and first half of 2004 on the strength of robust employment advertising in almost all markets. Preprints continued to benefit from volume gains as certain advertisers migrated from Retail. Consequently, Retail advertising fell 1.4% and 1.3% in the second quarter and first six months of the year.

Publishing Segment operating expenses increased \$5.1 million and \$8.2 million in the second quarter and first half of this year over the equivalent 2003 periods due to a combination of factors. Newsprint expense was up \$1.6 million in the quarter and \$2.9 million in the year to date. In the quarter, a \$39 per ton rise in average price led to a \$1.3 million cost increase; the balance was attributable to additional consumption (due to higher advertising lineage and circulation). In the year to date, a \$42 per ton rise in average price accounted for the majority of the higher newsprint expense. Employee compensation and benefit costs were up \$2.3 million (4.4%) in the quarter and \$3.1 million (2%) in the year to date due to annual salary increases and higher retirement plan expenses.

**BROADCAST**

Compared to the same prior-year periods, Broadcast operating income jumped \$4.3 million and \$9.7 million in the second quarter and first half of 2004, due predominantly to a \$7.9 million and a \$14 million rise in revenues in those same periods. The following chart illustrates the strong gains posted in Political and Local advertising over the prior-year equivalent periods. Political advertising was more than six times the level of last year's second quarter and first half due to congressional and presidential campaign spending. Local advertising was up approximately 8% in both the quarter and year-to-date periods (driven by the automotive and services categories), reflecting the results of continued aggressive sales initiatives and new selling tools employed to boost advertising by local customers. National advertising showed improvement in the first six months of the year on the strength of automotive advertising; however, National lost ground in the quarter as automotive advertising flattened out and decreases were felt in the entertainment category.



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The Broadcast Division's revenue growth rate exceeded that of the industry for the first five months of the year. According to the Television Bureau of Advertising (a not-for-profit trade association of America's broadcast television industry), time sales across the broadcast industry have increased 8.4% through May 2004 compared to the Company's 11.7% improvement. National and Local advertising growth for the Company was 14.7% and 10%, respectively, well above the industry's growth of 9.1% and 8%.

Broadcast operating expenses rose \$3.6 million and \$4.3 million in the second quarter and the first half of this year as compared to the equivalent 2003 periods. The primary factor driving these increases was higher employee compensation and benefit costs which rose 9.4% in the quarter and 6.6% in the year to date due to higher pension costs and merit pay raises.

**INTERACTIVE MEDIA**

In the first quarter of 2003, the Company sold its share of Hoover's, Inc., for \$16.8 million to Dun & Bradstreet, producing a pre-tax gain of \$5.7 million. Excluding this gain, Interactive Media results improved \$.2 million and \$.3 million in the second quarter and first half of the year in the form of reduced operating losses from the prior-year's equivalent periods. Revenues increased \$1.2 million and \$2.1 million in the second quarter and year-to-date period, while expenses rose \$1 million and \$1.8 million, resulting primarily from higher compensation and employee benefits expense as positions were filled to sustain the Division's continued growth. The 53% quarterly increase and 47% year-to-date increase in revenues was driven by vigorous Classified advertising as up-sell arrangements continued to thrive across the Division. Under these up-sell arrangements, customers pay an additional fee to have their classified advertisement placed online simultaneously with its publication in the newspaper.

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The Interactive Media Division has continued to grow and expand its operations since the Division's inception in January of 2001. This Division remains focused on developing new products, securing and retaining high-quality personnel, invigorating revenues through sales initiatives and enhancing content and design across all the Company's online enterprises.

## **INTEREST EXPENSE**

Interest expense decreased \$.4 million and \$2.3 million in the quarter and year to date from the equivalent year-ago periods due to declines of 45 and 85 basis points in the Company's effective interest rate. This decrease in the effective interest rate was attributable to a year-over-year drop in LIBOR (on which interest on borrowings under the Company's revolving credit facility is based), to a lower weighted average fixed interest rate on swapped debt, and to the favorable impact on the effective interest rate of \$95.3 million now classified as debt as a result of the adoption of FIN 46, *Consolidation of Variable Interest Entities*. Despite the addition of VIE debt in the third quarter of 2003, average debt outstanding increased only \$21 million and \$14 million in the second quarter and first half of 2004 over the prior-year equivalent periods.

The Company uses interest rate swaps (where it pays a fixed rate and receives a floating rate) as part of an overall strategy to manage interest cost and risk associated with variable interest rates, primarily short-term changes in LIBOR. It does not initiate such instruments for trading purposes. Toward the end of the first quarter of 2003, four of the Company's swaps with notional amounts totaling \$275 million matured; concurrently, four swaps with notional amounts totaling \$200 million became effective. Toward the end of the first quarter of 2004, two of these swaps with notional amounts totaling \$100 million matured, leaving two remaining swaps with notional amounts of \$50 million each which mature in the first quarter of 2005. These interest rate swaps are cash flow hedges that effectively convert the covered portion of the Company's variable rate debt to fixed rate debt with a weighted average interest rate approximating 4.7%.

## **LIQUIDITY**

Before recognizing a \$35 million contribution to the Company's retirement plan, net cash provided by operating activities in the first half of 2004 was \$72.6 million, 22% above the prior-year's amount. Cash generated by operating activities enabled the Company to fund capital expenditures of \$19.6 million, to pay dividends to stockholders of \$9.5 million, to contribute \$35 million to its retirement plan, and to reduce debt by \$18 million.

Over the past four years, the Company's retirement plan, like many corporate pension plans, has moved from an overfunded position to an underfunded position. Despite the solid investment performance of the trust's assets during 2003, declines from 2000 to 2002 in the trust's assets and continuing reductions in the discount rates used to value the plan's liabilities have created an underfunded trust. Although not required to do so, the Company elected to make contributions in 2003 and early 2004 with the immediate expectation of restoring the funding position and the longer-term intention of reducing the ultimate amount that it would need to contribute. The Company does not foresee making further elective contributions in the near term but continues to monitor changes in market values, rates of return, and discount rates, as well as to evaluate plan benefits and design.

The Company has in place a \$1 billion revolving credit facility and a \$1.2 billion universal shelf registration which allows for combined public debt or equity issuances (together the Facilities). At the end of the second quarter, there were borrowings of \$300 million outstanding under the revolving credit facility and \$199.9 million in senior notes outstanding under the universal shelf. The Facilities carry cross-default provisions between the revolving credit and the senior notes. The revolving credit agreement contains both interest coverage and leverage ratio covenants. These



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covenants, which involve debt levels, interest expense, and EBITDA (a measure of cash earnings as defined in the revolving credit agreement), can affect the Company's maximum borrowing capacity under the Facilities. A significant drop in the Company's EBITDA or a large increase in the Company's debt level could make it challenging to meet the leverage ratio. The Company was in compliance with all covenants at quarter-end and expects to remain in compliance with them going forward. The Company believes that internally generated funds provided by operations, together with the unused portion of the Facilities, provide it with significant flexibility to manage working capital needs, pay dividends, finance capital expenditures, make pension contributions, and take advantage of new strategic opportunities.

**OUTLOOK**

The Company continues to benefit from the gradual economic recovery which began in late 2003. The Broadcast Division flourished in the first half of the year as advertising revenues, buoyed by Political spending, rebounded strongly from their depressed prior-year levels. The Broadcast Division expects sustained success in the second half of 2004 with the continuation of strong Political advertising and the return of Summer Olympics in this even-numbered year. The Publishing Division anticipates that advertising revenues will continue to gain momentum throughout the remainder of the year. The slow ascent of newsprint prices, which began in late 2002, is expected to continue in 2004 and to adversely impact the Publishing Division. However, by virtue of its investment in SP Newsprint, the Company is a net beneficiary of newsprint price increases because they should translate into operating performance improvement for SPNC in 2004. This was evidenced through the second quarter of this year as SPNC approached the break-even point for the first time since the fourth quarter of 2001. The Company continues to monitor developments surrounding the Federal Communications Commission's (FCC) new rules which would allow cross-ownership of broadcast stations and newspapers in all but the smallest markets. As a result of a court decision this summer, the new rules were stayed and the matter was remanded to the FCC. An appeal of that court decision to the Supreme Court seems likely. Further proceedings will likely extend into 2005. The Company remains open to future investments that would complement its strategic vision and foster its convergence efforts.

\* \* \* \* \*

*Certain statements in this quarterly report that are not historical facts are forward-looking statements, as that term is defined by the federal securities laws. Forward-looking statements include statements related to the impact of new accounting standards, the Internet, and political campaign and Olympics advertising, as well as expectations regarding newsprint prices, pension contributions, litigation claims, general advertising levels, and the effects of changes to FCC regulations. Forward-looking statements, including those which use words such as the Company believes, anticipates, expects, estimates, intends and similar words, are made as of the date of this filing and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements.*

*Some significant factors that could affect actual results include: changes in advertising demand, the availability and pricing of newsprint, changes in interest rates, the outcome of litigation, the performance of pension plan assets, health care cost trends, and regulatory rulings.*

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Item 4. Controls and Procedures

The Company's management, including the chief executive officer and chief financial officer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There have been no significant changes in the Company's internal controls or in other factors that are reasonably likely to adversely affect internal control subsequent to the date of this evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a complete discussion of the Company's dispute with Enron North America Corporation, see Note 9 of this Form 10-Q and Item 3 of Form 10-K for the fiscal year ended December 28, 2003.

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

The Annual Meeting of Media General, Inc., was held on April 29, 2004, for the purpose of electing a board of directors.

Each nominee for director was elected by the following vote:

| <u>Class A Directors</u> | <u>Class A<br/>Shares Voted<br/>FOR</u> | <u>Class A<br/>Shares Voted<br/>WITHHELD</u> |
|--------------------------|---|--|
| Charles A. Davis         | 14,976,075                              | 6,078,788                                    |
| C. Boyden Gray           | 15,096,576                              | 5,958,287                                    |
| Walter E. Williams       | 14,976,106                              | 6,078,757                                    |
|                          |   |  |
| <u>Class B Directors</u> | <u>Class B<br/>Shares Voted<br/>FOR</u> | <u>Class B<br/>Shares Voted<br/>WITHHELD</u> |
| O. Reid Ashe, Jr.        | 553,872                                 | 380  |
| J. Stewart Bryan III     | 553,872                                 | 380  |
| Marshall N. Morton       | 553,872                                 | 380  |
| Thompson L. Rankin       | 553,872                                 | 380  |

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|                     |         |     |
|---------------------|---------|-----|
| Wyndham Robertson   | 553,872 | 380 |
| Coleman Wortham III | 553,872 | 380 |

A special meeting of Class B Common Stockholders was held on May 28, 2004, for the purpose of amending the provision of the Articles of Incorporation relating to indemnification of directors and officers, adopting a By-law eliminating personal liability of directors and officers to the full extent permitted by law, and adopting the Media General, Inc., Amended and Restated Supplemental 401(k) Plan.

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The above issues were approved by the following vote of Class B Common Stockholders:

|   | <u>Shares Voted<br/>FOR</u> | <u>Shares Voted<br/>AGAINST</u> |
|---|-----------------------------|---------------------------------|
| Amend the Articles of Incorporation   | 553,852                     |                                 |
| Adopt a By-law eliminating personal liability of directors and officers to the full extent permitted by law | 553,852                     |                                 |
| Adopt the Amended and Restated Supplemental 401(k) Plan   | 526,620                     | 7,267                           |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3(i) Amended Articles of Incorporation

3(ii) Amended By-laws

31.1 Section 302 Chief Executive Officer Certification

31.2 Section 302 Chief Financial Officer Certification

32 Section 906 Chief Executive Officer and Chief Financial Officer Certification

(b) Reports on Form 8-K

On April 15, 2004, the Company filed a Form 8-K to report the Company's April 15, 2004, press release regarding first-quarter results and March revenues.

On May 3, 2004, the Company filed a Form 8-K to give notice of a special meeting of Class B Common Stockholders held on May 28, 2004.

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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.

MEDIA GENERAL, INC.

DATE: August 5, 2004

/s/ J. Stewart Bryan III

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J. Stewart Bryan III  
Chairman and Chief Executive Officer

DATE: August 5, 2004

/s/ Marshall N. Morton

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Marshall N. Morton  
Vice Chairman and Chief Financial Officer