MEDIA GENERAL INC
Form 10-Q
August 04, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

Form 10-Q

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

For the quarterly period ended June 26, 2005

OR

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

For the transition period from ______ to ______

Commission file number: 1-6383

MEDIA GENERAL, INC

(Exact name of registrant as specified in its charter)

Commonwealth of Virginia **(State or other jurisdiction of** **incorporation or organization)**	**54-0850433** **(I.R.S. Employer** **Identification No.)**
333 E. Franklin St., Richmond, VA **(Address of principal executive offices)**	**23219** **(Zip Code)**

(804) 649-6000

(Registrant s telephone number, including area code)

N/A

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of July 31, 2005.

Class A Common shares:	23,478,349
Class B Common shares:	555,992

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FORM 10-Q REPORT

June 26, 2005

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

	(Unaudited) June 26, 2005	December 26, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,604	$ 9,823
Accounts receivable - net	117,028	117,177
Inventories	7,272	8,021
Other	31,235	35,826
Total current assets	165,139	170,847
Investments in unconsolidated affiliates	83,619	93,277
Other assets	57,222	59,676
Property, plant and equipment - net	430,248	422,299
Excess of cost over fair value of net identifiable assets of acquired businesses - net	643,534	641,706
FCC licenses and other intangibles - net	567,361	1,092,530
	$ 1,947,123	$ 2,480,335

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

	(Unaudited) June 26, 2005	December 26, 2004
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 22,728	$ 27,000
Accrued expenses and other liabilities	78,252	92,163
Income taxes payable	19,000	7,708
Total current liabilities	119,980	126,871
Long-term debt	391,972	437,960
Borrowings of consolidated variable interest entities	95,320	95,320
Deferred income taxes	313,774	501,655
Other liabilities and deferred credits	125,924	134,760
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 23,442,168 and 23,230,109 shares	117,211	116,150
Class B, authorized 600,000 shares; issued 555,992 shares	2,780	2,780
Additional paid-in capital	57,810	46,067
Accumulated other comprehensive loss	(51,118)	(50,652)
Unearned compensation	(17,401)	(9,408)
Retained earnings	790,871	1,078,832
Total stockholders equity	900,153	1,183,769
	$ 1,947,123	$ 2,480,335

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 26, 2005	June 27, 2004	June 26, 2005	June 27, 2004
Revenues	$ 233,739	$ 224,890	$ 451,646	$ 433,046
Operating costs:				
Production	96,316	92,608	193,845	185,704
Selling, general and administrative	83,846	79,614	166,106	154,881
Depreciation and amortization	17,346	16,303	34,518	33,571
Total operating costs	197,508	188,525	394,469	374,156
Operating income	36,231	36,365	57,177	58,890
Other income (expense):				
Interest expense	(7,364)	(7,557)	(14,859)	(15,528)
Investment income (loss)				
unconsolidated affiliates	724	(24)	1,438	(193)
Gain on sale of Denver	33,273		33,273	
Other, net	319	634	795	693
Total other income (expense)	26,952	(6,947)	20,647	(15,028)
Income before income taxes and cumulative effect of change in and accounting principle	63,183	29,418	77,824	43,862
Income taxes	24,798	10,885	30,142	16,229
Income before cumulative effect of change in accounting principle	38,385	18,533	47,682	27,633
Cumulative effect of change in accounting principle (net of tax benefit of $190,730)			(325,453)	
Net income (loss)	$ 38,385	$ 18,533	$ (277,771)	$ 27,633
Earnings (loss) per common share:				
Income before cumulative effect of change in accounting principle	$ 1.63	$ 0.79	$ 2.03	$ 1.19
Cumulative effect of change in accounting principle			(13.86)	
Net income (loss)	$ 1.63	$ 0.79	$ (11.83)	$ 1.19
Earnings (loss) per common share assuming dilution:				
Income before cumulative effect of change in accounting principle	$ 1.61	$ 0.78	$ 2.00	$ 1.16
Cumulative effect of change in accounting principle			(13.65)	

Net income (loss)	$	1.61	$	0.78	$	(11.65)	$	1.16
Dividends paid per common share	$	0.21	$	0.20	$	0.42	$	0.40

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

	Six Months Ended	
	June 26, 2005	**June 27, 2004**
Operating activities:		
Net income (loss)	$ (277,771)	$ 27,633
Adjustments to reconcile net income (loss):		
Cumulative effect if change in accounting principle	325,453	
Depreciation and amortization	34,518	33,571
Deferred income taxes	5,862	15,727
Investment (income) loss - unconsolidated affiliates	(1,438)	193
Net gain on sale of Denver	(19,393)	
Change in assets and liabilities:		
Retirement plan contribution	(15,000)	(35,014)
Accounts receivable and inventories	1,091	3,344
Accounts payables, accrued expenses, and other liabilities	(10,171)	2,326
Income taxes payable	(4,378)	(7,202)
Other, net	3,725	(2,996)
Net cash provided by operating activities	42,498	37,582
Investing activities:		
Capital expenditures	(32,640)	(19,604)
Purchase of business	(2,461)	
Proceeds from sale of Denver	45,850	
Other, net	3,357	(1,067)
Net cash provided (used) by investing activities	14,106	(20,671)
Financing activities:		
Increase in debt	161,500	172,000
Payment of debt	(207,488)	(190,017)
Debt issuance cost	(3,771)	
Dividends paid	(10,066)	(9,463)
Other, net	3,002	9,828
Net cash used by financing activities	(56,823)	(17,652)
Net decrease in cash and cash equivalents	(219)	(741)
Cash and cash equivalents at beginning of year	9,823	10,575
Cash and cash equivalents at end of period	$ 9,604	$ 9,834

See accompanying notes.

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 26, 2004.

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. In addition, as discussed further in Note 4, the Company adopted EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, in the first quarter of 2005. 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. Media News Group, Inc. exercised its option to purchase the Company s 20% ownership in Denver Newspapers, Inc. (Denver), parent company of The Denver Post. In June 2005, the Company sold its 20% interest for $45.9 million which was determined based on independent appraisals of Denver s fair value. The Company recorded an after-tax gain of $19.4 million (net of taxes of $13.9 million) on the sale in the second quarter.

4. The Company adopted EITF Topic D-108 at the beginning of fiscal 2005. D-108 requires the use of a direct method for valuing all assets other than goodwill. The Company had used the residual value method, a commonly used method at the time, to value the FCC licenses purchased in conjunction with acquisitions made in 1997 and 2000. It had also recorded goodwill, primarily related to deferred taxes, as part of these transactions. In connection with the adoption of D-108, the Company eliminated the distinction between goodwill and FCC license intangible assets that were recorded as part of these prior acquisitions by reclassifying $190.3 million from goodwill to FCC licenses. Concurrent with the adoption, the Company increased the carrying amount of FCC license intangible assets by an additional $111.5 million with a corresponding increase to deferred tax liabilities. Prior-period balance sheet amounts have also been reclassified to conform to the above presentation, and there was no impact on impairment results previously reported. Further, the Company valued its FCC licenses using a direct method discounted cash flow model and assumptions that included the concept that cash flows associated with FCC licenses are limited to those cash flows that could be expected by an average market participant. In contrast, the residual value method formerly used by the Company included other elements of cash flows which contributed to station value. The results of this direct method were then compared to the carrying value of FCC licenses (including the reclassified amounts) on a station by station basis and a $325.5 million write-down, net of income tax benefit, was recorded as a cumulative effect of change in accounting principle.

5. During the first quarter, in order to take advantage of a favorable bank-credit market, the Company amended its existing $1 billion revolving credit facility which was set to mature in 2006 with a similar $1 billion revolving credit facility that now will mature in 2010. Interest payments under the facility continue to be based on LIBOR plus a margin tied to the Company s leverage ratio as defined in the agreement.

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6. The following table sets forth the Company s current and prior-year financial performance by segment:

(In thousands)	Publishing	Broadcasting	Interactive Media	Eliminations	Total
Three Months Ended June 26, 2005					
Consolidated revenues	$ 146,460	$ 83,569	$ 4,917	$ (1,207)	$ 233,739
Segment operating cash flow	$ 37,637	$ 27,818	$ (531)		$ 64,924
Allocated amounts:					
Equity in net income (loss) of unconsolidated affiliates	132		(19)		113
Gain on sale of Denver	33,273				33,273
Depreciation and amortization	(5,833)	(4,962)	(428)		(11,223)
Segment profit (loss)	$ 65,209	$ 22,856	$ (978)		87,087
Unallocated amounts:					
Interest expense					(7,364)
Investment income SP Newsprint					611
Acquisition intangibles amortization					(4,734)
Corporate expense					(10,559)
Other					(1,858)
Consolidated income before income taxes					$ 63,183
Three Months Ended June 27, 2004					
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

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(In thousands)	Publishing	Broadcasting	Interactive Media	Eliminations	Total
Six Months Ended June 26, 2005					
Consolidated revenues	$ 289,893	$ 154,561	$ 9,463	$ (2,271)	$ 451,646
Segment operating cash flow	$ 72,675	$ 44,066	$ (1,106)		$ 115,635
Allocated amounts:					
Equity in net income of unconsolidated affiliates	221		159		380
Gain on sale of Denver	33,273				33,273
Depreciation and amortization	(11,648)	(9,885)	(857)		(22,390)
Segment profit (loss)	$ 94,521	$ 34,181	$ (1,804)		126,898
Unallocated amounts:					
Interest expense					(14,859)
Investment income SP Newsprint					1,058
Acquisition intangibles amortization					(9,469)
Corporate expense					(20,941)
Other					(4,863)
Consolidated income before income taxes and cumulative effect of change in accounting principle					$ 77,824
Six Months Ended June 27, 2004					
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					