

MEDIA GENERAL INC
Form 10-Q
November 04, 2004
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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 September 26, 2004

OR

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

For the transition period from _____ to _____

Commission file number: 1-6383

MEDIA GENERAL, INC.

(Exact name of registrant as specified in its charter)

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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.)

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

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

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

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

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MEDIA GENERAL, INC.

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

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

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

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(000 s except for per share data)

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

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

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

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

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

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

See accompanying notes.

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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 third quarter and nine months ended 2004 and 2003:

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

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

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

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

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

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

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| <i>(In thousands)</i> | Interactive | | | | Total |
|--|-------------|--------------|------------|--------------|------------|
| | Publishing | Broadcasting | Media | Eliminations | |
| Nine Months Ended September 26, 2004 | | | | | |
| Consolidated revenues | \$ 413,893 | \$ 229,434 | \$ 10,010 | \$ (2,647) | \$ 650,690 |
| Segment operating cash flow | \$ 105,023 | \$ 73,175 | \$ (3,625) | | \$ 174,573 |
| Allocated amounts: | | | | | |
| Equity in net income of unconsolidated affiliate | 355 | | | | 355 |
| Depreciation and amortization | (17,771) | (14,183) | (1,053) | | (33,007) |
| Segment profit (loss) | \$ 87,607 | \$ 58,992 | \$ (4,678) | | 141,921 |
| Unallocated amounts: | | | | | |
| Interest expense | | | | | (23,171) |
| Investment loss SP Newsprint | | | | | (25) |
| Acquisition intangibles amortization | | | | | (12,327) |
| Corporate expense | | | | | (30,994) |
| Other | | | | | (6,601) |
| Consolidated income before income taxes | | | | | \$ 68,803 |
| Nine Months Ended September 28, 2003 | | | | | |
| Consolidated revenues | \$ 397,598 | \$ 208,999 | \$ 7,025 | \$ (1,732) | \$ 611,890 |
| Segment operating cash flow | \$ 102,769 | \$ 60,933 | \$ (4,011) | | \$ 159,691 |
| Allocated amounts: | | | | | |
| Equity in net income of unconsolidated affiliate | 346 | | | | 346 |
| Gain on sale of Hoover s | | | 5,746 | | 5,746 |
| Depreciation and amortization | (19,698) | (16,464) | (1,192) | | (37,354) |
| Segment profit | \$ 83,417 | \$ 44,469 | \$ 543 | | 128,429 |
| Unallocated amounts: | | | | | |
| Interest expense | | | | | (26,262) |
| Investment loss SP Newsprint | | | | | (4,898) |
| Acquisition intangibles amortization | | | | | (9,043) |
| Corporate expense | | | | | (27,674) |
| Other | | | | | (4,950) |
| Consolidated income from continuing operations before income taxes and cumulative effect of change in accounting principle | | | | | \$ 55,602 |

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> | Quarter Ended September 26, 2004 | | | Quarter Ended September 28, 2003 | | |
|---|----------------------------------|-------------------------|---------------------|----------------------------------|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |

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Basic EPS

| | | | | | | |
|---|-----------|--------|---------|-----------|--------|---------|
| Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders | \$ 15,713 | 23,399 | \$ 0.67 | \$ 11,445 | 23,074 | \$ 0.50 |
|---|-----------|--------|---------|-----------|--------|---------|

Effect of dilutive securities

| | | | | | | |
|----------------------------|-----|-----|--|------|-----|--|
| Stock options | | 132 | | | 178 | |
| Restricted stock and other | (8) | 199 | | (12) | 171 | |

Diluted EPS

| | | | | | | |
|--|-----------|--------|---------|-----------|--------|---------|
| Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders plus assumed conversions | \$ 15,705 | 23,730 | \$ 0.66 | \$ 11,433 | 23,423 | \$ 0.49 |
|--|-----------|--------|---------|-----------|--------|---------|

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| | Nine Months Ended September 26, 2004 | | | Nine Months Ended September 28, 2003 | | |
|--|--------------------------------------|-------------------------|---------------------|--------------------------------------|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| <i>(In thousands, except per share amounts)</i> | | | | | | |
| Basic EPS | | | | | | |
| Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders | \$ 43,346 | 23,339 | \$ 1.86 | \$ 35,305 | 23,052 | \$ 1.53 |
| Effect of dilutive securities | | | | | | |
| Stock options | | 188 | | | 140 | |
| Restricted stock and other | (24) | 200 | | (42) | 154 | |
| Diluted EPS | | | | | | |
| Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders plus assumed conversions | \$ 43,322 | 23,727 | \$ 1.83 | \$ 35,263 | 23,346 | \$ 1.51 |

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

| | Quarter Ended | | Nine Months Ended | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Sept. 26, 2004 | Sept. 28, 2003 | Sept. 26, 2004 | Sept. 28, 2003 |
| <i>(In thousands)</i> | | | | |
| Net income | \$ 15,713 | \$ 3,667 | \$ 43,346 | \$ 28,183 |
| Unrealized gain on derivative contracts (net of deferred taxes) | 827 | 1,270 | 3,066 | 3,489 |
| Minimum pension liability | | | 4 | (570) |
| Unrealized holding gain (loss) on equity - securities (net of deferred taxes) | (2,161) | 1,397 | (3,457) | 2,270 |
| Less: reclassification adjustment for gains included in net income (net of deferred taxes) | | | | (3,607) |
| Comprehensive income | \$ 14,379 | \$ 6,334 | \$ 42,959 | \$ 29,765 |

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 | | Nine Months Ended | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Sept. 26, 2004 | Sept. 28, 2003 | Sept. 26, 2004 | Sept. 28, 2003 |
| <i>(In thousands, except per share amounts)</i> | | | | |
| Net income as reported | \$ 15,713 | \$ 3,667 | \$ 43,346 | \$ 28,183 |
| Deduct: total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects | (1,336) | (1,109) | (3,844) | (3,253) |
| Pro forma net income | \$ 14,377 | \$ 2,558 | \$ 39,502 | \$ 24,930 |
| Earning per share: | | | | |
| Basic as reported | \$ 0.67 | \$ 0.16 | \$ 1.86 | \$ 1.22 |
| Basic pro forma | \$ 0.61 | \$ 0.11 | \$ 1.69 | \$ 1.08 |
| Diluted as reported | \$ 0.66 | \$ 0.16 | \$ 1.83 | \$ 1.21 |
| Diluted pro forma | \$ 0.61 | \$ 0.11 | \$ 1.66 | \$ 1.07 |

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 FASB has indicated that this statement would be effective for public companies for interim or annual periods beginning after June 15, 2005 (earlier adoption is permitted). The FASB plans to issue the final statement near the end of this year's fourth quarter although a good deal of debate over this topic continues to occur, including some bills introduced in Congress. The Company will continue 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. A mediation session was held late in the second quarter and an additional session was held early in the fourth quarter. The Company does not believe that any 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. 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 third quarter and first nine months of 2003: revenues of \$1.2 million and \$3.7 million, costs and expenses of \$.7 million and \$2.2 million, and income from discontinued operations of \$.3 million and \$1 million (net of \$.2 million and \$.5 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 specified threshold. This agreement terminates on December 31, 2005.

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12. The Company adopted FASB Interpretation 46, *Consolidation of Variable Interest Entities*, as of the beginning of the third quarter in 2003 and began consolidating certain Variable Interest Entities which own real property leased to the Company. Upon adoption, the Company added \$86 million of assets (primarily buildings), \$94 million of liabilities (primarily debt) and recognized a cumulative effect of change in accounting principle of \$8.1 million (net of \$3.4 million in taxes).

13. In September 2004, the Securities and Exchange Commission announced that the residual method (until now, a method in common use) will no longer be accepted as an appropriate method to value acquired assets other than goodwill. Effective no later than the beginning of the first fiscal year beginning after December 15, 2004, registrants will be required to use a direct method for impairment testing on all identifiable intangible assets, including those previously valued using the residual method; any loss as a result of this test would be reported as a change in accounting principle. The Company's FCC licenses were originally valued using a residual method. The Company is evaluating the impact, if any, that this changed method may have on its financial position or results of operations.

14. 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 columns that follow (which include 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 September 26, 2004

(In thousands)

| | <u>Media General Corporate</u> | <u>Guarantor Subsidiaries</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Media General Consolidated</u> |
|---|------------------------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 6,232 | \$ 2,918 | \$ | \$ | \$ 9,150 |
| Accounts receivable, net | | 104,738 | | | 104,738 |
| Inventories | 2 | 7,749 | | | 7,751 |
| Other | 41,148 | 59,759 | 297 | (60,670) | 40,534 |
| Total current assets | 47,382 | 175,164 | 297 | (60,670) | 162,173 |
| Investments in unconsolidated affiliates | 10,777 | 79,551 | | | 90,328 |
| Investments in and advances to subsidiaries | 1,661,637 | 990,429 | 5,721 | (2,657,787) | |
| Other assets | 35,369 | 21,534 | 1,019 | | 57,922 |
| Property, plant and equipment, net | 20,310 | 329,659 | 80,577 | (2,400) | 428,146 |
| Excess of cost over fair value of net identifiable assets of acquired businesses, net | | 832,004 | | | 832,004 |
| FCC licenses and other intangibles, net | | 795,444 | | | 795,444 |
| Total assets | \$ 1,775,475 | \$ 3,223,785 | \$ 87,614 | \$ (2,720,857) | \$ 2,366,017 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 6,876 | \$ 15,028 | \$ | \$ (6) | \$ 21,898 |
| Accrued expenses and other liabilities | 58,982 | 90,797 | 297 | (60,670) | 89,406 |
| Total current liabilities | 65,858 | 105,825 | 297 | (60,676) | 111,304 |
| Long-term debt | 485,454 | | 95,320 | | 580,774 |
| Deferred income taxes | (61,415) | 440,699 | | | 379,284 |
| Other liabilities and deferred credits | 137,427 | 7,647 | | 1,787 | 146,861 |
| Stockholders equity | | | | | |
| Common stock | 118,641 | 4,872 | | (4,872) | 118,641 |
| Additional paid-in capital | 43,705 | 2,027,288 | 4,187 | (2,031,475) | 43,705 |
| Accumulated other comprehensive loss | (51,235) | (136) | | | (51,371) |
| Unearned compensation | (9,974) | | | | (9,974) |
| Retained earnings | 1,047,014 | 637,590 | (12,190) | (625,621) | 1,046,793 |
| Total stockholders equity | 1,148,151 | 2,669,614 | (8,003) | (2,661,968) | 1,147,794 |
| Total liabilities and stockholders equity | \$ 1,775,475 | \$ 3,223,785 | \$ 87,614 | \$ (2,720,857) | \$ 2,366,017 |

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Media General, Inc.

Condensed Consolidating Balance Sheets

As of December 28, 2003

(In thousands)

| | <u>Media General Corporate</u> | <u>Guarantor Subsidiaries</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Media General Consolidated</u> |
|---|------------------------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| ASSETS | | | | | |
| 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 |
| Total current assets | 49,087 | 175,887 | 261 | (62,614) | 162,621 |
| 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 |
| Total assets | \$ 1,805,787 | \$ 3,160,118 | \$ 90,044 | \$ (2,669,194) | \$ 2,386,755 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | |
| 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 |
| Total current liabilities | 69,849 | 106,914 | 261 | (62,621) | 114,403 |
| 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 |
| Total stockholders equity | 1,104,225 | 2,617,133 | (5,537) | (2,608,360) | 1,107,461 |
| 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 September 26, 2004

(In thousands)

| | <u>Media General Corporate</u> | <u>Guarantor Subsidiaries</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Media General Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues | \$ 41,888 | \$ 247,241 | \$ | \$ (71,485) | \$ 217,644 |
| Operating costs: | | | | | |
| Production | | 94,333 | | | 94,333 |
| Selling, general and administrative | 40,320 | 107,608 | | (72,052) | 75,876 |
| Depreciation and amortization | 519 | 14,473 | 717 | | 15,709 |
| Total operating costs | 40,839 | 216,414 | 717 | (72,052) | 185,918 |
| Operating income (loss) | 1,049 | 30,827 | (717) | 567 | 31,726 |
| Operating income (expense): | | | | | |
| Interest expense | (7,019) | (1) | (623) | | (7,643) |
| Investment income unconsolidated affiliates | 207 | 316 | | | 523 |
| Investment income (loss) consolidated affiliates | 18,916 | | | (18,916) | |
| Other, net | 300 | 35 | 567 | (567) | 335 |
| Total other income (expense) | 12,404 | 350 | (56) | (19,483) | (6,785) |
| Income (loss) before income taxes | 13,453 | 31,177 | (773) | (18,916) | 24,941 |
| Income tax expense (benefit) | (2,260) | 11,488 | | | 9,228 |
| Net income (loss) | 15,713 | 19,689 | (773) | (18,916) | 15,713 |
| Other comprehensive income (loss) (net of tax) | 827 | (2,161) | | | (1,334) |
| Comprehensive income (loss) | \$ 16,540 | \$ 17,528 | \$ (773) | \$ (18,916) | \$ 14,379 |

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Media General, Inc.

Condensed Consolidating Statements of Operations

Nine Months Ended September 26, 2004

(In thousands)

| | <u>Media General Corporate</u> | <u>Guarantor Subsidiaries</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Media General Consolidated</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues | \$ 126,675 | \$ 739,586 | \$ | \$ (215,571) | \$ 650,690 |
| Operating costs: | | | | | |
| Production | | 280,037 | | | 280,037 |
| Selling, general and administrative | 122,275 | 325,560 | | (217,078) | 230,757 |
| Depreciation and amortization | 1,795 | 45,334 | 2,151 | | 49,280 |
| Total operating costs | <u>124,070</u> | <u>650,931</u> | <u>2,151</u> | <u>(217,078)</u> | <u>560,074</u> |
| Operating income (loss) | 2,605 | 88,655 | (2,151) | 1,507 | 90,616 |
| Operating income (expense): | | | | | |
| Interest expense | (21,482) | (4) | (1,685) | | (23,171) |
| Investment income (loss) unconsolidated affiliates | 355 | (25) | | | 330 |
| Investment income (loss) consolidated affiliates | 53,608 | | | (53,608) | |
| Other, net | 881 | 147 | 1,507 | (1,507) | 1,028 |
| Total other income (expense) | <u>33,362</u> | <u>118</u> | <u>(178)</u> | <u>(55,115)</u> | <u>(21,813)</u> |
| Income (loss) before income taxes | 35,967 | 88,773 | (2,329) | (53,608) | 68,803 |
| Income tax expense (benefit) | (7,379) | 32,836 | | | 25,457 |
| Net income (loss) | 43,346 | 55,937 | (2,329) | (53,608) | 43,346 |
| Other comprehensive income (loss) (net of tax) | 3,070 | (3,457) | | | (387) |
| Comprehensive income (loss) | <u>\$ 46,416</u> | <u>\$ 52,480</u> | <u>\$ (2,329)</u> | <u>\$ (53,608)</u> | <u>\$ 42,959</u> |

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Media General, Inc.

Condensed Consolidating Statements of Operations

Three months Ended September 28, 2003

(In thousands)

| | <u>Media General</u> <u>Corporate</u> | <u>Guarantor</u> <u>Subsidiaries</u> | <u>Non-Guarantor</u> <u>Subsidiaries</u> | <u>Eliminations</u> | <u>Media General</u> <u>Consolidated</u> |
|--|--|---|---|---------------------|---|
| Revenues | \$ 40,577 | \$ 234,453 | \$ | \$ (69,944) | \$ 205,086 |
| Operating costs: | | | | | |
| Production | | 89,487 | | | 89,487 |
| Selling, general and administrative | 40,345 | 103,161 | | (70,417) | 73,089 |
| Depreciation and amortization | 600 | 15,010 | 717 | | 16,327 |
| Total operating costs | 40,945 | 207,658 | 717 | (70,417) | 178,903 |
| Operating income (loss) | (368) | 26,795 | (717) | 473 | 26,183 |
| Operating income (expense): | | | | | |
| Interest expense | (7,872) | (1) | (536) | | (8,409) |
| Investment income (loss) unconsolidated affiliates | 170 | (1,214) | | | (1,044) |
| Investment income (loss) consolidated affiliates | 7,748 | | | (7,748) | |
| Other, net | 1,292 | 3 | 473 | (473) | 1,295 |
| Total other income (expense) | 1,338 | (1,212) | (63) | (8,221) | (8,158) |
| Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle | 970 | 25,583 | (780) | (7,748) | 18,025 |
| Income tax expense (benefit) | (2,697) | 9,277 | | | 6,580 |
| Income (loss) from continuing operations before cumulative effect of change in accounting principle | 3,667 | 16,306 | (780) | (7,748) | 11,445 |
| Income from discontinued operations | | 301 | | | 301 |
| Cumulative effect of change in accounting principle | | | (8,079) | | (8,079) |
| Net income (loss) | 3,667 | 16,607 | (8,859) | (7,748) | 3,667 |
| Other comprehensive income (net of tax) | 1,270 | 1,397 | | | 2,667 |
| Comprehensive income (loss) | \$ 4,937 | \$ 18,004 | \$ (8,859) | \$ (7,748) | \$ 6,334 |

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Media General, Inc.

Condensed Consolidating Statements of Operations

Nine months Ended September 28, 2003

(In thousands)

| | <u>Media General Corporate</u> | <u>Guarantor Subsidiaries</u> | <u>Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Media General Consolidated</u> |
|-------------------------------------|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------------------------|
| Revenues | \$ 120,409 | \$ 699,873 | \$ | \$ (208,392) | \$ 611,890 |
| Operating costs: | | | | | |
| Production | | 267,007 | | | 267,007 |
| Selling, general and administrative | 119,708 | 307,178 | | (208,865) | 218,021 |
| Depreciation and amortization | 2,863 | | | | |