MEDIA GENERAL INC
Form 10-Q
July 27, 2006
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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 25, 2006

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	**54-0850433**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
333 E. Franklin St., Richmond, VA	**23219**
(Address of principal executive offices)	**(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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of June 25, 2006.

Class A Common shares:	23,508,128
Class B Common shares:	555,992

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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 25, 2006	December 25, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,863	$ 14,977
Accounts receivable - net	114,892	117,638
Inventories	8,871	7,808
Other	31,768	33,649
Assets of discontinued operations	113,588	115,100
Total current assets	284,982	289,172
Investments in unconsolidated affiliates	88,286	83,227
Other assets	63,997	57,377
Property, plant and equipment - net	433,857	420,111
Excess of cost over fair value of net identifiable assets of acquired businesses - net	645,433	645,437
FCC licenses and other intangibles - net	471,704	480,030
	$ 1,988,259	$ 1,975,354

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

(Unaudited)

	June 25, 2006	December 25, 2005
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 29,084	$ 26,414
Accrued expenses and other liabilities	78,824	81,719
Income taxes payable	4,822	
Liabilities of discontinued operations	2,462	3,919
Total current liabilities	115,192	112,052
Long-term debt	376,996	389,984
Borrowings of consolidated variable interest entities	95,320	95,320
Deferred income taxes	326,268	308,129
Other liabilities and deferred credits	112,281	154,043
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 23,508,128 and 23,490,696 shares	117,541	117,453
Class B, authorized 600,000 shares; issued 555,992 shares	2,780	2,780
Additional paid-in capital	50,009	44,856
Accumulated other comprehensive loss	(39,573)	(64,618)
Retained earnings	831,445	815,355
Total stockholders equity	962,202	915,826
	$ 1,988,259	$ 1,975,354

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(000 s except for per share data)

(Unaudited)

	Second Quarter Ended		Six Months Ended	
	June 25, 2006	**June 26, 2005**	**June 25, 2006**	**June 26, 2005**
Revenues	$ 230,058	$ 222,786	$ 447,501	$ 431,579
Operating costs:				
Production	97,403	91,277	193,521	183,759
Selling, general and administrative	82,981	80,430	168,630	159,769
Depreciation and amortization	17,200	15,839	34,207	31,509
Total operating costs	197,584	187,546	396,358	375,037
Operating income	32,474	35,240	51,143	56,542
Other income (expense):				
Interest expense	(8,106)	(7,364)	(15,648)	(14,859)
Investment income - unconsolidated affiliates	4,508	724	4,839	1,438
Gain on sale of Denver		33,273		33,273
Other, net	162	319	465	795
Total other income (expense)	(3,436)	26,952	(10,344)	20,647
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	29,038	62,192	40,799	77,189
Income taxes	10,776	24,422	15,198	29,896
Income from continuing operations before cumulative effect of change in accounting principle	18,262	37,770	25,601	47,293
Income from discontinued operations (net of tax)	1,914	615	1,242	389
Cumulative effect of change in accounting principle (net of tax benefit of $190,730)				(325,453)
Net income (loss)	$ 20,176	$ 38,385	$ 26,843	$ (277,771)
Earnings (loss) per common share:				
Income from continuing operations before cumulative effect of change in accounting principle	$ 0.77	$ 1.60	$ 1.09	$ 2.01
Discontinued operations	0.08	0.03	0.05	0.02
Cumulative effect of change in accounting principle				(13.86)
Net income (loss)	$ 0.85	$ 1.63	$ 1.14	$ (11.83)
Earnings (loss) per common share assuming dilution:				
Income from continuing operations before cumulative effect of change in accounting principle	$ 0.77	$ 1.58	$ 1.08	$ 1.98
Discontinued operations	0.08	0.03	0.05	0.02
Cumulative effect of change in accounting principle				(13.65)

Net income (loss)	$	0.85	$	1.61	$	1.13	$	(11.65)
Dividends paid per common share	$	0.22	$	0.21	$	0.44	$	0.42

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

	Six Months Ended June 25, 2006	Six Months Ended June 26, 2005
Operating activities:		
Net income (loss)	$ 26,843	$ (277,771)
Adjustments to reconcile net income (loss):		
Cumulative effect of change in accounting principle		325,453
Depreciation and amortization	35,743	34,518
Deferred income taxes	3,362	5,862
Investment income - unconsolidated affiliates	(4,839)	(1,438)
Gain on sale of Denver		(19,393)
Change in assets and liabilities:		
Retirement plan contribution	(15,000)	(15,000)
Retirement plan accrual	10,012	7,147
Accounts receivable and inventories	2,429	1,091
Accounts payable, accrued expenses, and other liabilities	9,978	(10,171)
Income taxes payable	4,920	(4,378)
Other	(3,606)	(3,422)
Net cash provided by operating activities	69,842	42,498
Investing activities:		
Capital expenditures	(44,431)	(32,640)
Proceeds from sale of Denver		45,850
Other, net	(701)	896
Net cash (used) provided by investing activities	(45,132)	14,106
Financing activities:		
Increase in debt	173,000	161,500
Payment of debt	(185,988)	(207,488)
Debt issuance costs	(680)	(3,771)
Dividends paid	(10,587)	(10,066)
Other, net	431	3,002
Net cash used by financing activities	(23,824)	(56,823)
Net increase (decrease) in cash and cash equivalents	886	(219)
Cash and cash equivalents at beginning of period	14,977	9,823
Cash and cash equivalents at end of period	$ 15,863	$ 9,604

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 25, 2005.

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 3, 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 period s presentation, including amounts related to certain television stations that are being held for sale (see Note 5).

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

3. The Company adopted EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other Than Goodwill*, 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. 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 in the first quarter of 2005.

4. In the second quarter of 2005, 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. 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 of 2005.

5. In the second quarter of 2006, the Company announced plans to divest WIAT in Birmingham, Alabama, KWCH in Wichita, Kansas (including that station s three satellites), WDEF in Chattanooga, Tennessee, and KIMT in Mason City, Iowa; these divestures are expected to be completed by the end of the year. The results of these stations as well as their associated web sites have been presented as discontinued operations in the accompanying consolidated balance sheets and statements of operations for all periods. Depreciation and amortization of assets being divested ceased during the second quarter of 2006.

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(In thousands)	Quarter Ended June 25, 2006	Quarter Ended June 26, 2005	Six Months Ended June 25, 2006	Six Months Ended June 26, 2005
Revenues	$ 11,258	$ 10,953	$ 20,219	$ 20,067
Costs and expense	8,202	9,962	18,240	19,432
Income before income taxes	3,056	991	1,979	635
Income taxes	1,142	376	737	246
Income from discontinued operations	$ 1,914	$ 615	$ 1,242	$ 389

As of June 25, 2006, the assets of the discontinued operations consisted of approximately $9 million of current assets, $26 million of fixed assets, and $79 million of intangible assets including FCC licenses and network affiliations.

6. During the second quarter of fiscal 2006, the Company amended its existing $1 billion revolving credit facility; changes included a reduction of the applicable interest rate and an extension of the term until June 30, 2011. Interest payments 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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7. 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 25, 2006					
Consolidated revenues	$ 150,851	$ 74,345	$ 6,540	$ (1,678)	$ 230,058
Segment operating cash flow	$ 38,158	$ 25,174	$ (436)		$ 62,896
Allocated amounts:					
Equity in net loss of unconsolidated affiliate			(45)		(45)
Depreciation and amortization	(6,495)	(4,925)	(362)		(11,782)
Segment profit (loss)	$ 31,663	$ 20,249	$ (843)		51,069
Unallocated amounts:					
Interest expense					(8,106)
Investment income SP Newsprint					4,553
Acquisition intangibles amortization					(4,164)
Corporate expense					(10,729)
Other					(3,585)
Consolidated income from continuing operations before income taxes					$ 29,038
Three Months Ended June 26, 2005					
Consolidated revenues	$ 146,460	$ 72,615	$ 4,903	$ (1,192)	$ 222,786
Segment operating cash flow	$ 37,637	$ 25,300	$ (512)		$ 62,425
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)	(4,190)	(426)		(10,449)
Segment profit (loss)	$ 65,209	$ 21,110	$ (957)		85,362
Unallocated amounts:					
Interest expense					(7,364)
Investment income SP Newsprint					611
Acquisition intangibles amortization					(4,000)
Corporate expense					(10,559)
Other					(1,858)
Consolidated income from continuing operations before income taxes					$ 62,192

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(In thousands)	Publishing	Broadcasting	Interactive Media	Eliminations	Total
Six Months Ended June 25, 2006					
Consolidated revenues	$ 299,014	$ 138,931	$ 12,716	$ (3,160)	$ 447,501
Segment operating cash flow	$ 71,860	$ 42,177	$ (985)		$ 113,052
Allocated amounts:					
Equity in net income of unconsolidated affiliate			114		114
Depreciation and amortization	(12,750)	(9,836)	(725)		(23,311)
Segment profit (loss)	$ 59,110	$ 32,341	$ (1,596)		89,855
Unallocated amounts:					
Interest expense					(15,648)
Investment income SP Newsprint					4,725
Acquisition intangibles amortization					(8,327)
Corporate expense					(21,412)
Other					(8,394)
Consolidated income from continuing operations before income taxes					$ 40,799
Six Months Ended June 26, 2005					
Consolidated revenues	$ 289,893	$ 134,507	$ 9,423	$ (2,244)	$ 431,579
Segment operating cash flow	$ 72,675	$ 40,402	$ (1,086)		$ 111,991
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)	(8,347)	(853)		(20,848)
Segment profit (loss)	$ 94,521	$ 32,055	$ (1,780)		124,796
Unallocated amounts:					
Interest expense					(14,859)
Investment income SP Newsprint					1,058
Acquisition intangibles amortization					(8,002)
Corporate expense					(20,941)
Other					(4,863)
Consolidated income from continuing operations before income taxes and cumulative effect of change in accounting principle					$ 77,189

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8. The following table sets forth the computation of basic and diluted earnings per share for income from continuing operations before cumulative effect of change in accounting principle:

(In thousands, except per share amounts)	Quarter Ended June 25, 2006 Income (Numerator)	Shares (Denominator)	Per Share Amount	Quarter Ended June 26, 2005 Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Income from continuing operations available to common stockholders	$ 18,262	23,591	$ 0.77	$ 37,770	23,497	$ 1.60
Effect of dilutive securities						
Stock options					124	
Restricted stock and other	(15)	172		(18)	232	
Diluted EPS						
Income from continuing operations available to common stockholders plus assumed conversions	$ 18,247	23,763	$ 0.77	$ 37,752	23,853	$ 1.58

(In thousands, except per share amounts)	Six Months Ended June 25, 2006 Income (Numerator)	Shares (Denominator)	Per Share Amount	Six Months Ended June 26, 2005 Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Income from continuing operations before cumulative effect of change in accounting principle available to common stockholders	$ 25,601	23,590	$ 1.09	$ 47,293	23,488	$ 2.01
Effect of dilutive securities						
Stock options					133	
Restricted stock and other	(23)	197		(37)	230	