MEDIA GENERAL INC
Form 10-Q
August 05, 2011
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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, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Larger accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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 July 31, 2011.

Class A Common shares:	22,596,099
Class B Common shares:	548,564

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MEDIA GENERAL, INC.

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FORM 10-Q REPORT

June 26, 2011

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(000 s except shares)

	June 26, 2011	December 26, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,599	$ 31,860
Accounts receivable net	86,933	102,314
Inventories	5,765	7,053
Other	23,119	29,745
Total current assets	129,416	170,972
Other assets	38,215	40,629
Property, plant and equipment net	388,134	398,939
FCC licenses and other intangibles net	211,402	214,416
Excess of cost over fair value of net identifiable assets of acquired businesses	355,017	355,017
	$ 1,122,184	$ 1,179,973

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(000 s except shares and per share data)

	June 26, 2011	December 26, 2010
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 24,900	$ 30,030
Accrued expenses and other liabilities	75,016	89,784
Total current liabilities	99,916	119,814
Long-term debt	658,985	663,341
Retirement, post-retirement and post-employment plans	163,608	170,670
Deferred income taxes	45,745	34,729
Other liabilities and deferred credits	26,514	27,497
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 22,596,066 and 22,493,878 shares	112,980	112,469
Class B, authorized 600,000 shares; issued 548,564 shares	2,743	2,743
Additional paid-in-capital	27,437	26,381
Accumulated other comprehensive loss	(123,741)	(126,799)
Retained earnings	107,997	149,128
Total stockholders equity	127,416	163,922
	$ 1,122,184	$ 1,179,973

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(000 s except for per share data)

	Three Months Ended June 26, 2011	Three Months Ended June 27, 2010	Six Months Ended June 26, 2011	Six Months Ended June 27, 2010
Revenues				
Broadcast television	$ 70,359	$ 72,509	$ 135,685	$ 139,594
Digital media and other	9,591	10,748	19,864	21,229
Print	74,836	82,905	148,180	164,203
Total revenues	154,786	166,162	303,729	325,026
Operating costs:				
Employee compensation	70,880	72,445	149,099	148,037
Production	36,410	36,831	72,166	72,364
Selling, general and administrative	27,678	26,904	53,874	52,233
Depreciation and amortization	13,041	13,697	26,060	27,398
Total operating costs	148,009	149,877	301,199	300,032
Operating income	6,777	16,285	2,530	24,994
Other income (expense):				
Interest expense	(17,192)	(17,089)	(33,756)	(36,912)
Other, net	252	166	517	541
Total other expense	(16,940)	(16,923)	(33,239)	(36,371)
Loss before income taxes	(10,163)	(638)	(30,709)	(11,377)
Income tax expense	5,219	3,645	10,477	9,652
Net loss	$ (15,382)	$ (4,283)	$ (41,186)	$ (21,029)
Net loss per common share basic and assuming dilution	$ (0.68)	$ (0.19)	$ (1.84)	$ (0.94)

See accompanying notes.

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MEDIA GENERAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

	Six Months Ended June 26, 2011	Six Months Ended June 27, 2010
Operating activities:		
Net loss	$ (41,186)	$ (21,029)
Adjustments to reconcile net loss:		
Depreciation and amortization	26,060	27,398
Deferred income taxes	12,432	15,013
Intraperiod tax allocation	(1,955)	(3,254)
Write-off of previously deferred debt issuance costs		1,772
Change in assets and liabilities:		
Accounts receivable and inventories	16,669	14,965
Accounts payable, accrued expenses, and other liabilities	(6,224)	14,011
Income taxes refundable	(518)	26,171
Company owned life insurance (cash surrender value less policy loans including repayments)	(587)	(17,995)
Retirement plan contributions	(7,053)	(1,611)
Other, net	(576)	(2,019)
Net cash (used) provided by operating activities	(2,938)	53,422
Investing activities:		
Capital expenditures	(10,579)	(8,796)
Other, net	259	520
Net cash used by investing activities	(10,320)	(8,276)
Financing activities:		
Proceeds from issuance of senior notes		293,070
Increase in bank debt	45,000	134,156
Repayment of bank debt	(50,000)	(466,640)
Debt issuance costs		(12,078)
Other, net	(3)	183
Net cash used by financing activities	(5,003)	(51,309)
Net decrease in cash and cash equivalents	(18,261)	(6,163)
Cash and cash equivalents at beginning of period	31,860	33,232
Cash and cash equivalents at end of period	$ 13,599	$ 27,069
Cash paid for interest	$ 32,288	$ 24,029

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, 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, 2010.

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.

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

3. The Company recorded non-cash income tax expense of $5.2 million and $10.5 million in the second quarter and first six months of 2011, compared to $3.6 million and $9.7 million in the equivalent quarter and six months of 2010. The year-over-year increase was due primarily to different amounts of intraperiod tax allocation related to Other Comprehensive Income adjustments recorded in the second quarter of 2010. The Company s tax provision for all periods had an unusual relationship to pretax loss mainly because of the existence of a full deferred tax asset valuation allowance at the beginning of each period. This circumstance generally results in a zero net tax provision since the income tax expense or benefit that would otherwise be recognized is offset by the change to the valuation allowance. The tax expense recorded in the second quarter of 2011 reflects the accrual of approximately $6.2 million ($12.4 million for the first six months of 2011) of valuation allowance in connection with the tax amortization of the Company s indefinite-lived intangible assets that is not available to offset existing deferred tax assets (termed a naked credit), partially offset by $1 million ($2 million for the first six months of 2011) of tax benefit related to the intraperiod allocation items in Other Comprehensive Income. The Company expects the naked credit to result in approximately $25 million of non-cash income tax expense for the full-year 2011; other tax adjustments and intraperiod tax allocations that are difficult to forecast may also affect the remainder of 2011. A full discussion of the naked credit issue is contained in Note 2 of Item 8 of the Company s Form 10-K for the year ended December 26, 2010.

4. In the first quarter of 2010, the Company established a new financing structure; the Company simultaneously amended and extended its bank term loan facility and issued senior notes. As a result, the Company immediately expensed previously deferred debt issuance costs of $1.8 million. The senior notes mature in 2017 and have a face value of $300 million, an interest rate of 11.75%, and were issued at a price equal to 97.69% of face value. The proceeds from the senior notes were used to pay down existing bank credit facilities. The bank term loan facility matures in March 2013 and bears an interest rate of LIBOR plus a margin ranging from 3.75% to 4.75% (4.50% at June 26, 2011), determined by the Company s leverage ratio, as defined in the agreement. The new agreements have two main financial covenants: a leverage ratio and a fixed charge coverage ratio which involve debt levels, interest expense as well as other fixed charges, and a rolling four-quarter calculation of EBITDA, all as defined in the agreements. The Company pledged its cash and assets as well as the stock of its subsidiaries as collateral; the Company s subsidiaries also guaranteed the debt of the parent company. Additionally, there are restrictions on the Company s ability to pay dividends (none are allowed in 2011), make capital expenditures above certain levels, repurchase its stock, and engage in certain other transactions such as making investments or entering into capital leases above certain levels. The bank term loan facility contains an annual requirement to use excess cash flow (as defined within the agreement) to repay debt. Other factors, such as the sale of assets, may also result in a mandatory prepayment of a portion of the bank term loan. The Company was in compliance with all covenants and expects that the covenants will continue to be met.

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The following table includes information about the carrying values and estimated fair values of the Company s financial instruments at June 26, 2011 and December 26, 2010:

	June 26, 2011		December 26, 2010	
(In thousands)	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Assets				
Investments				
Trading	$ 286	$ 286	$ 249	$ 249
Liabilities				
Interest rate swaps	1,877	1,877	6,891	6,891
Long-term debt:				
Bank term loan	364,412	338,850	369,412	365,980
11.75% senior notes	294,424	291,380	293,929	320,608
Revolving credit facility ($66 million available at 6/26/11)				

Trading securities held by the Supplemental 401(k) plan are carried at fair value and are determined by reference to quoted market prices. The fair value of the bank term loan debt in the chart above was estimated using discounted cash flow analyses and an estimate of the Company s bank borrowing rate (by reference to publicly traded debt rates as of June 26, 2011) for similar types of borrowings. As of June 26, 2011, the fair value of the 11.75% Senior Notes was valued at the most recent trade prior to the end of the quarter which approximates fair value. Under the fair value hierarchy, the Company s trading securities fall under Level 1 (quoted prices in active markets), and its long term debt falls under Level 2 (other observable inputs).

In the third quarter of 2006, the Company entered into several interest rate swaps as part of an overall strategy to manage interest cost and risk associated with variable interest rates, primarily short-term changes in LIBOR. These interest rate swaps are cash flow hedges with original notional amounts totaling $300 million; swaps with notional amounts of $100 million matured in 2009, and the remaining swaps with nominal amounts of $200 million will mature in the third quarter of 2011. Changes in cash flows of the interest rate swaps offset changes in the interest payments on the Company s Facilities. These swaps effectively convert a portion of the Company s variable rate bank debt to fixed rate debt with a weighted average interest rate approximating 10.1% at June 26, 2011.

As of December 26, 2010, the interest rate swaps were carried at fair value based on the present value of the estimated cash flows the Company would have received or paid to terminate the swaps; the Company applied a discount rate that is predicated on quoted LIBOR prices and current market spreads for unsecured borrowings. Because the interest rate swaps expire in August 2011, the fair value as of June 26, 2011, was determined based on the value of the already determined remaining interest payments under the swap. In the first six months of both 2011 and 2010, $5.4 million was reclassified from Other Comprehensive Income (OCI) into interest expense on the Consolidated Condensed Statement of Operations as the effective portion of the interest rate swap. The pretax change in fair value deferred in OCI for the first six months of 2011 and 2010 was $5.0 million and $3.5 million, respectively. All amounts paid for these swaps are recorded in the Consolidated Condensed Statement of Operations during the accounting period in the Interest expense line. Based on the estimated current and future fair values of the swaps as of June 26, 2011, $1.9 million will be reclassified from OCI to interest expense in the next twelve months. Interest rate swaps are recorded on the Consolidated Condensed Balance Sheets in the line item Accrued expenses and other liabilities. Under the fair value hierarchy, the Company s interest rate swaps fall under Level 2 (other observable inputs). The following table includes information about the Company s derivative instruments as of June 26, 2011:

(In thousands)	Fair Value as of June 26, 2011	Fair Value as of December 26, 2010
Fair value of interest rate swaps	$ 1,877	$ 6,891

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5. The Company is a diversified communications company located primarily in the southeastern United States. The Company is comprised of five geographic segments (Virginia/Tennessee, Florida, Mid-South, North Carolina and Ohio/Rhode Island) along with a sixth segment that includes interactive advertising services and certain other operations.

Revenues for the geographic markets include revenues from 18 network-affiliated television stations, three metropolitan newspapers, and 20 community newspapers, all of which have associated websites. Additionally, more than 200 specialty publications that include weekly newspapers and niche publications (and the associated Web sites) are included in revenues for the geographic markets. Revenues for the sixth segment, Advertising Services & Other, are generated by three interactive advertising services companies and certain other operations including a broadcast equipment and studio design company.

Management measures segment performance based on profit or loss from operations before interest, income taxes, and acquisition-related amortization. Amortization of acquired intangibles is not allocated to individual segments although the intangible assets themselves are included in identifiable assets for each segment. Intercompany sales are primarily accounted for as if the sales were at current market prices and are eliminated in the consolidated financial statements. Certain promotions in the Company s newspapers and television stations on behalf of its online shopping portal are recognized based on incremental cost. The Company s reportable segments are managed separately, largely based on geographic market considerations and a desire to provide services to customers regardless of media platform. In certain instances, operations have been aggregated based on similar economic characteristics.

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

(In thousands)	Revenues	Depreciation and Amortization	Operating Profit (Loss)
Three Months ended June 26, 2011			
Virginia/Tennessee	$ 44,917	$ (3,154)	$ 6,139
Florida	33,244	(1,602)	(2,211)
Mid-South	41,012	(2,984)	7,197
North Carolina	18,974	(1,398)	697
Ohio/Rhode Island	14,071	(752)	3,539
Advertising Services & Other	4,028	(246)	(1,333)
Eliminations	(1,460)		
			14,028
Unallocated amounts:			
Acquisition intangibles amortization		(1,500)	(1,500)
Corporate expense		(1,405)	(7,966)
	$ 154,786	$ (13,041)	
Corporate interest expense			(17,180)
Other			2,455
Consolidated loss before income taxes			$ (10,163)
Three Months ended June 27, 2010			
Virginia/Tennessee	$ 48,947	$ (3,288)	$ 10,483
Florida	37,393	(1,762)	1,526
Mid-South	41,477	(3,010)	9,563
North Carolina	19,212	(1,557)	1,537
Ohio/Rhode Island	13,826	(835)	3,681
Advertising Services & Other	5,942	(234)	884
Eliminations	(635)		
			27,674
Unallocated amounts:			
Acquisition intangibles amortization		(1,571)	(1,571)
Corporate expense		(1,440)	(7,756)
	$ 166,162	$ (13,697)	
Corporate interest expense			(17,083)
Other			(1,902)
Consolidated loss before income taxes			$ (638)

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(In thousands)	Revenues	Depreciation and Amortization	Operating Profit (Loss)
Six Months ended June 26, 2011			
Virginia/Tennessee	$ 87,497	$ (6,331)	$ 9,976
Florida	67,189	(3,202)	(5,346)
Mid-South	79,304	(5,941)	12,609
North Carolina	36,603	(2,808)	824
Ohio/Rhode Island	26,428	(1,525)	5,883
Advertising Services & Other	9,177	(486)	(1,346)
Eliminations	(2,469)		
			22,600
Unallocated amounts:			
Acquisition intangibles amortization		(3,014)	(3,014)
Corporate expense		(2,753)	(16,238)
	$ 303,729	$ (26,060)	
Corporate interest expense			(33,733)
Other			(324)
Consolidated loss before income taxes			$ (30,709)
Six Months ended June 27, 2010			
Virginia/Tennessee	$ 94,798	$ (6,577)	$ 18,092
Florida	75,466	(3,525)	2,771
Mid-South	78,062	(6,020)	14,239
North Carolina	38,021	(3,114)	2,648
Ohio/Rhode Island	27,441	(1,669)	6,962
Advertising Services & Other	12,278	(465)	2,323
Eliminations	(1,040)		
			47,035
Unallocated amounts:			
Acquisition intangibles amortization		(3,142)	(3,142)
Corporate expense		(2,886)	(15,712)
	$ 325,026	$ (27,398)	
Corporate interest expense			(36,897)
Other			(2,661)
Consolidated loss before income taxes			$ (11,377)

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6. The Consolidated Condensed Statements of Operations include amortization expense from amortizing intangible assets of approximately $1.5 million for the second quarters of 2011 and 2010, and approximately $3 million for the first six months of 2011 and 2010. Currently, intangibles amortization expense is projected to be approximately $6 million in total for 2011, decreasing to $3 million in 2012, and to $2 million in 2013 to 2015.

The Company has recorded pretax cumulative impairment losses related to goodwill approximating $685 million through June 26, 2011. The following table shows the gross carrying amount and accumulated amortization for intangible assets as of June 26, 2011 and December 26, 2010:

	December 26, 2010		Change	June 26, 2011	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Amortization Expense	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets(including network affiliation,advertiser, programming and subscriber relationships):					
Virginia/Tennessee	$ 55,326	$ 43,088	$ 355	$ 55,326	$ 43,443
Florida	1,055	1,055		1,055	1,055
Mid-South	84,048	66,057	2,144	84,048	68,201
North Carolina	11,931	10,316	74	11,931	10,390
Ohio/Rhode Island	9,157	5,222	179	9,157	5,401
Advert. Serv. & Other	6,614	3,847	262	6,614	4,109
Total	$ 168,131	129,585	$ 3,014	$ 168,131	$ 132,599
Indefinite-lived intangible assets:					
Goodwill:					
Virginia/Tennessee					