

MEDIA GENERAL INC  
Form 10-Q  
August 10, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC. 20549

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**Form 10-Q**

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

For the quarterly period ended July 1, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-6383

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**MEDIA GENERAL, INC**

(Exact name of registrant as specified in its charter)

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Commonwealth of Virginia  
(State or other jurisdiction of

incorporation or organization)

333 E. Franklin St., Richmond, VA  
(Address of principal executive offices)

54-0850433  
(I.R.S. Employer

Identification No.)

23219  
(Zip Code)

(804) 649-6000

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(Registrant's telephone number, including area code)

N/A

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of August 5, 2007.

Class A Common shares:	22,065,715
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)	
	July 1,	December 31,
	2007	2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,195	\$ 11,930
Accounts receivable net	131,364	139,538
Inventories	6,917	9,650
Other	43,201	41,630
<b>Total current assets</b>	<b>193,677</b>	<b>202,748</b>
Investments in unconsolidated affiliates	80,255	84,854
Other assets	77,160	71,117
Property, plant and equipment net	489,523	490,049
Excess of cost over fair value of net identifiable assets of acquired businesses net	936,523	935,023
FCC licenses and other intangibles net	712,076	721,437
	<b>\$ 2,489,214</b>	<b>\$ 2,505,228</b>

See accompanying notes.

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## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(000 s except shares)

	(Unaudited)	
	July 1,	December 31,
	2007	2006
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 24,780	\$ 34,292
Accrued expenses and other liabilities	86,078	92,712
Income taxes payable		4,516
Total current liabilities	110,858	131,520
Long-term debt	972,000	916,320
Deferred income taxes	287,992	281,670
Other liabilities and deferred credits	240,354	238,358
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 22,065,668 and 23,556,472 shares	110,328	117,782
Class B, authorized 600,000 shares; issued 555,992 shares	2,780	2,780
Additional paid-in capital	8,328	55,173
Accumulated other comprehensive loss	(99,266)	(111,248)
Retained earnings	855,840	872,873
Total stockholders' equity	878,010	937,360
	\$ 2,489,214	\$ 2,505,228

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	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Revenues	\$ 241,188	\$ 230,058	\$ 471,542	\$ 447,501
Operating costs:				
Production	106,926	97,403	216,630	193,521
Selling, general and administrative	88,674	82,981	182,013	168,630
Depreciation and amortization	20,450	17,200	41,073	34,207
Total operating costs	216,050	197,584	439,716	396,358
Operating income	25,138	32,474	31,826	51,143
Other income (expense):				
Interest expense	(15,186)	(8,106)	(30,160)	(15,648)
Investment income (loss) unconsolidated affiliates	(2,305)	4,508	(4,606)	4,839
Other, net	379	162	771	465
Total other expense	(17,112)	(3,436)	(33,995)	(10,344)
Income (loss) from continuing operations before income taxes	8,026	29,038	(2,169)	40,799
Income taxes	2,906	10,776	(785)	15,198
Income (loss) from continuing operations	5,120	18,262	(1,384)	25,601
Discontinued operations		1,914		1,242
Net income (loss)	\$ 5,120	\$ 20,176	\$ (1,384)	\$ 26,843
Earnings (loss) per common share:				
Income (loss) from continuing operations	\$ 0.23	\$ 0.77	\$ (0.06)	\$ 1.09
Discontinued operations		0.08		0.05
Net income (loss)	\$ 0.23	\$ 0.85	\$ (0.06)	\$ 1.14
Earnings (loss) per common share assuming dilution:				
Income (loss) from continuing operations	\$ 0.22	\$ 0.77	\$ (0.06)	\$ 1.08
Discontinued operations		0.08		0.05
Net income (loss)	\$ 0.22	\$ 0.85	\$ (0.06)	\$ 1.13
Dividends paid per common share	\$ 0.23	\$ 0.22	\$ 0.46	\$ 0.44

See accompanying notes



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## MEDIA GENERAL, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(000 s)

	Six Months Ended	
	July 1,	
	2007	June 25, 2006
Operating activities:		
Net income (loss)	\$ (1,384)	\$ 26,843
Adjustments to reconcile net income (loss):		
Depreciation and amortization	41,073	35,743
Deferred income taxes	5,748	3,362
Investment loss (income) unconsolidated affiliates	4,606	(4,839)
Change in assets and liabilities:		
Retirement plan contribution		(15,000)
Retirement plan accrual	2,806	10,012
Accounts receivable and inventories	10,912	2,429
Accounts payable, accrued expenses, and other liabilities	(9,320)	9,978
Income taxes (refundable) payable	(13,714)	4,920
Other	4,647	(3,606)
Net cash provided by operating activities	45,374	69,842
Investing activities:		
Capital expenditures	(37,791)	(44,431)
Purchase of business	(1,952)	
Other, net	6,285	(701)
Net cash used by investing activities	(33,458)	(45,132)
Financing activities:		
Increase in debt	357,000	173,000
Payment of debt	(301,320)	(185,988)
Dividends paid	(10,753)	(10,587)
Stock repurchase	(57,150)	
Other, net	572	(249)
Net cash used by financing activities	(11,651)	(23,824)
Net increase in cash and cash equivalents	265	886
Cash and cash equivalents at beginning of period	11,930	14,977
Cash and cash equivalents at end of period	\$ 12,195	\$ 15,863

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 31, 2006.

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 adopted the provisions of FASB *Interpretation No. 48, Accounting for Uncertainty in Income Taxes* — an interpretation of FASB *Statement No. 109* (FIN 48), on January 1, 2007. This interpretation requires that income tax positions have a more-likely-than-not chance of being sustained prior to recording the related tax benefit in the financial statements. Tax benefits are to be recognized if information becomes available which indicates that it is more-likely-than-not that the position will be sustained. As a result of the implementation of FIN 48, the Company recognized an approximate \$4.9 million net increase in the liability for uncertain tax positions, which was accounted for as a reduction to retained earnings as of January 1, 2007.

As of January 1, 2007, the balance of the liability for uncertain tax positions was approximately \$12 million (net of approximately \$5.3 million of federal tax benefit), all of which would impact the effective tax rate if the underlying issues were sustained or favorably resolved. The Company recognizes interest and penalties accrued in connection with the liability for uncertain tax positions as income tax expense in accordance with the provisions of FIN 48. As of January 1, 2007, the liability for uncertain tax positions included approximately \$4.1 million of estimated interest and penalties.

For federal tax purposes the Company's tax returns have been audited through 2003 and remain subject to audit for years 2004 and forward. The Company has various state income tax examinations ongoing and at varying stages of completion, but generally its state income tax returns have been audited or closed to audit through 2003.

4. In the second quarter of 2007, the Company entered into an accelerated share repurchase program with an investment bank. Under this program, the investment bank delivered 1.5 million shares of Class A Common Stock to the Company for approximately \$57 million (\$38.10 per share). Those shares were immediately retired and accounted for as a reduction of stockholders' equity. The share repurchase was funded through borrowings under the Company's existing credit agreements. As part of the transaction, the Company entered into a forward contract with the investment bank. The settlement of the forward contract, which is scheduled to occur no later than December 31, 2007, includes a price adjustment based on the volume weighted-average price of the Company's Class A Common Stock, as defined in the agreement. At July 1, 2007, the price adjustment that the Company would have received approximated \$3.4 million. If obligated to pay an adjustment to the investment bank, the Company may elect to make payment in cash or shares of Class A Common Stock.

5. Prior to the end of 2007's second quarter, one of three presses at the Company's Richmond Times-Dispatch printing facility near Richmond, Virginia, caught fire; damage to the remainder of the facility was minimal and the remaining presses were back in operation the next day. The Company has insurance to cover the damage as well as the interruption to its business. The deductible of \$100,000 was recorded as an expense

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in the second quarter. The Company is working with its insurance carrier to determine the extent of the damage; although that process is not complete, the Company expects the claim to be in the tens of millions. The Company anticipates that it will recognize a gain related to this involuntary conversion but is currently unable to estimate its magnitude or timing of the settlement.

6. The Company completed the acquisition of four NBC owned and operated television stations in the third quarter of 2006 for \$609 million, including transaction costs. This transaction was accounted for as a purchase and has been included in the Company's consolidated results of operations since its date of acquisition. The stations acquired were WNCN in Raleigh, North Carolina, WCMH in Columbus, Ohio, WVTM in Birmingham, Alabama, and WJAR in Providence, Rhode Island.

In the second half of 2006, the Company sold KWCH in Wichita, Kansas (including that station's three satellites), WIAT in Birmingham, Alabama, WDEF in Chattanooga, Tennessee, and KIMT in Mason City, Iowa, to three different buyers. Gross proceeds from the divestitures were \$135 million, including working capital. The results of these stations as well as their associated web sites have been presented as discontinued operations in the accompanying consolidated condensed statements of operations for the second quarter and six months ended June 25, 2006 as follows:

	Quarter Ended June 25,	Six Months Ended June 25,
<i>(In thousands )</i>	2006	2006
Revenues	\$ 11,258	\$ 20,219
Costs and expense	8,202	18,240
Income before income taxes	3,056	1,979
Income taxes	1,142	737
Income from discontinued operations	\$ 1,914	\$ 1,242

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

<i>(In thousands)</i>	<b>Publishing</b>	<b>Broadcasting</b>	<b>Interactive Media</b>	<b>Eliminations</b>	<b>Total</b>
<b>Three Months Ended July 1, 2007</b>					
Consolidated revenues	\$ 136,381	\$ 97,088	\$ 9,450	\$ (1,731)	\$ 241,188
Segment operating cash flow	\$ 29,014	\$ 27,378	\$ 573		\$ 56,965
Recovery on investment			188		188
Depreciation and amortization	(6,438)	(7,531)	(415)		(14,384)
Segment profit	\$ 22,576	\$ 19,847	\$ 346		42,769
Unallocated amounts:					
Interest expense					(15,186)
Equity in net loss of unconsolidated affiliates					(2,305)
Acquisition intangibles amortization					(4,887)
Corporate expense					(10,020)
Other					(2,345)
Consolidated income before income taxes					\$ 8,026
<b>Three Months Ended June 25, 2006</b>					
Consolidated revenues	\$ 150,851	\$ 74,345	\$ 6,540	\$ (1,678)	\$ 230,058
Segment operating cash flow	\$ 38,158	\$ 25,174	\$ (436)		\$ 62,896
Depreciation and amortization	(6,495)	(4,925)	(362)		(11,782)
Segment profit (loss)	\$ 31,663	\$ 20,249	\$ (798)		51,114
Unallocated amounts:					
Interest expense					(8,106)
Equity in net income of unconsolidated affiliates					4,508
Acquisition intangibles amortization					(4,164)
Corporate expense					(10,729)
Other					(3,585)
Consolidated income from continuing operations before income taxes					\$ 29,038

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<i>(In thousands)</i>	<b>Interactive</b>			<b>Total</b>	
	<b>Publishing</b>	<b>Broadcasting</b>	<b>Media</b>		<b>Eliminations</b>
<b>Six Months Ended July 1, 2007</b>					
Consolidated revenues	\$ 276,123	\$ 181,373	\$ 17,457	\$ (3,411)	\$ 471,542
Segment operating cash flow	\$ 54,319	\$ 43,003	\$ 415		\$ 97,737
Recovery on investment			188		188
Depreciation and amortization	(12,889)	(15,080)	(860)		(28,829)
Segment profit (loss)	\$ 41,430	\$ 27,923	\$ (257)		69,096
<b>Unallocated amounts:</b>					
Interest expense					(30,160)
Equity in net loss of unconsolidated affiliates					(4,606)
Acquisition intangibles amortization					(9,770)
Corporate expense					(20,275)
Other					(6,454)
Consolidated loss before income taxes					\$ (2,169)
<b>Six Months Ended June 25, 2006</b>					
Consolidated revenues	\$ 299,014	\$ 138,931	\$ 12,716	\$ (3,160)	\$ 447,501
Segment operating cash flow	\$ 71,860	\$ 42,177	\$ (985)		\$ 113,052
Depreciation and amortization	(12,750)	(9,836)	(725)		(23,311)
Segment profit (loss)	\$ 59,110	\$ 32,341	\$ (1,710)		89,741
<b>Unallocated amounts:</b>					
Interest expense					(15,648)
Equity in net income of unconsolidated affiliates					4,839
Acquisition intangibles amortization					(8,327)
Corporate expense					(21,412)
Other					(8,394)
Consolidated income from continuing operations before income taxes					\$ 40,799

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8. 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 July 1, 2007			Quarter Ended June 25, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic EPS</b>						
Income from continuing operations available to common stockholders	\$ 5,120	22,637	\$ 0.23	\$ 18,262	23,591	\$ 0.77
<b>Effect of dilutive securities</b>						
Restricted stock and other	(12)	198		(15)	172	
<b>Diluted EPS</b>						
Income from continuing operations available to common stockholders plus assumed conversions	\$ 5,108	22,835	\$ 0.22	\$ 18,247	23,763	\$ 0.77

<i>(In thousands, except per share amounts)</i>	Six Months July 1, 2007			Six Months June 25, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic EPS</b>						
Income (loss) from continuing operations available to common stockholders	\$ (1,384)	23,146	\$ (0.06)	\$ 25,601	23,590	\$ 1.09
<b>Effect of dilutive securities</b>						
Restricted stock and other				(23)	197	
<b>Diluted EPS</b>						
Income (loss) from continuing operations available to common stockholders plus assumed conversions	\$ (1,384)	23,146	\$ (0.06)	\$ 25,578	23,787	\$ 1.08

9. The following tables provide the components of net periodic employee benefits expense for the Company's benefit plans for the second quarter and first six months of 2007 and 2006:

<i>(In thousands)</i>	Second Quarter			
	Pension Benefits		Other Benefits	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Service cost	\$ 48	\$ 3,567	\$ 95	\$ 65
Interest cost	5,998	6,192	738	569
Expected return on plan assets	(6,204)	(6,341)		
Amortization of prior-service (credit) cost	(28)	(15)	461	286
Amortization of net loss (gain)	1,749	1,689	(53)	
Curtailement loss		497		
<b>Net periodic benefit cost</b>	<b>\$ 1,563</b>	<b>\$ 5,589</b>	<b>\$ 1,241</b>	<b>\$ 920</b>



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<i>(In thousands)</i>	Six Months Ended			
	Pension Benefits		Other Benefits	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Service cost	\$ 548	\$ 7,442	\$ 245	\$ 140
Interest cost	12,498	12,367	1,463	1,019
Expected return on plan assets	(12,404)	(12,591)		
Amortization of prior-service (credit) cost	(28)	35	861	411
Amortization of net loss (gain)	4,149	4,189	(53)	
Curtailement loss		497		
<b>Net periodic benefit cost</b>	<b>\$ 4,763</b>	<b>\$ 11,939</b>	<b>\$ 2,516</b>	<b>\$ 1,570</b>

Effective for fiscal 2007, the Company redesigned its defined benefit and defined contribution retirement plans and also added certain new employee benefit programs. The changes included: freezing the service accrual in the defined benefit retirement plan for existing employees (accounting for the year-over-year decrease in net periodic benefit cost shown above), increasing the maximum company match in the 401(k) defined contribution plan to 5% from 4% of an employee's earnings, adding a profit sharing feature to the 401(k) plan, and establishing new retiree medical savings accounts.

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

<i>(In thousands)</i>	Quarter Ended		Six Months Ended	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Net income (loss)	\$ 5,120	\$ 20,176	\$ (1,384)	\$ 26,843
Unrealized gain on derivative contracts (net of deferred taxes)	3,477	533	3,369	1,065
Change in pension and postretirement (net of deferred taxes)	9,292	24,083	9,292	24,083
Unrealized holding (loss) gain on equity securities (net of deferred taxes)	(226)	123	(679)	(103)
<b>Comprehensive income</b>	<b>\$ 17,663</b>	<b>\$ 44,915</b>	<b>\$ 10,598</b>	<b>\$ 51,888</b>

11. The Company has historically issued stock options and Performance Accelerated Restricted Stock (PARS) under its Long-Term Incentive Plan (LTIP) to certain key employees. At the Company's 2006 Annual Meeting, amendments, including one allowing for additional shares to be made available for future awards, were not approved. Consequently, the Company did not grant additional stock options or PARS in the first quarter of 2007. The Company plans to resume this practice in 2008 after amendments to the LTIP (including allowing that additional shares be made available for future awards) were approved at the 2007 Annual Stockholder Meeting. In the first quarter of 2007 in order to maintain long-term compensation objectives for key employees, the Board adopted the Stock Appreciation Rights (SAR) Plan and approved grants of individual awards thereunder on January 31, 2007.

A SAR, which is settled in cash and also is designed to help align key employees' interests with those of the Company's stockholders, provides the grantee the ability to benefit from appreciation in the value of the Company's Class A Common Stock. The amount realized upon exercise of a SAR is the difference between the fair market value of Class A Common Stock on the date of grant and the fair market value of Class A Common Stock on the date of exercise, subject to a maximum increase in value (100% for awards granted in 2007). SARs vest ratably over a three-year period from the date of grant and have a maximum five-year term. SARs vest immediately upon the grantee's death or disability during employment or upon retirement after age 63 with 10 years of service provided that the grantee is employed on December 31 of the year in which the SAR was granted. Upon termination of employment, the grantee has up to 12 months thereafter to exercise any vested SAR.



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The Company granted 512,600 SARs in the first quarter of 2007 at a grant-date fair value of \$8.79 using a binomial lattice valuation model. Each quarter, the Company records compensation expense ratably over the service period and adjusts for changes in the fair value of SARs, thereby making the expense associated with SARs highly variable. The Company recognized approximately \$0.1 million and \$0.5 million of non-cash compensation expense related to SARs in the second quarter and first six months of 2007. This compensation expense was included on the Selling, general and administrative line of the Consolidated Condensed Statement of Operations. Based on the fair value of SARs at July 1, 2007, there was \$1.7 million of total unrecognized compensation cost related to SARs, which is expected to be recognized over a weighted-average period of approximately 2.5 years. The Company believes that the issuance of stock options and PARS provides for less volatility and better aligns the interests of its stockholders and employees than SARs awards; therefore, the Company does not anticipate authorizing further SARs awards provided adequate stock options remain available.

12. During the first quarter of 2007, the Company purchased certain properties that it had been leasing from Variable Interest Entities (VIEs) using excess capacity under its revolving credit facility to repay the VIE's debt upon its maturity. Prior to the purchase, the Company consolidated the VIEs which have now been dissolved.

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

**OVERVIEW**

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

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

**RESULTS OF OPERATIONS**

Two significant events occurred in the latter half of 2006 which merit separate mention at the forefront of this discussion. First, the Company acquired four NBC television stations. Second, the Company sold four of its CBS-affiliated television stations which caused their results to be reported as discontinued operations for all periods presented in 2006. Results of the discontinued operations of the CBS stations are excluded throughout the remainder of this report. Results of the acquired NBC stations are discussed, but are excluded for comparative purposes unless otherwise noted.

The Company recorded net income of \$5.1 million in the second quarter of 2007, as compared to income from continuing operations of \$18.3 million (or net income of \$20.2 million) in the same quarter of 2006; the first half of 2007 produced a net loss of \$1.4 million, as compared to income from continuing operations of \$25.6 million (or net income of \$26.8 million) in the first six months of 2006. These quarterly and year-over-year declines of \$13.2 million and \$27 million reflected three overarching factors in both the quarter and year to date: lower Publishing Division profits, higher interest expense and a significant swing in the Company's share of SP Newsprint's results from equity income in 2006 to equity losses in 2007. With the exception of the Interactive Media Division (which generated its first profitable quarter from operations during the second quarter), divisional results were hampered by a difficult advertising environment, particularly in Florida. Publishing Division results were down approximately 30% in both the quarter and year to date (including pretax charges of approximately \$1 million for severance costs related to staff reductions at the Company's Tampa publishing operations in the first quarter of 2007), while Broadcast divisional results suffered a 22% decline (excluding the new NBC stations) in both periods as that Division was unable to replace record 2006-levels of Political revenues in this off-election year. Additionally, interest expense was almost double the level of the prior year's second quarter and first half due primarily to additional borrowings associated with the acquisition of the NBC stations. The Company's share of SP Newsprint's results in the second quarter and first half suffered negative swings of \$6.9 million and \$8.6 million, respectively; the combination of lower newsprint prices and higher raw material costs resulted in equity losses of \$2.4 million and \$3.9 million in the quarterly and year-to-date periods of 2007. As it announced in May 2007, SP Newsprint is currently undergoing a strategic review, which might include selling the company, in an effort to maximize value to its partners.

**PUBLISHING**

Operating income for the Publishing Division decreased \$9.1 million and \$17.7 million in the second quarter and first half of 2007 from the comparable 2006 periods despite successful cost containment measures which helped to mitigate a \$14.5 million and \$22.9 million decline in revenues in those periods. As shown in the following chart, Classified advertising suffered the largest portion of the revenue decline as employment, automotive and real estate advertising fell at virtually all locations. *The Tampa Tribune* comprised more than 85% of the Classified reduction as the Company's largest market (the Tampa Bay area) was hit especially hard by a downturn in Florida's economy. This year's unfavorable market conditions in the Tampa Bay region appeared magnified because they followed several years of booming growth in that area. Despite the introduction of several successful new products, Retail revenues were down for the first time since 2004 due to weakness in the home improvement, financial and furniture categories. While the National revenue decline presented in the chart below was less severe than the other advertising categories, the entire decrease was attributable to the current conditions in the Tampa market (driven by weak automotive and travel advertising).

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As previously mentioned, the revenue decline in the first half of 2007 was most pronounced at *The Tampa Tribune*, and the Company reacted by implementing a performance improvement plan to align expenses with that market's revenue environment. Cost reductions will be achieved by consolidating and centralizing certain functions and outsourcing others, resulting in the elimination of over 100 positions. The Division's 2007 first-quarter results included pretax charges of approximately \$1 million for severance costs related to this realignment. In addition, the paper has implemented several sales initiatives to stimulate Classified advertising sales and continues to aggressively manage its discretionary spending.

Publishing Division operating expenses decreased \$5.4 million in the second quarter and \$6.2 million in the first half of this year (excluding the aforementioned first-quarter Tampa severance costs) from the equivalent prior-year periods led by lower newsprint expense but also aided by other cost reduction measures. Reduced newsprint consumption as a result of switching to lighter weight newsprint, concerted conservation efforts and decreased advertising and circulation volumes contributed \$2.4 million and \$4.4 million in savings in the quarter and first half of the year, while lower average newsprint prices of \$57 and \$31 per short ton supplied another \$1.5 million and \$1.7 million in savings for the equivalent periods. Employee benefits and compensation costs were also below the prior-year level, particularly in the second quarter, due in large part to lower advertising commissions, open positions, and to a lesser degree, the performance improvement program in Tampa which resulted in reduced salary costs

**BROADCAST**

Broadcast results for 2007 included the four NBC stations which the Company acquired at the beginning of the third quarter of 2006. These stations contributed over \$24 million and \$44 million in revenues in the second quarter and first half of the year, and posted a combined \$4.2 million and \$2.8 million in operating profits. After a strong initial six months of ownership driven by outstanding 2006 Political revenues, the Providence, Rhode Island and Columbus, Ohio markets in particular, have been weaker than expected. The Company is focusing on the integration of these stations into its existing framework, which includes sales training and tools that have historically enabled the Company to consistently outperform industry average time sales. Initiatives aimed at facilitating enhanced performance and enabling these stations to reach their full potential are taking root as evidenced by a \$5.5 million improvement in results from these four stations from a loss in the first quarter of 2007 to operating profit of \$4.2 million in the second quarter of this year. For purposes of the remainder of this discussion and for the chart that follows, results of the acquired stations as well as discontinued operations are excluded.

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Broadcast operating income decreased \$4.6 million and \$7.2 million in the second quarter and first six months of this year as compared to the equivalent periods of 2006 due primarily to lower Political revenues in the quarter combined with a \$3 million and \$5.5 million rise in expenses in the quarter and year to date. As illustrated by the following chart, Local and National time sale changes were moderate, while Political advertising tumbled, as expected, from the prior year. A slight decrease in Local revenues (perpetuated by restrained automotive spending as dealers remain cautious), was more than offset by a modest rise in National time sales (driven by strength in the telecommunications category). There was no surprise surrounding the 75% and 67% quarterly and year-to-date decline in Political time sales in this off-election year; political revenues generated from 2007 gubernatorial races and issue advertising curbed what could have been an even larger descent from the prior year.

The Broadcast Division's advertising sales outperformed that of the industry for the first six months of the year. According to the Television Bureau of Advertising (a not-for-profit trade association of America's broadcast television industry), time sales across the broadcast industry (including Political revenues in either the National or Local ad category, as appropriate) have declined 4.3% through May 2007 as compared to the Division's smaller 1.5% decrease. Industry national time sales were down 5.8%, while the Division posted a 1.1% increase; industry local time sales declined 3.4% as compared to the Division's lesser 3% drop.

The Broadcast Division's \$3 million and \$5.5 million increase in operating expenses in the second quarter and first half of this year over the equivalent periods in 2006 was due in part to higher employee compensation and benefit costs which grew approximately 4% in the quarter and 6% in the year to date as a result of merit increases, higher sales commissions and incentives on new business initiatives. Also contributing to the increased expense level was a 17% rise in depreciation costs during both the quarter and first half of 2007 on new equipment as the Division has virtually completed its government-mandated conversion to broadcast high definition television.

**INTERACTIVE MEDIA**

The 2006 purchase of the four NBC television stations included their associated websites. Expenses at these websites outpaced their revenue contributions (\$.3 million and \$.6 million) in the second quarter and first half of 2007, resulting in a \$.2 million and \$.4 million operating loss in those equivalent periods. For

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purposes of the discussion below and for the chart that follows, results from both the acquired NBC websites as well as the discontinued CBS website operations are excluded. Also excluded is a \$.2 million recovery in the second quarter of 2007 on an investment which the Company had previously written off.

In the second quarter of 2007, the Interactive Media Division (IMD) accomplished a significant achievement as the Division delivered record revenues and generated its first profitable quarter from operations (a \$.3 million profit in 2007 as compared to a \$.8 million loss in 2006). IMD virtually broke even in the first half of the year by reducing its operating loss by 98%. This performance was led by Blockdot, the Company's advergaming business, which improved from operating losses in the second quarter and first half of 2006 to producing operating income in the equivalent 2007 periods (a \$1.5 million and \$2.3 million quarterly and year-over-year improvement). IMD Revenues grew by more than 30% in the quarter and year-to-date periods with more than 60% of the growth coming from Blockdot as revenues from its advergaming business more than tripled. The remaining divisional revenue growth resulted from an approximate 40% increase in both periods in Local online advertising as banners and sponsorships continued to grow and from National/Regional online revenues that more than doubled in the quarter and almost matched that same feat in the year to date as emergent relationships with an expanding network of national agencies translated into more advertisers. Classified advertising, which has historically produced double-digit quarterly revenue growth, declined 7% and 5% in the second quarter and first half of 2007. Online Classified advertising, where customers pay an additional fee to have their classified advertisement placed online simultaneously with its publication in the newspaper, is directly impacted by Classified performance in the Publishing Division. Despite initial revenues from the Company's strategic alliance with Yahoo!HotJobs, weak employment and real estate advertising volumes in the Company's newspapers translated into lower online Classified advertising. The following chart illustrates that although Classified advertising remains the Division's largest source of revenues, Local and National/Regional advertising growth in 2007 continues to make noteworthy strides.

IMD's operating expenses were higher by \$1.5 million and \$2.5 million in the quarter and year to date, predominantly the result of increased employee compensation and benefits expense due to additional staffing in key areas, additional sales-related commissions (reflective of higher revenues) and annual salary increases.

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The Interactive Media Division remains focused on expanding product offerings, securing and retaining talented personnel, driving revenue growth with innovative products and services, and creating a dynamic online presence across all the Company's online enterprises. The Division continues to seek opportunities to broaden its online product portfolio in an effort to meet the growing needs of its advertisers as demonstrated by the Company's alliance with Yahoo! and a consortium of over 250 newspapers. The Company anticipates the transition from its online Classified career sections at all of its daily newspapers to a Yahoo!HotJobs-driven platform will be implemented at all newspapers before the end of 2007. Employers and job seekers from across the country will then be able to access state-of-the-art search and targeting tools in a user-friendly platform.

## **INTEREST EXPENSE**

Interest expense almost doubled in the second quarter and first half of 2007 from the prior-year equivalent periods (up \$7.1 million and \$14.5 million, respectively) due to an increase in average debt outstanding of approximately \$475 million in the quarter and year to date as a result of additional borrowings associated with the acquisition of the four NBC stations.

In the third quarter of 2006, the Company entered into three interest rate swaps (where it pays a fixed rate and receives a floating rate) to manage interest cost and cash flows associated with variable interest rates, primarily short-term changes in LIBOR, not to trade such instruments for profit or loss. These interest rate swaps are cash flow hedges with notional amounts totaling \$300 million and maturities of either three or five years. Changes in cash flows of the interest rate swaps offset changes in the interest payments on the Company's \$300 million bank term loan. These swaps effectively convert the Company's variable rate bank term loan to fixed rate debt with a weighted average interest rate approximating 6.3% at July 1, 2007.

## **INCOME TAXES**

The Company's effective tax rate on income from continuing operations was 36.2% in both the second quarter and year to date of 2007 as compared to approximately 37.2% in the equivalent prior-year periods due primarily to a relatively greater impact of favorable permanent items and credits on lower expected pretax profit in the current year. On January 1, 2007, the Company adopted Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). As a result of the implementation of FIN 48, the Company recognized a \$4.9 million net increase in the liability for uncertain tax positions, which was accounted for as a reduction to retained earnings as of January 1, 2007. See Note 3 for further detail regarding the adoption of FIN 48.

## **LIQUIDITY**

Net cash generated from operating activities and from net borrowings in the first half of 2007 enabled the Company to repurchase stock for \$57.2 million, to make capital expenditures of \$37.8 million, to pay dividends to stockholders of \$10.8 million and to purchase a small weekly newspaper.

The Company has in place a \$1 billion revolving credit facility and a \$300 million variable-rate bank term loan facility (together the Facilities). The term loan is with essentially the same syndicate of banks that provides the Company's revolving credit facility. Prior to the end of the first quarter in 2007, the Company repaid, at maturity, \$95 million in debt that existed as the result of consolidating certain variable interest entities (VIEs) in which the Company had controlling financial interest by virtue of certain real property leases; the Company purchased the facilities by using existing capacity under its revolving credit facility. The Facilities have both interest coverage and leverage ratio covenants. These covenants, which involve debt levels, interest expense, and EBITDA (a measure of cash earnings as defined in the revolving credit agreement), can affect the Company's maximum borrowing capacity under the Facilities. The Company was in compliance with all covenants at quarter-end and expects to remain in compliance with them going forward. The Company believes that internally generated funds provided by operations, together with the unused portion of the Facilities, provide it with flexibility to manage working capital needs, pay dividends, finance capital expenditures, repurchase shares, and take advantage of attractive strategic opportunities.

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**OUTLOOK**

The Company remains guarded about the remainder of 2007 given the economic downturn in its largest market (Tampa, Florida), as well as the current weakness in newsprint pricing. The Company has taken proactive measures by implementing a performance improvement plan at *The Tampa Tribune* which focuses on aligning expenses with that market's current revenue environment. While lower newsprint prices will benefit the Publishing Division, they are expected to result in a greater loss in the Company's share of SP Newsprint's results. Additionally, the Publishing Division anticipates continued weakness in Classified advertising. Although the Company expects Political advertising in the latter part of 2007 to be higher than historic norms for an off-election year, the level of Political revenues will still be well below the record performance of 2006. The Broadcast Division will continue to focus on the new NBC stations and looks forward to maintaining the improvement in results which was demonstrated by these stations in the second quarter of this year. The Interactive Media Division remains invigorated by its success in the quarter and anticipates continuing its revenue growth and profitability as Blockdot is expected to make strong contributions. The Company is excited about the possibilities emanating from expanding its relationship with Yahoo! and a consortium that now has more than 250 newspapers. This relationship will combine the strength of the newspapers' unique local content with the advertising reach, leading technologies and leading global Internet brand of Yahoo!, ultimately resulting in a powerful, cutting-edge advertising network.

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*Certain statements in this quarterly report that are not historical facts are forward-looking statements, as that term is defined by the federal securities laws. Forward-looking statements include statements related to accounting estimates and assumptions, the impact of new accounting standards, expectations regarding acquisitions and dispositions, insurance recoveries, the Internet, newsprint prices, the Yahoo! agreements, general advertising levels and political advertising levels. Forward-looking statements, including those which use words such as the Company believes, anticipates, expects, estimates, intends, projects, plans and similar words, are made as of the date of this filing and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements.*

*Some significant factors that could affect actual results include: changes in advertising demand, interest rates or energy prices, the availability and pricing of newsprint, changes to pending accounting standards, health care cost trends, a natural disaster, the level of political advertising, the integration of acquisitions, and regulatory rulings and laws.*

**Item 3. Quantitative and Qualitative Disclosure About Market Risk.**

The Company's Annual Report on Form 10-K for the year ended December 31, 2006, details our disclosures about market risk. As of July 1, 2007, there have been no material changes in the Company's market risk from December 31, 2006.

**Item 4. Controls and Procedures**

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

During the second quarter of 2007, the Company completed the installation and integration of an advertising and billing system at its third largest Publishing operation and several smaller newspapers which will upgrade information system capabilities, improve business processes and expand customer service opportunities. In addition to these objectives, the new system will result in enhanced internal controls. This new system has already been successfully installed at the Company's two largest Publishing operations and will be rolled out to the Company's remaining newspapers and online operations through the end of 2008.



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## PART II. OTHER INFORMATION

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information with respect to the Company's purchase of common stock during the second quarter of 2007:

Date	Total Number of Shares Purchased (a)	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
April 27	1,500,000	\$ 38.10	1,500,000	

- (a) On April 26, 2007, the Company entered into an accelerated share repurchase agreement with Goldman, Sachs & Co; all 1.5 million shares were repurchased on April 27, 2007.

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

The Annual Meeting of Media General, Inc. was held on April 26, 2007, for the purpose of electing a board of directors, considering amendments to the 1995 Long-Term Incentive Plan (LTIP) and ratification of auditors by the Class B stockholders.

Each nominee for director was elected by the following vote:

	Class A	
	Class A Shares Voted FOR	Shares Voted WITHHELD
<b>Class A Directors</b>		
Charles A. Davis	17,888,001	4,629,910
Rodney A. Smolla	18,240,413	4,277,498
Walter E. Williams	18,234,338	4,283,573
	Class B	
	Class B Shares Voted FOR	Shares Voted WITHHELD
<b>Class B Directors</b>		
O. Reid Ashe, Jr.	547,396	380
J. Stewart Bryan III	547,396	380
Diana F. Cantor	547,396	380
Marshall N. Morton	547,396	380
Thompson L. Rankin	547,396	380
Coleman Wortham III	547,396	380

Amendments to the LTIP were approved with the following vote:

Voted	Class A Shares	Class B Shares
For	12,295,628	542,696
Against	7,272,752	380
Abstain	207,779	



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The Company's auditors were ratified by the following vote:

<b>Voted</b>	<b>Class B Shares</b>
For	547,396
Against	
Abstain	380

**Item 6. Exhibits**

(a) Exhibits

- 31.1 Section 302 Chief Executive Officer Certification
- 31.2 Section 302 Chief Financial Officer Certification
- 32 Section 906 Chief Executive Officer and Chief Financial Officer Certification

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEDIA GENERAL, INC.

DATE: August 10, 2007

/s/ Marshall N. Morton  
Marshall N. Morton  
President and Chief Executive Officer

DATE: August 10, 2007

/s/ John A. Schauss  
John A. Schauss  
Vice President - Finance and Chief Financial Officer