

MEDIA GENERAL INC
Form 10-Q
November 09, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549
Form 10-Q

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

For the quarterly period ended September 30, 2016

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 46-5188184
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

333 E. Franklin St., Richmond, VA 23219
(Address of principal executive offices) (Zip Code)

(804) 887-5000
(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 has submitted electronically and posted on its corporate website, 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 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
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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 3, 2016.

Voting Common shares (no par value): 129,311,903

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Media General, Inc.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited, in thousands, except shares)

ASSETS

	September 30, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 57,822	\$ 41,091
Trade accounts receivable (less allowance for doubtful accounts 2016 - \$4,966; 2015 - \$4,634)	311,826	298,474
Prepaid expenses and other current assets	15,515	15,083
Total current assets	385,163	354,648
Property and equipment, net of accumulated depreciation (2016 - \$196,187; 2015 - \$145,274)	445,591	470,537
Other assets, net	30,455	38,070
Definite lived intangible assets, net of accumulated amortization (2016 - \$206,412; 2015 - \$138,072)	788,000	871,129
Broadcast licenses	1,097,100	1,097,100
Goodwill	1,451,036	1,544,624
Total assets (a)	\$ 4,197,345	\$ 4,376,108

See accompanying notes.

(a) Consolidated assets as of September 30, 2016 and December 31, 2015, include total assets of variable interest entities (VIEs) of \$141 million and \$145 million, respectively, which can only be used to settle the obligations of the VIEs. See Note 1 and Note 3.

Media General, Inc.
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (Unaudited, in thousands except shares)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2016	December 31, 2015
Current liabilities:		
Trade accounts payable	\$ 18,074	\$ 35,800
Accrued salaries and wages	25,084	21,465
Accrued expenses and other current liabilities	105,920	95,500
Current installments of long-term debt	3,547	3,804
Current installments of obligation under capital leases	797	859
Total current liabilities	153,422	157,428
Long-term debt, net	2,147,336	2,199,110
Deferred tax liability and other long-term tax liabilities	313,013	315,234
Long-term capital lease obligations	13,553	14,012
Retirement and postretirement plans	172,599	182,987
Other liabilities	26,140	34,920
Total liabilities (b)	2,826,063	2,903,691
Commitments and contingencies		
Noncontrolling interests	4,044	24,447
Stockholders' equity:		
Preferred stock (no par value): authorized 50,000,000 shares; none outstanding	—	—
Common stock (no par value):		
Voting common stock, authorized 400,000,000 shares; issued 2016 - 129,302,903 and 2015 - 128,600,384	1,301,269	1,305,155
Accumulated other comprehensive loss	(31,224) (31,224)
Retained earnings	97,193	174,039
Total stockholders' equity	1,367,238	1,447,970
Total liabilities, noncontrolling interests and stockholders' equity	\$ 4,197,345	\$ 4,376,108

See accompanying notes.

(b) Consolidated liabilities as of September 30, 2016 and December 31, 2015, include total liabilities of VIEs of \$31 million and \$38 million, respectively, for which the creditors of the VIEs have no recourse to the Company, except for certain of the debt, which the Company guarantees. See Note 1 and Note 3.

Media General, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net operating revenue	\$377,356	\$ 321,736	\$ 1,083,525	\$ 938,993
Operating costs:				
Operating expenses, excluding depreciation expense	154,815	143,492	459,557	403,537
Selling, general and administrative expenses	74,623	78,777	229,102	238,298
Amortization of program license rights	12,666	12,822	36,808	36,627
Corporate and other expenses	8,671	12,598	37,124	37,615
Depreciation and amortization	40,762	40,385	121,220	123,286
(Gain) loss related to property and equipment, net	143	96	(538)	(328)
Goodwill and other intangible impairment	112,511	52,862	112,511	52,862
Merger-related expenses	1,360	10,014	68,803	18,907
Restructuring (income) expenses	(45)	1,132	4,933	1,132
Total operating costs	405,506	352,178	1,069,520	911,936
Operating income (loss)	(28,150)	(30,442)	14,005	27,057
Other income (expense):				
Interest expense	(28,526)	(29,481)	(85,611)	(89,792)
Debt modification and extinguishment costs	(928)	(365)	(928)	(2,805)
Other, net	79	27	275	5,939
Total other expense	(29,375)	(29,819)	(86,264)	(86,658)
Loss before income taxes	(57,525)	(60,261)	(72,259)	(59,601)
Income tax benefit (expense)	(10,029)	4,374	(1,780)	3,915
Net loss	\$(67,554)	\$(55,887)	\$(74,039)	\$(55,686)
Net income (loss) attributable to noncontrolling interests (included above)	1,153	(7,394)	2,360	(1,395)
Net loss attributable to Media General	\$(68,707)	\$(48,493)	\$(76,399)	\$(54,291)
Other comprehensive income	—	—	—	—
Total comprehensive loss attributable to Media General	\$(68,707)	\$(48,493)	\$(76,399)	\$(54,291)
Loss per common share (basic and diluted):				
Net earnings (loss) per common share (basic)	\$(0.53)	\$(0.38)	\$(0.59)	\$(0.42)
Net earnings (loss) per common share (assuming dilution)	\$(0.53)	\$(0.38)	\$(0.59)	\$(0.42)

See accompanying notes.

Media General, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended	
	September 30,	September 30,
	2016	2015
Cash flows from operating activities:		
Net loss	\$(74,039)	\$ (55,686)
Adjustments to reconcile net loss:		
Deferred income tax benefit	(2,221)	(5,769)
Depreciation and amortization	121,220	123,286
Amortization of program license rights	36,808	36,627
Goodwill and intangible asset impairment	112,511	52,862
Amortization of debt premiums, discounts and issue costs	5,554	5,571
Gain on disposal of property and equipment, net	(538)	(328)
Gain on relocation of spectrum	—	(5,620)
Stock-based compensation	5,588	10,292
Debt modification and extinguishment costs	928	2,805
Change in assets and liabilities:		
Program license rights, net of liabilities	(37,453)	(33,123)
Trade accounts receivable	(14,949)	6,698
Company owned life insurance (cash surrender value less policy loans including repayments)	(687)	(275)
Trade accounts payable, accrued expenses and other liabilities	(4,308)	3,224
Retirement and postretirement plans	(10,388)	(14,759)
Other, net	3,630	9,691
Net cash provided by operating activities	141,656	135,496
Cash flows from investing activities:		
Capital expenditures	(33,939)	(40,583)
Release of restricted cash at qualified intermediary	—	119,903
Proceeds from the sale of property and equipment	6,167	1,279
Proceeds from spectrum relocation	—	3,120
Other, net	(165)	(78)
Net cash (used) provided by investing activities	(27,937)	83,641
Cash flows from financing activities:		
Borrowings under Media General Revolving Credit Facility	60,000	—
Repayments under Media General Revolving Credit Facility	(60,000)	—
Repayment of borrowings under Media General Credit Agreement	(60,000)	(160,000)
Repayment of 2021 Notes	—	(15,863)
Repayment of borrowings under Shield Media Credit Agreement	(2,400)	(1,800)
Repayment of other borrowings	(517)	(873)
Repurchase of shares	—	(33,724)
Payment for acquisition of noncontrolling interest	(35,305)	(10,872)
Cash paid for debt modification	—	(3,425)
Exercise of stock options	1,935	1,848
Other, net	(701)	(546)
Net cash used by financing activities	(96,988)	(225,255)
Net increase (decrease) in cash and cash equivalents	16,731	(6,118)
Cash and cash equivalents at beginning of period	41,091	43,920

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Cash and cash equivalents at end of period	\$57,822	\$ 37,802
Cash paid for interest	\$77,820	\$ 85,149
Cash paid for income taxes, net	\$2,921	\$ 4,883
Cash paid for Meredith termination fee	\$60,000	\$ —
See accompanying notes.		

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MEDIA GENERAL, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

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 Annual Report on Form 10-K of Media General, Inc. ("Media General" or the "Company") for the year ended December 31, 2015. 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 September 2015, the Company announced a merger agreement under which the Company would have acquired all of the outstanding common stock of Meredith Corporation ("Meredith") in a cash and stock transaction. Later in September of 2015 the Company received an unsolicited proposal from Nexstar Broadcasting Group, Inc. ("Nexstar") to acquire all of the outstanding common stock of Media General. Following discussion between the various parties, in January 2016 Media General terminated its agreement with Meredith, with Media General paying Meredith a \$60 million termination fee and providing Meredith with an opportunity to negotiate for the purchase of certain broadcast and digital assets owned by the Company. Immediately thereafter, the Company entered into an agreement with Nexstar whereby Nexstar will acquire all outstanding shares of Media General for \$10.55 per share in cash, 0.1249 shares of Nexstar Class A common stock for each Media General share and a contingent value right (CVR). The cash consideration and the stock consideration are fixed amounts and do not increase or decrease based upon the proceeds (if any) from the disposition of either Nexstar's or Media General's spectrum in the Federal Communications Commission's ("FCC") Incentive Auction. Upon the completion of the transaction, Nexstar will change its name to Nexstar Media Group. Each CVR will entitle Media General shareholders to a pro rata share of the net cash proceeds as received from the sale of Media General's spectrum in the FCC's Incentive Auction. It is estimated that Media General shareholders will own approximately 34% and existing Nexstar shareholders will retain approximately 66% ownership of the combined company after closing. The closing of the transaction is subject to the satisfaction of a number of conditions including, but not limited to, the approval of various matters relating to the transaction by Media General and Nexstar shareholders, the approval of the FCC, clearance under the Hart-Scott-Rodino antitrust act and certain third party consents. On September 15, 2016 the transaction received clearance under the Hart-Scott-Rodino antitrust act. Merger-related expenses for legal and professional fees for the Nexstar transaction totaled \$1.4 million for the three months ended September 30, 2016. Merger-related expenses for the Meredith termination fee, legal and professional fees for the Meredith and Nexstar transactions totaled \$69 million for the nine months ended September 30, 2016.

In connection with the Nexstar transaction, Nexstar and its respective subsidiaries, as applicable, have entered into definitive agreements to divest Nexstar's WCWJ station in Jacksonville, Florida and the Company's WSLs-TV station in Roanoke-Lynchburg, Virginia to Graham Media Group, Inc.; Nexstar's KADN-TV and KLAF-LD stations in Lafayette, Louisiana to Bayou City Broadcasting Lafayette, Inc.; Nexstar's KREG-TV station in Denver, Colorado to Marquee Broadcasting, Inc.; the Company's WBAY-TV station in Green Bay, Wisconsin and KWQC-TV station in Davenport-Moline-Rock Island, Iowa to Gray Television Group, Inc.; the Company's KIMT station in Rochester, Minnesota, WTHI-TV station in Terre Haute, Indiana, WLFI-TV station in Lafayette, Indiana, as well as Nexstar's WFFT-TV station in Ft. Wayne, Indiana and KQTV station in Saint Joseph, Missouri to USA Television MidAmerica Holdings, LLC; and the Company's KASA-TV station in Albuquerque, New Mexico to Ramar Communications, Inc.

The Company expects that the sales of these stations will occur substantially concurrent with the closing of the transaction with Nexstar, which is expected to occur later this year.

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries and certain variable interest entities (“VIE”) for which the Company is considered to be the primary beneficiary. Intercompany accounts and transactions have been eliminated in consolidation. In determining whether the Company is the primary beneficiary of a VIE for financial reporting purposes, the Company considers whether it has the power to direct certain activities of the VIE that most significantly impact the economic performance of the VIE and whether it has the obligation to absorb losses or the right to receive returns that would be significant to the VIE. Assets of consolidated VIE’s can only be used to settle the obligations of that VIE. As discussed in Note 3, the Company consolidates the results of WXXA, WLAJ, WBDT, WYTV, KTKA, KWBQ, KRWB, and KASY pursuant to the VIE accounting guidance. All of the liabilities are non-recourse to the Company, except for certain of the debt, which the Company guarantees. The Company is also the primary beneficiary of the VIE that holds the Supplemental 401(k) Plan’s investments and consolidates the plan accordingly.

The Company has two reportable segments, "Broadcast" and "Digital" that are disclosed separately from our corporate activities. The Broadcast segment includes 71 television stations that are either owned, operated or serviced by the Company in 48 markets, all of which are engaged principally in the sale of television advertising. The Digital segment includes the operating results of the Company's digital businesses as well as the business operations related to the television station companion websites.

The Company guarantees all of the debt of LIN Television Corporation ("LIN Television", a wholly owned subsidiary of the Company) and the debt of its consolidated VIEs. LIN Television guarantees all of the debt of its restricted wholly owned subsidiaries and the debt of its consolidated VIEs. All of the consolidated wholly owned subsidiaries of LIN Television fully and unconditionally guarantee LIN Television's 5.875% Senior Notes due 2022 (the "2022 Notes") and the 6.375% Senior Notes due 2021 (the "2021 Notes") on a joint-and-several basis, subject to customary release provisions.

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") issued a converged standard on revenue recognition from contracts with customers, Accounting Standards Update ("ASU") 2014-09 (Topic 606 and IFRS 15). This standard will supersede nearly all existing revenue recognition guidance. In August 2015 the FASB issued ASU 2015-14, Revenue From Contracts With Customers: Deferral of the Effective Date which defers the effective date of ASU 2014-09 until fiscal years, and interim periods within those years, beginning after December 15, 2017. In April and May 2016, the Board issued accounting standard updates, 2016-10 - Identifying Performance Obligations and Licensing, and 2016-12 - Revenue From Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, respectively. Collectively, these updates, along with ASU 2014-09 and ASU 2015-14 form the new revenue recognition standard that is to be effective for fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on its financial condition, results of operations and cash flows.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for annual periods beginning on or after December 15, 2015. The Company adopted this guidance as of January 1, 2016 and \$26 million was reclassified to reduce "Long-term Debt" as of September 30, 2016. In order to conform to the presentation adopted, \$32 million was reclassified from "Other assets, net" to "Long-term Debt" in the 2015 figures presented on the Consolidated Condensed Balance Sheets and in Note 10 Guarantor Financial Information. Approximately \$285 thousand was reclassified from "Other assets, net" to "Long-term Debt" in the 2015 figures presented in Note 3 Variable Interest Entities.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In March 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The ASU is effective for public companies in annual periods beginning after December 15, 2017, and interim periods within those years. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

Note 2: Segment Information

The Company has two reportable operating segments, "Broadcast" and "Digital" that are disclosed separately from our corporate activities. The Broadcast segment includes 71 television stations that are either owned, operated or serviced by the Company in 48 U.S. markets, all of which are engaged principally in the sale of television advertising. The Digital segment includes the operating results of the digital companies (New Federated Media and HYFN) as well as the business operations related to the television station companion websites. Unallocated corporate expenses primarily include costs to operate as a public company and to operate corporate locations.

The Company identifies operating segments based on how the chief operating decision maker ("CODM") allocates resources, assesses performance and makes decisions. The CODM is the President, and Chief Executive Officer. The CODM evaluates performance and allocates resources based on operating income or loss for the Broadcast and Digital segments, excluding non-segment expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(in thousands)				
Revenues				
Broadcast	\$337,443	\$277,992	\$962,697	\$828,846
Digital	39,913	43,744	120,828	110,147
Revenues	\$377,356	\$321,736	\$1,083,525	\$938,993

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(in thousands)				
Operating income				
Broadcast	\$130,367	\$85,105	\$351,648	\$260,032
Digital	4,885	1,540	6,410	499
Segment operating income	135,252	86,645	358,058	260,531
Corporate and other expenses	(8,671)	(12,598)	(37,124)	(37,615)
Depreciation and amortization	(40,762)	(40,385)	(121,220)	(123,286)
Gain (loss) related to property and equipment, net	(143)	(96)	538	328
Goodwill and other asset impairment	(112,511)	(52,862)	(112,511)	(52,862)
Merger-related expenses	(1,360)	(10,014)	(68,803)	(18,907)
Restructuring expenses	45	(1,132)	(4,933)	(1,132)
Operating income (loss)	\$(28,150)	\$(30,442)	\$14,005	\$27,057

Note 3: Variable Interest Entities

Certain of the Company's broadcast stations provide services to other station owners within the same market via Joint Sales Agreements ("JSA") and/or Shared Service Agreements ("SSA"). The Company has JSA and/or SSA agreements with 8 stations. Depending on the specific terms of these agreements, the Company may provide a variety of operational and administrative services, assume an obligation to reimburse certain expenses of the stations and guarantee certain external borrowings by the station licenses (refer to Note 5 for guaranteed borrowings). The Company is compensated for these services through performance based and/or administrative fees. Under certain JSAs, the Company has an option to acquire the related station at any time, subject to FCC consent, until the expiration of the applicable JSA. The Company has determined that the stations with which it has JSAs and/or SSAs, and certain of their parent companies, are VIEs as a result of the terms of the agreements.

The Company is the primary beneficiary of the VIEs, because (a) subject to the ultimate control of the broadcast licensees, the Company has the power to direct the activities which significantly impact the economic performance of the VIEs through the services the Company provides and (b) the Company absorbs returns and losses which would be considered significant to the VIEs. Therefore, the financial results and financial position of these entities have been consolidated by the Company in accordance with the VIE accounting guidance.

The carrying amounts and classification of the assets and liabilities of the consolidated VIE entities described above, which have been included in the consolidated balance sheets as of September 30, 2016 and December 31, 2015, were as follows:

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(In thousands)	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 5,726	\$ 3,693
Trade accounts receivable (less allowance for doubtful accounts 2016 - \$213; 2015 - \$94)	9,129	9,798
Prepaid expenses and other current assets	666	796
Total current assets	15,521	14,287
Property and equipment, net	1,899	1,904
Other assets, net	781	3,094
Definite lived intangible assets, net	29,949	32,244
Broadcast licenses	71,300	71,300
Goodwill	21,859	21,859
Total assets	\$ 141,309	\$ 144,688
Liabilities		
Current liabilities		
Trade accounts payable	\$ 24	\$ 16
Other accrued expenses and other current liabilities	1,948	2,221
Current installments of long-term debt	3,547	3,804
Total current liabilities	5,519	6,041
Long-term debt, net	21,426	24,062
Other liabilities	4,311	8,310
Total liabilities	\$ 31,256	\$ 38,413

The assets of the Company's consolidated VIEs can only be used to settle the obligations of the VIEs and may not be sold, or otherwise disposed of, except for assets sold or replaced with others of like kind or value. At September 30, 2016, the Company has an option to acquire the assets or member's interest of the VIE entities that it may exercise if the FCC attribution rules change to permit the Company to acquire such interest. The option exercise price is of nominal value and significantly less than the carrying value of their tangible and intangible net assets. The options are carried at zero on the Company's consolidated balance sheet, as any value attributable to the options is eliminated in the consolidation of the VIEs. In May 2016, the United States Court of Appeals for the Third Circuit vacated the FCC's 2014 rule attributing JSAs for purposes of the media ownership rules if they permitted a television licensee to sell more than 15% of the commercial inventory of a television station owned by a third party in the same market. On August 10, 2016, the FCC adopted a Second Report and Order that reinstated the attribution of JSAs. However, JSAs in existence before March 31, 2014 (including the Company's) were grandfathered, meaning that they will not be counted as attributable and may be transferred or assigned until September 30, 2025.

Note 4: Goodwill and Other Asset Impairment

The Company's Digital business units were recorded at fair value in conjunction with the LIN Merger in December of 2014. Due to a projected decrease in operating results of the Company's Digital businesses, the Company performed an interim impairment assessment as of September 30, 2015 on three Digital reporting units acquired as part of the LIN Merger. The turnover of key sales personnel and the industry-wide shift to software enabled automated buying and placement of digital advertising led to a decrease in projected operating results for the Company's historical arbitrage media placement businesses. As a result of the impairment review, two of the three reporting units passed the first step of the evaluation as their fair values exceeded their carrying values by more than 10%. The fair value of the third reporting unit, LIN Digital, did not exceed its carrying value. As a result, the Company performed the second

step of the impairment test and recorded a non-cash pretax goodwill impairment charge at its LIN Digital reporting unit of \$53 million in the third quarter of 2015. After recording the impairment charge, the goodwill allocated to the LIN Digital reporting unit was \$80 million at September 30, 2015. The total goodwill allocated to the Digital segment at September 30, 2015 was \$195 million, including the Company's social media business.

In early 2016, the Company combined these three distinct businesses into one business, New Federated Media, under new management and made significant changes to its sales force. The Company had expected these changes would enable the

business to operate more effectively in the marketplace with an acceleration of growth in the second half of 2016. However, the industry-wide shift to software enabled automated buying and placement of digital advertising quickened and combined with a rapid rise in social media advertising have led to compressed margins and lowered demand for the Company's other digital products. As a result the Company has not experienced the acceleration of revenues it had expected in the second half of 2016. Therefore the Company performed another interim impairment test as of September 30, 2016. Additionally, the dynamics of the marketplace have changed significantly due to the industry-wide shifts discussed above so that the Company's long-term forecast now reflects margins at half the level it had previously expected. This combination of slower growth and reduced margins has resulted in both non-cash goodwill impairment and non-cash intangible asset impairment totaling a combined \$113 million that was recorded in the third quarter of 2016. After recording the impairment charges, the goodwill allocated to New Federated Media was \$30 million as of September 30, 2016. The total goodwill allocated to the Digital segment, which includes the Company's social media business that was unaffected by the impairment charges, as of September 30, 2016 was \$101 million. Identified intangible assets of the Digital segment include trade names, advertiser and publisher relationships, and certain existing technology assets and totaled \$23 million following the impairment with a weighted average useful life of 3 years.

The estimated fair value of reporting units was determined using a combination of an income approach and a market comparable method. The income approach utilizes the estimated discounted cash flows expected to be generated by the reporting unit assets. The market comparable method employs comparable company information, and where available, recent transaction information for similar assets. The fair value of identifiable intangible assets were determined using the relief from royalty, comparable profit margin, and reproduction new less depreciation methods. The determination of fair value requires the use of significant judgment and estimates that management believes are appropriate in the circumstances although it is reasonably possible that actual performance will differ from these estimates and the effect of any differences could be material. These estimates include those relating to revenue growth, compensation levels, digital advertising placement prices, capital expenditures, discount rates and market trading multiples for digital advertising assets.

Note 5: Debt and Other Financial Instruments

Long-term debt at September 30, 2016 and December 31, 2015, was as follows:

(In thousands)	September 30, December 31,	
	2016	2015
Media General Credit Agreement	\$ 1,481,000	\$ 1,541,000
2022 Notes	400,000	400,000
2021 Notes	275,000	275,000
Shield Media Credit Agreement	24,800	27,200
Other borrowings	433	950
Total debt	2,181,233	2,244,150
Less: net unamortized discount	(7,361)	(8,992)
Less: scheduled current maturities	(3,547)	(3,804)
Less: unamortized debt issuance fees	(22,989)	(32,244)
Long-term debt excluding current maturities	\$ 2,147,336	\$ 2,199,110

Media General Credit Agreement

In July 2013, the Company entered into a credit agreement with a syndicate of lenders to provide the Company with a term loan and access to a revolving credit facility. The funds borrowed under the credit agreement and subsequent

amendments (together the "Credit Agreement") have been used by the Company to facilitate acquisitions and mergers. The term loan under the Credit Agreement matures in July 2020 and bears interest at LIBOR (with a floor of 1%) plus a margin of 3%.

The Company repaid of \$60 million principal on the term loan during the three and nine months ended September 30, 2016. The Company repaid \$25 million and \$160 million of principal on the term loan during the three and nine months ended September 30, 2015, respectively. The early repayment of debt resulted in debt extinguishment costs of \$0.9 million during the three and nine months ended September 30, 2016, due to the accelerated recognition of deferred debt-related items. The early repayment of debt resulted in debt extinguishment costs of \$0.4 million and \$2.8 million during the three and nine months ended September 30, 2015, respectively, due to the accelerated recognition of deferred debt-related items. As of September 30, 2016, there was just under \$1.5 billion outstanding under the Credit Agreement.

The Credit Agreement also includes revolving credit commitments of \$150 million. The revolving credit facility matures in October 2019, bears an interest rate of LIBOR plus a margin of 2.50% and is subject to a 0.5% commitment fee per annum with respect to the undrawn portion of the facility. The Company has \$146 million of availability under the revolving credit facility (giving effect to \$3.6 million of letters of credit which have been issued but are undrawn).

Shield Media Credit Agreement

WXXA-TV LLC (a subsidiary of Shield Media LLC) and WLAJ-TV LLC (a subsidiary of Shield Media Lansing LLC) (collectively, "Shield Media"), with which the Company has joint sales and shared services arrangements as described in Note 3, entered into a credit agreement for two of its stations with a syndicate of lenders, dated July 31, 2013. The term loans outstanding under this agreement mature in July 2018 and bear interest at LIBOR plus a margin of 3%. The Shield Media term loans are guaranteed by the Company and are secured by liens on substantially all of the assets of the Company, on a pari passu basis with the Credit Agreement. The Company repaid \$0.8 million and \$2.4 million of principal on the term loan during the three and nine months ended September 30, 2016, respectively. The Company repaid \$0.6 million and \$1.8 million of principal on the term loan during the three and nine months ended September 30, 2015, respectively.

2022 Notes

On November 5, 2014, the Company's predecessor, MGOC, Inc. ("Old Media General") completed the issuance of \$400 million in aggregate principal amount of 5.875% Senior Unsecured Notes due in 2022 (the "2022 Notes") in connection with the financing of the Old Media General's combination (the "LIN Merger") with LIN Media, LLC ("LIN Media"). The net proceeds from the offering of the 2022 Notes were used to repay certain indebtedness of LIN Media in connection with the LIN Merger, including the satisfaction and discharge of LIN Television's \$200 million aggregate principal amount of 8.375% Senior Notes due 2018 and the payment of related fees and expenses. The 2022 Notes were issued under an indenture, dated as of November 5, 2014 (the "2022 Notes Indenture"). Media General, as the direct parent of LIN Television, and certain of the wholly owned subsidiaries of LIN Television provide full and unconditional guarantees to the 2022 Notes, on a senior basis.

2021 Notes

LIN Television's previously issued 6.375% Senior Notes due 2021 (the "2021 Notes") remained outstanding as of the consummation of the LIN Merger. Following the consummation of the LIN Merger, Media General, as the direct parent of LIN Television, and certain of the wholly owned subsidiaries of LIN Television provide full and unconditional guarantees of the 2021 Notes, on a senior basis. The Company received an unsolicited offer and repaid \$15 million of principal at an \$800 thousand premium during the year ended December 31, 2015. No principal payments were made during the three and nine months ended September 30, 2016. As of September 30, 2016, the aggregate principal amount outstanding under the 2021 Notes was \$275 million.

Fair Value

The following table includes information about the carrying values and estimated fair values of the Company's financial instruments at September 30, 2016 and December 31, 2015:

(In thousands)	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Investments				
Trading securities	\$ 410	\$ 410	\$ 257	\$ 257
Liabilities:				
Long-term debt:				
Media General Credit Agreement	1,457,278	1,527,858	1,507,182	1,529,229
2022 Notes	393,342	419,000	392,527	404,344
2021 Notes	275,290	285,725	275,340	288,228
Shield Media Credit Agreement	24,540	24,800	26,915	27,200
Other borrowings	433	433	950	950

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 values of the 2021 and 2022 Notes were determined by reference to the most recent trading prices. The fair value of all other debt instruments was determined using discounted cash flow analysis and an estimate of the current borrowing rate.

Under the fair value hierarchy, the Company's trading securities fall under Level 1 (quoted prices in active markets), the 2021 and 2022 Notes fall under Level 2 (other observable inputs) and the Media General Credit Agreement, Shield Media Credit Agreement and Other Borrowings fall under Level 3 (unobservable inputs).

Note 6: Taxes on Income

The effective tax rate was a negative 17.4% in the third quarter of 2016 as compared to 7.3% in the third quarter of 2015 and a negative 2.5% in the first nine months of 2016 as compared to 6.6% in the equivalent prior-year period. The low tax rates in both periods were due to the goodwill and other asset impairment charges that were largely non-deductible for tax purposes. The tax expense in both years was predominantly non-cash due to the Company's significant net operating loss carryover. Current tax expense was approximately \$1.7 million and \$0.4 million for the third quarter of 2016 and 2015, respectively, and was approximately \$4.0 million and \$1.9 million in the first nine months of 2016 and 2015, respectively; it was attributable primarily to state income and AMT taxes.

For the three months ended September 30, 2016 and 2015, we have excluded from the calculation of diluted earnings per share 946 thousand and 1.5 million, respectively, of common shares issuable for share options and restricted shares, because the net loss causes these shares to be anti-dilutive. For the nine months ended September 30, 2016 and 2015, we have excluded from the calculation of diluted earnings per share 1.1 million and 1.3 million, respectively, of common shares issuable for share options and restricted shares, because the net loss causes these shares to be anti-dilutive.

Note 8: Retirement and Postretirement Plans

The Company has a funded, qualified non-contributory defined benefit retirement plan which covers substantially all Legacy Media General employees hired before 2007 along with defined benefit retirement plans for KRON-TV and LIN that were merged into the Media General qualified plan on December 31, 2014 and December 31, 2015, respectively. Additionally the Company also has non-contributory unfunded supplemental executive retirement and ERISA excess plans which supplement the coverage available to certain executives. All of these retirement plans are frozen. The Company has a retiree medical savings account plan which reimburses eligible retired employees for certain medical expenses and an unfunded plan that provides certain health and life insurance benefits to retired employees who were hired prior to 1992.

The following tables provide the components of net periodic benefit (income) cost for the Company's benefit plans for the three and nine month periods ended September 30, 2016 and 2015:

(In thousands)	Three Months Ended			
	Pension Benefits		Other Benefits	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Service cost	\$—	\$—	\$—	\$ 25
Interest cost	4,650	5,729	125	250
Expected return on plan assets	(6,950)	(7,727)	—	—
Amortization of net loss	—	200	(25)	—
Net periodic benefit (income) cost	\$(2,300)	\$(1,798)	\$ 100	\$ 275

(In thousands)	Nine Months Ended			
	Pension Benefits		Other Benefits	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Service cost	\$—	\$—	\$—	\$ 75
Interest cost	13,950	17,185	525	750
Expected return on plan assets	(20,850)	(23,180)	—	—
Amortization of net loss	—	600	(75)	—
Net periodic benefit (income) cost	\$(6,900)	\$(5,395)	\$ 450	\$ 825

Note 9: Stockholders' Equity

The following table shows the components of the Company's stockholders' equity as of and for the nine months ended September 30, 2016:

(In thousands)	Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2015	\$1,305,155	\$ (31,224)	\$ 174,039	\$ 1,447,970
Net loss attributable to Media General	—	—	(76,399)	(76,399)
Exercise of stock options	1,935	—	—	1,935
Stock-based compensation	5,588	—	—	5,588
Revaluation of redeemable noncontrolling interest	(12,094)	—	(447)	(12,541)
Other	685	—	—	685
Balance at September 30, 2016	\$1,301,269	\$ (31,224)	\$ 97,193	\$ 1,367,238

The following table shows the components of the Company's stockholders' equity as of and for the nine months ended September 30, 2015:

(In thousands)	Common Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2014	\$1,322,284	\$ (36,445)	\$ 214,582	\$ 1,500,421
Net loss attributable to Media General	—	—	(54,291)	(54,291)
Exercise of stock options	1,848	—	—	1,848
Stock-based compensation	10,292	—	—	10,292
Revaluation of redeemable noncontrolling interest	(6,920)	—	(987)	(7,907)
Repurchases of voting common stock	(33,724)	—	—	(33,724)
Other	55	—	—	55
Balance at September 30, 2015	\$1,293,835	\$ (36,445)	\$ 159,304	\$ 1,416,694

Note 10: Other

Restructuring activities

In September 2015 the Company adopted a plan to restructure certain Digital segment operations. Additional steps were taken on that plan in the first quarter of 2016. The plan is expected to save the Company approximately \$14.7 million in operating costs annually based on the steps completed since plan inception and the cumulative expense incurred is \$3.9 million. The Company recorded restructuring expense of \$2.3 million related to the plan during the nine months ended September 30, 2016. The restructuring income for the period was a result of adjustments within the period to lease termination liability due to a recently signed sublease. Year-to-date restructuring expense was comprised of \$1.8 million of severance and \$501 thousand of asset impairment charges.

On October 16, 2009, Media General entered into a Joint Sales Agreement (“JSA”) and Shared Services Agreement (“SSA”) with Schurz Communications, Inc and WAGT Television, Inc. Pursuant to the JSA and SSA, Media General provided certain services and sold advertising time for WAGT. In February 2016, Schurz Communications, Inc. sold WAGT to Gray Television Group, Inc., (“Gray”) and assigned the JSA and SSA to Gray. However, upon the closing of the station sale, WAGT ceased performance of the agreements. For the nine months ended September 30, 2016, the Company recorded restructuring charges of \$2.6 million for WAGT. As of September 30, 2016, Media General has pending legal causes of action against Gray, Schurz Communications, Inc. and WAGT Television, Inc., including but not limited to, causes of action for breach of contract. The Company agreed to stay this litigation pending the closing of the Nexstar merger and the divestiture of certain stations with Gray (as discussed in Note 1). If the transactions close, the parties will dismiss all claims and counterclaims with no additional consideration for either party. If not, the parties may resume the litigation. During the third quarter, the Company paid \$700 thousand to the FCC to settle issues related to WAGT.

The following tables present the activity associated with the September 30, 2016 balance of the restructuring liability and the nature and amount of exit charges incurred in the nine months ended September 30, 2016:

	As of September 30, 2016		
(In thousands)	Digital	WAGT	Total
Accrued restructuring as of December 31, 2015	\$ 1,312	\$—	\$ 1,312
Severance charges	1,780	383	2,163
Contract termination and other accruals	—	86	86
Cash severance and contract termination payments	(2,997)	(407)	(3,404)
Accrued restructuring as of September 30, 2016	\$ 95	\$ 62	\$ 157

	Nine months ended September 30, 2016		
(In thousands)	Digital	WAGT	Total
Severance charges	\$ 1,780	\$ 383	\$ 2,163
Contract termination charges	—	128	128
Asset impairment	501	298	799
Legal fees	—	940	940
Other	42	861	903
Total restructuring expense	\$ 2,323	\$ 2,610	\$ 4,933

Acquisition of HYFN

In April 2016, the Company acquired the remaining shares of HYFN, a full service digital advertising agency for a purchase price of approximately \$35 million plus a one-time compensation expense of \$7 million related to the transaction for a total cash outflow of \$42 million. The \$7 million one-time compensation expense is included in "Corporate and other expenses" on the Consolidated Condensed Statement of Comprehensive Income for the nine months ending September 30, 2016. Prior to the transaction, the Company held 50.1% of the outstanding shares of HYFN. As a result of the transaction, HYFN is 100% owned by the Company beginning with the second quarter of 2016.

Share repurchase

The Company repurchased 0.9 million and 2.1 million shares of its outstanding voting common stock at an average price of \$15.80 and \$16.16 during the three and nine months ended September 30, 2015, respectively, under the share repurchase program approved by the Board of Directors of the Company. The total cost of the repurchases was \$15

million and \$34 million for the three and nine month periods ended September 30, 2015, respectively. The share repurchase program expired on December 31, 2015.

Note 11: Guarantor Financial Information

LIN Television, a 100% owned subsidiary of Media General, is the primary obligor of the 2021 Notes and 2022 Notes. Media General fully and unconditionally guarantees all of LIN Television's obligations under the 2021 Notes and the 2022 Notes on a joint and several basis. Additionally, all of the consolidated 100% owned subsidiaries of LIN Television fully and unconditionally guarantee LIN Television's obligations under the 2021 Notes and 2022 Notes on a joint and several basis. There are certain limitations in the ability of the subsidiaries to pay dividends to Media General. The following financial information presents condensed consolidating balance sheets, statements of comprehensive income, and statements of cash flows for Media General, LIN Television (as the issuer), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries, together with certain eliminations.

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Media General, Inc.
 Condensed Consolidating Balance Sheet
 September 30, 2016
 (in thousands)

	Media General	LIN Television Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$—	\$—	\$ 52,096	\$ 5,726	\$—	\$ 57,822
Trade accounts receivable, net	—	79,293	223,404	9,129	—	311,826
Prepaid expenses and other current assets	—	2,451	12,398	666	—	15,515
Total current assets	—	81,744	287,898	15,521	—	385,163
Property and equipment, net	—	148,182	295,510	1,899	—	445,591
Other assets, net	—	676	28,592	1,187	—	30,455
Definite lived intangible assets, net	—	343,143	414,908	29,949	—	788,000
Broadcast licenses	—	—	1,025,800	71,300	—	1,097,100
Goodwill	—	527,077	902,100	21,859	—	1,451,036
Advances to consolidated subsidiaries	—	(222,832)	220,431	2,401	—	—
Investment in consolidated subsidiaries	1,367,238	1,260,899	—	—	(2,628,137)	—
Total assets	\$ 1,367,238	\$ 2,138,889	\$ 3,175,239	\$ 144,116	\$ (2,628,137)	\$ 4,197,345
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Current liabilities:						
Trade accounts payable	\$—	\$ 1,153	\$ 16,897	\$ 24	\$—	\$ 18,074
Accrued salaries and wages	—	4,549	20,368	167	—	25,084
Accrued expenses and other current liabilities	—	22,384	81,755	1,781	—	105,920
Current installments of long-term debt	—	—	—	3,547	—	3,547
Current installments of obligation under capital leases	—	607	190	—	—	797
Total current liabilities	—	28,693	119,210	5,519	—	153,422
Long-term debt, net	—	668,632	1,457,278	21,426	—	2,147,336
Deferred tax liability and other long-term tax liabilities	—	60,473	252,540	—	—	313,013
Long-term capital lease obligations	—	12,636	917	—	—	13,553
Retirement and postretirement plans	—	—	172,599	—	—	172,599
Other liabilities	—	1,217	20,123	4,800	—	26,140
Total liabilities	—	771,651	2,022,667	31,745	—	2,826,063
Noncontrolling interests	—	—	—	4,044	—	4,044
Total stockholders' equity (deficit)	1,367,238	1,367,238	1,152,572	108,327	(2,628,137)	1,367,238
	\$ 1,367,238	\$ 2,138,889	\$ 3,175,239	\$ 144,116	\$ (2,628,137)	\$ 4,197,345

Total liabilities, noncontrolling
interest and stockholders' equity
(deficit)

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Media General, Inc.
 Condensed Consolidating Balance Sheet
 December 31, 2015
 (in thousands)

	Media General	LIN Television Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$—	\$ 1,103	\$ 35,925	\$ 4,063	\$—	\$ 41,091
Trade accounts receivable, net	—	75,866	192,306	30,302	—	298,474
Prepaid expenses and other current assets	—	3,264	10,441	1,378	—	15,083
Total current assets	—	80,233	238,672	35,743	—	354,648
Property and equipment, net	—	158,627	309,160	2,750	—	470,537
Other assets, net	—	7,199	27,523	3,348	—	38,070
Definite lived intangible assets, net	—	368,011	458,261	44,857	—	871,129
Broadcast licenses	—	—	1,025,800	71,300	—	1,097,100
Goodwill	—	527,077	924,708	92,839	—	1,544,624
Advances to consolidated subsidiaries	—	(206,396)	223,051	(16,655)	—	—
Investment in consolidated subsidiaries	1,447,970	1,319,392	—	—	(2,767,362)	—
Total assets	\$1,447,970	\$2,254,143	\$ 3,207,175	\$ 234,182	\$(2,767,362)	\$