

LIBERTY CORP  
Form 10-Q  
November 01, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2005**

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 1-5846**

**THE LIBERTY CORPORATION**

(Exact name of registrant as specified in its charter)

South Carolina  
(State or other jurisdiction of  
incorporation or organization)

57-0507055  
(IRS Employer  
identification No.)

135 South Main Street, Greenville, SC 29601

(Address of principal executive offices)

Registrant's telephone number, including area code: 864/241-5400

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 Registrant's classes of common stock as of the latest practicable date.

Title of each class	Number of shares Outstanding as of September 30, 2005
Common Stock	18,301,958

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**PART I. ITEM 1**  
**FINANCIAL STATEMENTS**  
**THE LIBERTY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED AND CONDENSED BALANCE SHEETS**

<i>(In 000's)</i>	<b>September 30, 2005 (Unaudited)</b>	December 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,978	\$ 16,389
Receivables (net of allowance for doubtful accounts)	38,188	41,576
Program rights	6,734	4,766
Prepaid and other current assets	3,521	6,077
Income taxes receivable	848	
Deferred income taxes	2,587	2,453
Total current assets	71,856	71,261
Property, plant, and equipment		
Land	5,636	5,636
Buildings and improvements	46,904	44,073
Furniture and equipment	179,737	172,993
Less: Accumulated depreciation	(147,243)	(134,133)
	85,034	88,569
Intangible assets subject to amortization (net of \$706 and \$701 accumulated amortization in 2005 and 2004, respectively)	288	234
FCC licenses	241,866	241,866
Goodwill	101,387	101,387
Investments and other assets	22,620	24,522
Total assets	\$ 523,051	\$ 527,839
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,659	\$ 21,396
Dividends payable	4,465	4,510
Program contract obligations	6,777	4,791
Accrued income taxes		3,573
Revolving credit facility	100,000	
Total current liabilities	129,901	34,270

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Unearned revenue	<b>15,599</b>	15,965
Deferred income taxes	<b>60,678</b>	60,187
Other liabilities	<b>6,670</b>	7,097
Revolving credit facility		20,000
<b>Total liabilities</b>	<b>212,848</b>	137,519
Shareholders' equity		
Common stock	<b>42,636</b>	49,273
Unearned stock compensation	<b>(16,399)</b>	(17,396)
Retained earnings	<b>284,267</b>	358,575
Unrealized investment losses	<b>(301)</b>	(132)
<b>Total shareholders' equity</b>	<b>310,203</b>	390,320
<b>Total liabilities and shareholders' equity</b>	<b>\$ 523,051</b>	<b>\$ 527,839</b>

See Notes to Consolidated and Condensed Financial Statements.

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THE LIBERTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS

<i>(In 000's, except per share data)</i>	<b>Three Months Ended</b> <b>September 30,</b>		<b>Nine Months Ended</b> <b>September 30,</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	(Unaudited)			
<b>REVENUES</b>				
Television station revenues (net of commissions)	<b>\$ 45,346</b>	\$ 49,915	<b>\$ 138,606</b>	\$ 145,653
Cable advertising and other revenues (net of commissions)	<b>3,405</b>	3,691	<b>9,969</b>	10,821
<b>Net revenues</b>	<b>48,751</b>	53,606	<b>148,575</b>	156,474
<b>EXPENSES</b>				
Operating expenses (exclusive of depreciation and amortization shown separately below)	<b>31,099</b>	32,045	<b>93,873</b>	94,725
Amortization of program rights	<b>1,884</b>	1,786	<b>5,628</b>	5,302
Depreciation and amortization of intangibles	<b>4,970</b>	5,321	<b>14,669</b>	14,860
Corporate, general, and administrative expenses	<b>6,419</b>	5,206	<b>15,421</b>	14,391
<b>Total operating expenses</b>	<b>44,372</b>	44,358	<b>129,591</b>	129,278
<b>Operating income</b>	<b>4,379</b>	9,248	<b>18,984</b>	27,196
Net investment income (loss)	<b>(273)</b>	(22)	<b>2,011</b>	(5,411)
Interest expense	<b>(1,002)</b>	(253)	<b>(2,274)</b>	(515)
<b>Income before income taxes</b>	<b>3,104</b>	8,973	<b>18,721</b>	21,270
Provision for (Benefit from) income taxes	<b>1,871</b>	(3,229)	<b>5,715</b>	1,382
<b>NET INCOME</b>	<b>\$ 1,233</b>	\$ 12,202	<b>\$ 13,006</b>	\$ 19,888
<b>BASIC EARNINGS PER COMMON SHARE:</b>	<b>\$ 0.07</b>	\$ 0.67	<b>\$ 0.72</b>	\$ 1.07
<b>DILUTED EARNINGS PER COMMON SHARE:</b>	<b>\$ 0.07</b>	\$ 0.66	<b>\$ 0.72</b>	\$ 1.07
Dividends per common share	<b>\$ 0.25</b>	\$ 0.25	<b>\$ 0.75</b>	\$ 0.75
Special dividend per common share	<b>\$</b>	\$	<b>\$ 4.00</b>	\$ 4.00
See Notes to Consolidated and Condensed Financial Statements.				

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THE LIBERTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED AND CONDENSED STATEMENTS OF CASH FLOWS

<i>(In 000 \$)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 13,006	\$ 19,888
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Gain) Loss on sale of operating assets	60	118
Realized investment (gains) losses	(1,090)	6,382
Depreciation	14,498	14,722
Amortization of intangibles	171	138
Provision for bad debts	590	620
Amortization of program rights	5,628	5,302
Cash paid for program rights	(5,610)	(5,492)
Restricted stock amortization	4,044	2,426
Provision for (Benefit from) deferred income taxes	357	(7,783)
Changes in operating assets and liabilities:		
Receivables	2,798	2,209
Other assets	2,246	(3,386)
Accounts payable and accrued expenses	(1,013)	1,446
Accrued income taxes	(2,805)	2,086
Unearned revenue	(366)	1,651
Other liabilities	(427)	451
All other operating activities	(225)	425
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>31,862</b>	<b>41,203</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant, and equipment	(11,158)	(9,226)
Proceeds from sale of property, plant, and equipment	135	163
Investments acquired		(750)
Investments sold	2,285	11,257
Proceeds from sale of investment properties		1,055
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(8,738)</b>	<b>2,499</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	242,000	105,000
Principal payments on debt	(162,000)	(55,000)
Dividends paid	(87,359)	(89,142)
Proceeds from the exercise of stock options	795	4,095
Repurchase of common stock	(12,971)	(33,167)
	<b>(19,535)</b>	<b>(68,214)</b>

**NET CASH PROVIDED BY(USED IN) FINANCING  
ACTIVITIES**

INCREASE (DECREASE) IN CASH	<b>3,589</b>	(24,512)
Cash at beginning of period	<b>16,389</b>	62,177
<b>CASH AT END OF PERIOD</b>	<b>\$ 19,978</b>	<b>\$ 37,665</b>

See Notes to Consolidated and Condensed Financial Statements.

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**THE LIBERTY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS**

September 30, 2005

(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated and condensed financial statements of The Liberty Corporation and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The information included is not necessarily indicative of the annual results that may be expected for the year ended December 31, 2005, but does reflect all adjustments (which are of a normal and recurring nature) considered, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. In addition, the Company's revenues are usually subject to seasonal fluctuations. The advertising revenues of the stations are generally highest in the second and fourth quarters of each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to and including the holiday season. Additionally, advertising revenues in even-numbered years tend to be higher as they benefit from advertising placed by candidates for political offices and demand for advertising time in Olympic broadcasts.

The December 31, 2004 financial information was derived from the Company's previously filed 2004 Form 10-K. For further information, refer to the consolidated financial statements and footnotes thereto included in The Liberty Corporation annual report on Form 10-K for the year ended December 31, 2004. Certain reclassifications have been made in the previously reported financial statements to make the prior year amounts comparable to those of the current year.

**2. COMPREHENSIVE INCOME**

The components of comprehensive income, net of related income taxes, for the three and nine month periods ended September 30, 2005 and 2004, respectively, are as follows:

<i>(In 000's)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Net income	\$ 1,233	\$ 12,202	\$ 13,006	\$ 19,888
Unrealized gains (losses) on securities	<b>(50)</b>	(196)	<b>(169)</b>	(238)
Comprehensive income	<b>\$ 1,183</b>	\$ 12,006	<b>\$ 12,837</b>	\$ 19,650

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The Company operates primarily in the television broadcasting and cable advertising businesses. The Company currently owns and operates fifteen television stations, primarily in the Southeast and Midwest. Each of the stations is affiliated with a major network, with eight NBC affiliates, five ABC affiliates, and two CBS affiliates. The Company evaluates segment performance based on income before income taxes, excluding unusual, or non-operating items. The following table summarizes financial information by segment for the three and nine month periods ended September 30, 2005 and 2004:

<i>(In 000 \$)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenues (net of commissions)</b>				
Television station	\$ 45,346	\$ 49,915	\$ 138,606	\$ 145,653
Cable advertising	3,360	3,668	9,839	10,744
Other	45	23	130	77
<b>Total net revenues</b>	<b>\$ 48,751</b>	<b>\$ 53,606</b>	<b>\$ 148,575</b>	<b>\$ 156,474</b>
<b>Income (loss) before income taxes</b>				
Television station	\$ 10,620	\$ 14,358	\$ 34,291	\$ 41,523
Cable advertising	451	506	968	1,289
Corporate and other	(7,967)	(5,891)	(16,538)	(21,542)
<b>Total income before income taxes</b>	<b>\$ 3,104</b>	<b>\$ 8,973</b>	<b>\$ 18,721</b>	<b>\$ 21,270</b>

There were no material changes in assets by segment from those disclosed in the Company's 2004 annual report. The goodwill that appears on the face of the balance sheet arose through the acquisition of certain television stations, and therefore has been assigned in its entirety to the Broadcasting segment.

**4. EMPLOYEE BENEFITS**

The Company has a postretirement plan that provides medical and life insurance benefits for qualified retired employees. The postretirement medical plan is generally contributory with retiree contributions adjusted annually to limit employer contributions to predetermined amounts. The postretirement life plan provides free insurance coverage for retirees and is insured with an unaffiliated company.

Net periodic postretirement benefit cost included the following components:

<i>(In 000 \$)</i>	<b>Three Months</b>		<b>Nine Months Ended</b>	
	<b>Ended</b>		<b>September 30,</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Service cost	\$ 6	\$ 6	\$ 20	\$ 19
Amortization of prior service cost	2	1	6	2
Amortization of actuarial net gain	4	6	9	16
Interest cost	30	33	90	100
<b>Net periodic postretirement benefit cost</b>	<b>\$ 42</b>	<b>\$ 46</b>	<b>\$ 125</b>	<b>\$ 137</b>

**Table of Contents****5. EARNINGS PER SHARE**

The calculation of basic and diluted earnings per common share from continuing operations is as follows:

<i>(In 000 s except per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Numerator Earnings:</b>				
Net income	\$ <b>1,233</b>	\$ 12,202	\$ <b>13,006</b>	\$ 19,888
Effect of dilutive securities				
Numerator for basic and diluted earnings per common share	\$ <b>1,233</b>	\$ 12,202	\$ <b>13,006</b>	\$ 19,888

**Denominator Average Shares Outstanding:**

Denominator for basic earnings per common share weighted average shares	<b>17,886</b>	18,314	<b>17,944</b>	18,527
Effect of dilutive securities:				
Stock options	<b>82</b>	94	<b>71</b>	134
Denominator for diluted earnings per common share	<b>17,968</b>	18,408	<b>18,015</b>	18,661
Basic earnings per common share	\$ <b>0.07</b>	\$ 0.67	\$ <b>0.72</b>	\$ 1.07
Diluted earnings per common share	\$ <b>0.07</b>	\$ 0.66	\$ <b>0.72</b>	\$ 1.07

The diluted earnings per common share calculation excludes the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. For the three-month periods ended September 30, 2005 and 2004, the Company had approximately 51,000 and 28,000 weighted average options and approximately 292,000 and 371,000 weighted average restricted shares, respectively, which were not included in the diluted earnings per common share calculation as their effect was anti-dilutive. For the nine-month periods ended September 30, 2005 and 2004, the Company had approximately 112,000 and 28,000 weighted average options and 123,000 and 98,000 weighted average restricted shares, respectively, which were not included in the diluted earnings per common share calculation as their effect was anti-dilutive.

**6. EQUITY COMPENSATION**

In accordance with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation , the Company has elected to follow Accounting Principles Board Opinion No. 25,

Accounting for Stock Issued to Employees ( APB No. 25 ) and related interpretations in accounting for its equity compensation plans and does not recognize compensation expense for its stock-based compensation plans other than for awards of restricted shares. Expense is recognized over the vesting period of the restricted shares.

Under APB No. 25, because the exercise price of the Company s employee stock options at least equals the market price of the underlying stock on the date of the grant, no compensation expense is

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recognized. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the Black-Scholes fair value method described in that statement.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting periods. The Company's pro forma information is as follows:

<i>(In 000's, except per share amounts)</i>	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Stock-based compensation cost included in net income (net of taxes)	\$ 859	\$ 760	\$ 2,497	\$ 1,501
Net income:				
As reported	\$ 1,233	\$ 12,202	\$ 13,006	\$ 19,888
Pro forma compensation expense (net of taxes)	(197)	(203)	(588)	(605)
Pro forma net income	\$ 1,036	\$ 11,999	\$ 12,418	\$ 19,283
Basic earnings per share:				
As reported	\$ 0.07	\$ 0.67	\$ 0.72	\$ 1.07
Pro forma	0.06	0.66	0.69	1.04
Diluted earnings per share:				
As reported	\$ 0.07	\$ 0.66	\$ 0.72	\$ 1.07
Pro forma	0.06	0.65	0.69	1.03

**7. COMMON STOCK**

The following table summarizes the Common Stock activity from the date of the Company's most recently audited annual financial statements to the end of the period covered by this report:

<i>(In 000's)</i>	<b>Common Shares Outstanding</b>	<b>Common Stock</b>
Balance as of December 31, 2004	18,469	\$ 49,273
Stock issued for employee benefit and performance incentive compensation programs	147	5,566
Income tax benefit resulting from employee exercise of options		768
Stock repurchased	(314)	(12,971)
<b>Balance as of September 30, 2005</b>	<b>18,302</b>	<b>\$ 42,636</b>

During the first quarter of 2005, the Company funded the accrued 2004 discretionary contribution to its employee retirement and savings plan. Half of this funding, approximately \$1.7 million, was in the form of approximately 40,000 shares of Liberty common stock.

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**8. CREDIT FACILITY**

In March 2001, the Company entered into a \$100 million unsecured 364-day revolving credit facility with a bank. The Company renewed the facility on substantially similar terms in each of the years 2002, 2003, 2004, and during the first quarter of 2005. At the end of the term of the facility, any outstanding principal and interest will come due, unless the bank, in its sole discretion, otherwise extends the facility. The facility provides that the funds drawn may be used for working capital, dividends, and other general corporate purposes, capital expenditures, purchases of common stock, acquisitions, and investments. The Company had \$100 million and \$20 million of debt outstanding at September 30, 2005 and December 31, 2004, respectively. As of September 30, 2005 the weighted average interest rate on outstanding borrowings was 4.50%.

The revolving credit facility has both an interest coverage and a leverage coverage covenant. These covenants, which involve debt levels, interest expense, EBIT, and EBITDA (measures of cash earnings defined in the revolving credit agreement), can affect the interest rate on current and future borrowings. The Company has remained in compliance with all covenants throughout the period covered by this report.

During the first quarter of 2005, the Company amended the credit agreement to, among other things, extend the term of the facility through May 17, 2006 and increase the aggregate facility commitment from \$100 million to \$150 million. The amended credit facility restricts payments for dividends and purchases of common stock to no more than \$180 million during the period January 1, 2005 through December 31, 2005, and for periods after January 1, 2006 to \$100 million plus fifty percent of cumulative net income of the Company for all fiscal periods beginning January 1, 2005. As the maturity date of the credit facility, May 17, 2006, is within one year of the current balance sheet date, the Company has included it within the caption *Current liabilities* on the face of the balance sheet. The Company classified the credit facility outside of the caption *Current liabilities* in its June 30, 2005 balance sheet. On that balance sheet the Company reported current liabilities of approximately \$21.2 million. As the maturity date of the credit facility was within one year of that balance sheet date, the credit facility should have been classified within the caption *Current liabilities* and the total for that caption should have been \$131.2 million. This change in presentation does not impact the Company's compliance with its debt covenants.

**9. CHANGE IN ESTIMATE**

During the third quarter of 2005, the Company re-evaluated its medical incurred but not reported (IBNR) expense accrual. Based on information provided by the Company's claims paying agent, it was determined that the lag-time between when a claim is incurred and when it is paid has decreased from the historical levels previously used by the Company in its IBNR accrual calculation. This decrease in lag-time resulted in a reduction in the accrual required at September 30, 2005. The effect of this change in estimate increased income for the quarter and year to date periods approximately \$300,000. The effect on both basic and diluted earnings per share for the quarter and year-to-date periods was approximately \$0.02 per share.

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**10. HURRICANE COSTS**

During the third quarter of 2005 Liberty's television station in Biloxi, MS, was impacted by hurricane Katrina. The hurricane damaged the main station building and certain other equipment. The Company believes that it is fully insured for all property damage resulting from Katrina. In addition, also during the third quarter of 2005, hurricane Rita impacted the Company's television station in Lake Charles, LA, to a much lesser extent. The Company has accrued the applicable deductibles related to these hurricanes as of September 30, 2005. The deductibles for both stations, and other hurricane related expenses not expected to be recovered under the Company's insurance policies, total approximately \$740,000 and are included in operating expenses. The Company does not anticipate significant additional expenses related to these hurricanes in future periods.

**11. PROVISION FOR INCOME TAXES**

It is the Company's policy to establish reserves for income taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes the reserves based upon management's assessment of exposures related to the recognition of revenue or the deductions in its tax returns. The reserves are analyzed periodically, and adjustments are made as events occur to warrant adjustment to the reserve. For example, if the statutory period for assessing tax on a given tax return or period lapses, the reserve associated with that period may be adjusted. In addition, the adjustment to the reserve may reflect additional exposure based on current calculations. To the extent the Company were to prevail in matters for which accruals have been established, statutory periods for assessing taxes lapse, or it be required to pay amounts in excess of reserves, the Company's effective tax rate in a given financial statement period could be materially affected.

During the second quarter of 2005, as a result of a favorable settlement of an IRS matter, management reversed approximately \$1.9 million of valuation allowances associated with a receivable related to the refund of income taxes previously paid. Also, a receivable of approximately \$0.8 million was recorded resulting from an unrelated refund associated with a closed examination period.

**12. COMMITMENTS AND CONTINGENCIES**

In November of 2000, the Company sold its insurance operations to a third party. Under the purchase agreement, subject to certain limitations, the Company agreed to indemnify the buyer for damages (as defined in the purchase agreement) relating to certain tax matters, pre-existing litigation and regulatory proceedings. The indemnification relating to the tax matters is in effect until the expiration of the relevant statutes of limitation. The indemnifications relating to the other matters are in effect until the final resolution of such matters. The Company believes that the likelihood of it being required to make payments as a result of these indemnifications is remote, and therefore has no liability recorded related to these indemnifications. The limit of amounts recoverable by the acquirer will not exceed one-half the purchase price, or approximately \$324 million.

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**13. NEW ACCOUNTING PRONOUNCEMENTS**

On December 16, 2004, the Financial Accounting Standards Board issued Statement No. 123 (Revised 2004), Share-Based Payment ( Statement No. 123(R) ), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. On April 14, 2005 the Securities and Exchange Commission announced the adoption of a rule that amends the compliance dates for Statement 123(R). The new rule allows companies to implement Statement 123 (R) at the beginning of their next fiscal year that begins after June 15, 2005, which for the Company is the first quarter of 2006. Early adoption is permitted.

Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Statement 123(R) permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt Statement 123(R) using the modified prospective method.

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The Company has not granted stock options to its employees since June of 2002. While authorized under its incentive compensation program to grant stock options, at this time the Company does not intend to make future stock option grants. Therefore, the Company anticipates that the effect of Statement 123(R) will be limited to expensing the remaining value of its previously granted but unvested options. The Company believes that it will adopt 123(R) in the first quarter of 2006, and the estimated effect of Statement 123(R) on net income will be approximately \$230,000, and \$20,000 in the years 2006 and 2007 respectively.

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**14. AGREEMENT AND PLAN OF MERGER**

On August 25, 2005, Liberty and Raycom Media, Inc., ( Raycom ) entered into an Agreement and Plan of Merger (the Merger Agreement ). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, (i) a wholly owned subsidiary of Raycom will merge with and into Liberty, with Liberty as the surviving corporation, and (ii) each share of Liberty common stock that is outstanding at the effective time of the merger will be converted into the right to receive \$47.35 in cash (the Merger Consideration ). Following the merger, Liberty will be a wholly owned subsidiary of Raycom. Each outstanding share of restricted stock granted under Liberty s Incentive Compensation Program will become fully vested and converted into the right to receive the Merger Consideration, and each outstanding option to purchase Liberty s common stock will be converted into the right to receive a cash amount equal to the Merger Consideration less the exercise price for such option.

The closing of the merger is subject to the approval of Liberty s shareholders, the approval of the Federal Communications Commission and other closing conditions. Liberty shareholders owning approximately 20% of Liberty s outstanding shares have agreed to vote in favor of the merger.

Corporate, general, and administrative expenses include approximately \$2.5 million of costs associated with the proposed acquisition of Liberty by Raycom.



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**PART I, ITEM 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Unaudited)

The Liberty Corporation is a holding company with operations primarily in the television broadcasting industry. The Company's television broadcasting subsidiary, Cosmos Broadcasting, consists of fifteen network-affiliated stations located in the Southeast and Midwest, along with other ancillary businesses. Eight of the Company's television stations are affiliated with NBC, five with ABC, and two with CBS.

On August 25, 2005, Liberty and Raycom Media, Inc., (Raycom) entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, (i) a wholly owned subsidiary of Raycom will merge with and into Liberty, with Liberty as the surviving corporation, and (ii) each share of Liberty common stock that is outstanding at the effective time of the merger will be converted into the right to receive \$47.35 in cash (the Merger Consideration). Following the merger, Liberty will be a wholly owned subsidiary of Raycom. Each outstanding share of restricted stock granted under Liberty's Incentive Compensation Program will become fully vested and converted into the right to receive the Merger Consideration, and each outstanding option to purchase Liberty's common stock will be converted into the right to receive a cash amount equal to the Merger Consideration less the exercise price for such option.

The closing of the merger is subject to the approval of Liberty's shareholders, the approval of the Federal Communications Commission and other closing conditions. Liberty shareholders owning approximately 20% of Liberty's outstanding shares have agreed to vote in favor of the merger.

**SEASONALITY OF TELEVISION REVENUES**

The Company's revenues are usually subject to seasonal fluctuations. The advertising revenues of the stations are generally highest in the second and fourth quarters of each year, due in part to increases in consumer advertising in the spring and retail advertising in the period leading up to and including the holiday season. Additionally, advertising revenues in even-numbered years tend to be higher as they benefit from advertising placed by candidates for political offices and demand for advertising time in Olympic broadcasts.

**RESULTS OF OPERATIONS**

**Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004**

Total net revenue decreased \$4.9 million on a year-over-year basis. Station net revenue decreased \$4.6 million for the same period. Cable and other net revenue decreased \$0.3 million as compared to the prior year quarter. Net revenue decreased on a year-over-year basis due mainly to lower levels of political revenue. The year 2005 is an off-cycle election year, and as such, is expected to have lower levels of political revenue when compared to 2004 which was a presidential election year.

Local revenue was down \$1.0 million due to softness in the automotive, entertainment, and supermarket/drug store categories. National revenue was down \$0.2 million, on a year-over-year basis as softness in the automobile and retail store categories was partially offset by increases in the restaurant and

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retail telemarketing categories. Political revenue for the third quarter of 2005 was \$0.3 million as compared to \$5.3 million in the third quarter of 2004. This is consistent with the Company's historical experience that advertising revenues in even-numbered years tend to be higher than in odd-numbered years due to advertising placed by or on behalf of candidates running for political offices. The Company expects the cyclicity of political advertising revenues to continue to affect its revenues in future periods. The Company does not, however, know whether the variability in spending by the entities comprising the other categories tracked by the Company will continue at similar rates in future periods.

During the third quarter of 2005 Liberty's television station in Biloxi, MS, was impacted by hurricane Katrina. The hurricane damaged the main station building and certain other equipment. The Company believes that it is fully insured for all property damage resulting from Katrina. In addition, also during the third quarter of 2005, hurricane Rita impacted the Company's television station in Lake Charles, LA, to a much lesser extent. The Company has accrued the applicable deductibles related to these hurricanes as of September 30, 2005. The deductibles for both stations, and other hurricane related expenses not expected to be recovered under the Company's insurance policies, total approximately \$740,000 and are included in operating expenses. The Company does not anticipate significant additional expenses related to these hurricanes in future periods.

Excluding the hurricane related expenses, operating expenses (including amortization of program rights) decreased \$1.5 million quarter-over-quarter, due mainly to lower medical insurance and travel expenses. During the third quarter of 2005, the Company re-evaluated its medical incurred but not reported (IBNR) expense accrual. Based on information provided by the Company's claims paying agent, it was determined that the lag-time between when a claim is incurred and when it is paid has decreased from the historical levels previously used by the Company in its IBNR accrual calculation. This decrease in lag-time resulted in a reduction in the accrual required at September 30, 2005. Travel expenses were lower in 2005 due to the prior year having included sales incentive trips for clients to the Olympics, with no such expenses during the current quarter.

Corporate expenses were \$6.4 million in the third quarter of 2005, an increase of \$1.2 million as compared to the \$6.2 million reported for the third quarter of 2004. The increase in corporate expenses is due mainly to transaction costs associated with the Company's proposed acquisition by Raycom, partially offset by lower levels of accrued bonus expense.

**Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004**

Total net revenue decreased \$7.9 million on a year-over-year basis. Station net revenue decreased \$7.0 million for the same period. Cable and other net revenue decreased \$0.9 million as compared to the prior year. Net revenue decreased on a year-over-year basis due mainly to lower levels of political revenue. The year 2005 is an off-cycle election year, and as such, is expected to have lower levels of political revenue when compared to 2004 which was a presidential election year.

Local revenue increased \$1.1 million as softness in the automotive and restaurant categories was offset by increases in the professional services, medical, and retail telemarketing categories. National revenue was down \$1.7 million, on a year-over-year basis due mainly to softness in the automotive and telecommunications categories being partially offset by an increase in the retail telemarketing category. Political revenue for the first nine months of 2005 was \$1.2 million as compared to \$11.8 million in the first nine months of 2004. This is consistent with the Company's historical experience that advertising revenues in even-numbered years tend to be higher than in odd-numbered years due to advertising placed by or on behalf of candidates running for political offices. The Company expects the cyclicity of political advertising revenues to continue to affect its revenues in future periods. The Company does not,

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however, know whether the variability in spending by the entities comprising the other categories tracked by the Company will continue at similar rates in future periods.

Exclusive of the additional costs related to the hurricanes, as discussed above, operating expenses (including amortization of program rights) decreased \$1.2 million on a year-over-year basis. Increases related to planned annual increases in employee compensation and amortization expense related to restricted stock grants made during 2004 were offset by lower levels of medical insurance and travel expenses, as noted above, in addition to lower levels of accrued bonus expense. The Company would expect continued increases in employee compensation related to annual increases in base pay, while lower levels of bonus expense will be dependant upon the future overall performance of the Company for the remainder of 2005.

Corporate expenses were \$15.4 million for the first nine months of 2005, an increase of \$1.0 million as compared to the \$14.4 million reported for the first nine months of 2004. The increase in corporate expenses is due mainly to planned annual increases in employee compensation, increased amortization expense related to restricted stock grants, and transaction costs related to the Company's proposed acquisition by Raycom being partially offset by the absence of the \$1.6 million charge in 2004 related to the settlement of all outstanding issues associated with the terminated GNS Media transaction. During 2003, the Company announced that it was in negotiations with GNS for the purpose of entering into certain agreements associated with GNS's proposed purchase of a television station. Those negotiations were subsequently terminated.

Net investment income was \$2.0 million for the first nine months of 2005, as a result of gains from the sale of investments in, and distributions from, the Company's venture capital portfolio, coupled with interest income earned on cash balances, partially offset by impairments taken in the Company's venture capital portfolio. Net investment income for the first nine months of 2004 was a loss of \$5.4 million. Interest earned on cash balances and notes receivable, and a \$0.7 million gain on sale of an investment in the Company's venture capital portfolio were offset by \$1.1 million of impairments taken during the first quarter of 2004 and a \$5.3 million impairment of one of the Company's strategic investments taken during the second quarter of 2004.

During the second quarter of 2005, as a result of a favorable settlement of an IRS matter, management reversed approximately \$1.9 million of valuation allowances associated with a receivable related to the refund of income taxes previously paid. Also, a receivable of approximately \$0.8 million was recorded resulting from an unrelated refund associated with a closed examination period. The Company's tax rate, exclusive of the issues noted above, is expected to be approximately 46.7% for 2005.

**Capital, Financing and Liquidity**

At September 30, 2005, the Company had cash of approximately \$20.0 million, outstanding debt of \$100.0 million, and \$50.0 million available under its credit facility. During the first quarter of 2005, the Company declared a special dividend of \$4.00 per share, approximately \$73.5 million, in addition to its normal recurring quarterly dividend of \$0.25 per share. The special dividend was paid during the second quarter of 2005 using a significant portion of the Company's then available cash balance. The Company borrowed \$80.0 million under its credit facility to assist in funding the special and regular dividends.

The revolving credit facility has both an interest coverage and a leverage coverage covenant. These covenants, which involve debt levels, interest expense, EBIT, and EBITDA (measures of cash earnings defined in the revolving credit agreement), can affect the interest rate on current and future borrowings. The Company was in compliance with all covenants throughout the period covered by this report.

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During the first quarter of 2005, the Company amended the credit facility to, among other things, extend the term of the facility through May 17, 2006 and increase the aggregate facility commitment from \$100 million to \$150 million. The amended credit facility restricts payments for dividends and purchases of common stock to no more than \$180 million during the period January 1, 2005 through December 31, 2005, and for periods after January 1, 2006 to \$100 million plus fifty percent of cumulative net income of the Company for all fiscal periods beginning January 1, 2005.

The Company has refinanced its revolving credit facility on similar terms in each of the last five years, and based upon the cash flow of its operations, believes that it will continue to be able to do so into the foreseeable future. The Company anticipates that its primary sources of cash, those being current cash balances, operating cash flow, and the available credit facility will be sufficient to finance the Company's operating requirements and anticipated capital expenditures, for both the next 12 months and the foreseeable future thereafter.

**Cash Flows**

The Company's net cash provided by operating activities was \$31.9 million for the first nine months of 2005 compared to \$41.2 million for the same period of the prior year. The Company's net cash used in investing activities was \$8.7 million for the first nine months of 2005, as compared to net cash provided of \$2.5 million for the same period of 2004. The decrease in net cash provided by investing activities is attributable to the cash realized on the sale of an investment in the Company's strategic portfolio during 2004 that was not present during 2005. Net cash used in financing activities for the first nine months of 2005 was \$19.5 million compared to \$68.2 million for the first nine months of 2004. During 2005, the Company had net borrowings of \$80.0 million under its credit facility, compared to \$50.0 million during 2004. As noted above, the Company drew down the funds to assist in the funding of the 2005 special dividend.

**Forward Looking Information**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain information contained herein or in any other written or oral statements made by, or on behalf of Liberty, is or may be viewed as forward-looking. The words expect, believe, anticipate or similar expressions identify forward-looking statements. Although Liberty has used appropriate care in developing any such forward-looking information, forward-looking information involves risks and uncertainties that could significantly impact actual results. These risks and uncertainties include, but are not limited to, the following: the failure to obtain Liberty shareholder approval of the merger or the failure to obtain regulatory approvals or satisfy the other conditions to the merger; the termination of the merger agreement prior to the closing; the merger may not close in the expected timeframe; changes in national and local markets for television advertising; changes in general economic conditions, including the performance of financial markets and interest rates; competitive, regulatory, or tax changes that affect the cost of or demand for Liberty's products; and adverse litigation results. Liberty undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

**Additional Information and Where to Find It**

In connection with the proposed merger, Liberty filed a definitive proxy statement with the U.S. Securities and Exchange Commission (SEC) on October 31, 2005 which was subsequently distributed to Liberty's shareholders for purposes of the shareholder meeting scheduled for December 6, 2005. INVESTORS ARE ADVISED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE, BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION. Investors may obtain a free copy of the proxy

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statement and other documents filed by Liberty with the SEC at the SEC's web site at <http://www.sec.gov>. Free copies of the proxy statement and Liberty's other filings with the SEC may also be obtained from Liberty. Free copies of Liberty's filings may be obtained by directing a request to The Liberty Corporation, 135 South Main Street, Greenville, South Carolina 29601.

**Participants in the Solicitation**

Liberty, Raycom and their respective directors, executive officers and other members of their management and employees may be deemed to be soliciting proxies from Liberty's shareholders in favor of the merger. Information concerning persons who may be considered participants in the solicitation of Liberty's shareholders under the rules of the SEC is set forth in the proxy statement filed by Liberty with the SEC on March 28, 2005 and October 31, 2005.

**PART I, ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in the information, as disclosed in Part II, Item 7A of the Company's most recent annual report on Form 10-K, that would be provided under Item 305 of Regulation S-K from the end of the preceding fiscal year to the date of this report.

**PART I, ITEM 4**

**CONTROLS AND PROCEDURES**

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and are also effective to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is accumulated and communicated to the Company's management, including the principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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**PART II, ITEM 2.**  
**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Period	Total Number of Shares (or Units)  Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 31, 2005	2,844	\$ 36.77		3,698,500
August 1 31, 2005		\$		3,698,500
September 1 30, 2005		\$		3,698,500
Total	2,844	\$ 36.77		3,698,500

During the quarter the Company acquired 2,844 shares as satisfaction of withholding tax obligations for restricted stock that vested during the period, in accordance with provisions of the Company's Performance Incentive Compensation plan.

On February 8, 2005 Liberty's Board of Directors extended to February 28, 2006 the Company's authorization to purchase from time to time up to 4,000,000 shares of stock in the open market or directly negotiated transactions.

**PART II, ITEM 6.**  
**EXHIBITS**

**INDEX TO EXHIBITS**

EXHIBIT 10	THE PERFORMANCE INCENTIVE COMPENSATION PROGRAM (Amended and Restated November 2000)
EXHIBIT 11	Consolidated Earnings Per Share Computation (included in Note 5 of Notes to Consolidated and Condensed Financial Statements)
EXHIBIT 31	Rule 13a-14(a)/15d-14(a) Certifications
EXHIBIT 32	Section 1350 Certifications

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

THE LIBERTY  
CORPORATION

Date: November 1, 2005

(Registrant)

/s/ Howard L. Schrott

Howard L. Schrott  
Chief Financial Officer

/s/ Martha G. Williams

Martha G. Williams  
Vice President and General  
Counsel