

LIBERTY CORP
Form 10-Q
November 03, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

(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, 2004

☐ **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 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, 2004 |
|----------------------------|--|
| Common Stock | 18,769,893 |

PART I, ITEM 1

THE LIBERTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED AND CONDENSED BALANCE SHEETS

| (In 000 s) | September 30, 2004 | December 31, 2003 |
|---|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 37,665 | \$ 62,177 |
| Receivables (net of allowance for doubtful accounts) | 39,535 | 42,364 |
| Program rights | 6,554 | 4,564 |
| Prepaid and other current assets | 6,250 | 3,013 |
| Deferred income taxes | 2,746 | 2,183 |
| | <hr/> | <hr/> |
| Total current assets | 92,750 | 114,301 |
| Property, plant, and equipment | | |
| Land | 5,637 | 5,657 |
| Buildings and improvements | 42,876 | 48,969 |
| Furniture and equipment | 178,107 | 167,775 |
| Less: Accumulated depreciation | (136,077) | (125,417) |
| | <hr/> | <hr/> |
| | 90,543 | 96,984 |
| Intangible assets subject to amortization (net of \$653 and \$841 accumulated amortization in 2004 and 2003, respectively) | 281 | 270 |
| FCC licenses | 304,525 | 304,525 |
| Goodwill | 101,387 | 101,387 |
| Investments and other assets | 26,857 | 44,798 |
| | <hr/> | <hr/> |
| Total assets | \$ 616,343 | \$ 662,265 |
| | <hr/> | <hr/> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 19,088 | \$ 19,283 |
| Dividends payable | 4,573 | 4,534 |
| Program contract obligations | 6,534 | 4,734 |
| Accrued income taxes | 4,777 | 3,874 |
| | <hr/> | <hr/> |
| Total current liabilities | 34,972 | 32,425 |
| Unearned revenue | 13,453 | 11,802 |

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| | | |
|--|-------------------|------------|
| Deferred income taxes | 82,197 | 89,417 |
| Other liabilities | 7,072 | 6,621 |
| Revolving credit facility | 50,000 | |
| | <hr/> | <hr/> |
| Total liabilities | 187,694 | 140,265 |
| | <hr/> | <hr/> |
| Shareholders' equity | | |
| Common stock | 62,181 | 71,788 |
| Unearned stock compensation | (18,621) | (4,405) |
| Retained earnings | 385,089 | 454,379 |
| Unrealized investment gains | | 238 |
| | <hr/> | <hr/> |
| Total shareholders' equity | 428,649 | 522,000 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | \$ 616,343 | \$ 662,265 |
| | <hr/> | <hr/> |

See Notes to Consolidated and Condensed Financial Statements.

THE LIBERTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS

| (In 000 s, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| | (Unaudited) | | | |
| REVENUES | | | | |
| Station revenues (net of commissions) | \$49,915 | \$45,836 | \$145,653 | \$134,777 |
| Cable advertising and other revenues | 3,691 | 3,524 | 10,821 | 10,178 |
| Net revenues | 53,606 | 49,360 | 156,474 | 144,955 |
| EXPENSES | | | | |
| Operating expenses (exclusive of depreciation and amortization shown separately below) | 32,045 | 30,286 | 94,725 | 89,790 |
| Amortization of program rights | 1,786 | 1,776 | 5,302 | 5,236 |
| Depreciation and amortization of intangibles | 5,321 | 4,758 | 14,860 | 13,580 |
| Corporate, general, and administrative expenses | 5,206 | 3,424 | 14,391 | 10,249 |
| Total operating expenses | 44,358 | 40,244 | 129,278 | 118,855 |
| Operating income | 9,248 | 9,116 | 27,196 | 26,100 |
| Net investment income (loss) | (22) | 674 | (5,411) | (74) |
| Interest expense | (253) | | (515) | |
| Income before income taxes | 8,973 | 9,790 | 21,270 | 26,026 |
| Provision for (Benefit from) income taxes | (3,229) | 3,671 | 1,382 | 9,760 |
| NET INCOME | \$12,202 | \$ 6,119 | \$ 19,888 | \$ 16,266 |
| BASIC EARNINGS PER COMMON SHARE: | \$ 0.67 | \$ 0.32 | \$ 1.07 | \$ 0.85 |
| DILUTED EARNINGS PER COMMON SHARE: | \$ 0.66 | \$ 0.32 | \$ 1.07 | \$ 0.84 |
| Dividends per common share | \$ 0.25 | \$ 0.24 | \$ 0.75 | \$ 0.72 |
| Special dividend per common share | \$ | \$ | \$ 4.00 | \$ |

See Notes to Consolidated and Condensed Financial Statements.

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

| (In 000 s) | Nine Months Ended September 30, | |
|---|---------------------------------|-----------------|
| | 2004 | 2003 |
| | (Unaudited) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 19,888 | \$ 16,266 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Loss on sale of operating assets | 118 | 285 |
| Realized investment losses | 6,382 | 1,149 |
| Depreciation | 14,722 | 13,395 |
| Amortization of intangibles | 138 | 185 |
| Provision for bad debts | 620 | 614 |
| Amortization of program rights | 5,302 | 5,236 |
| Cash paid for program rights | (5,492) | (5,317) |
| Provision for (Benefit from) deferred income taxes | (7,783) | 3,183 |
| Changes in operating assets and liabilities: | | |
| Receivables | 2,209 | 3,630 |
| Other assets | (960) | 3,431 |
| Accounts payable and accrued expenses | 1,446 | (725) |
| Accrued income taxes | 2,086 | 96 |
| Unearned revenue | 1,651 | 2,041 |
| Other liabilities | 451 | 51 |
| All other operating activities | 425 | (587) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 41,203 | 42,933 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant, and equipment | (9,226) | (17,556) |
| Proceeds from sale of property, plant, and equipment | 163 | 70 |
| Investments acquired | (750) | (5,900) |
| Investments sold | 11,257 | |
| Proceeds from sale of investment properties | 1,055 | 3,562 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 2,499 | (19,824) |
| FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 105,000 | |
| Principal payments on debt | (55,000) | |
| Dividends paid | (89,142) | (13,836) |
| Proceeds from the exercise of stock options | 4,095 | 1,376 |
| Repurchase of common stock | (33,167) | (12,321) |

| | | |
|---|------------------|-----------|
| NET CASH PROVIDED BY(USED IN) FINANCING ACTIVITIES | (68,214) | (24,781) |
| DECREASE IN CASH | (24,512) | (1,672) |
| Cash at beginning of period | 62,177 | 67,917 |
| | <hr/> | <hr/> |
| CASH AT END OF PERIOD | \$ 37,665 | \$ 66,245 |
| | <hr/> | <hr/> |

See Notes to Consolidated and Condensed Financial Statements.

THE LIBERTY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
September 30, 2004
(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, 2004, 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, 2003 financial information was derived from the Company's previously filed 2003 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, 2003.

2. COMPREHENSIVE INCOME

The components of comprehensive income, net of related income taxes, for the three and six month periods ended September 30, 2004 and 2003, respectively, are as follows:

| (In 000 \$) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$12,202 | \$6,119 | \$19,888 | \$16,266 |
| Unrealized gains (losses) on securities | (196) | (6) | (238) | 86 |
| Comprehensive income | \$12,006 | \$6,113 | \$19,650 | \$16,352 |

3. SEGMENT REPORTING

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, 2004 and 2003:

| (In 000 s) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues (net of commissions) | | | | |
| Broadcasting | \$49,915 | \$45,836 | \$145,653 | \$134,777 |
| Cable advertising | 3,668 | 3,487 | 10,744 | 9,957 |
| Other | 23 | 37 | 77 | 221 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total net revenues | \$53,606 | \$49,360 | \$156,474 | \$144,955 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before income taxes | | | | |
| Broadcasting | \$14,358 | \$12,520 | \$41,523 | \$36,774 |
| Cable advertising | 506 | 444 | 1,289 | 797 |
| Corporate and other | (5,891) | (3,174) | (21,542) | (11,545) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total income before income taxes | \$8,973 | \$9,790 | \$21,270 | \$26,026 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

There were no material changes in assets by segment from those disclosed in the Company's 2003 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.

The information presented in this footnote does not reflect the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) signed into law December 8, 2003. Specifically, the measures of Net Periodic

Postretirement Benefit cost shown do not reflect this Act. Specific authoritative guidance on the accounting treatment of the Act is pending and upon issuance, may require a change in previously reported information.

Net periodic postretirement benefit cost included the following components:

| (In 000 s) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$ 6 | \$ 7 | \$ 19 | \$ 20 |
| Amortization of prior service cost | 1 | 1 | 2 | 2 |
| Amortization of actuarial net gain | 6 | | 16 | |
| Interest cost | 33 | 27 | 100 | 83 |
| Net periodic postretirement benefit cost | \$ 46 | \$ 35 | \$ 137 | \$ 105 |

5. EARNINGS PER SHARE

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

| (In 000 s except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Numerator Earnings: | | | | |
| Net income | \$12,202 | \$ 6,119 | \$19,888 | \$16,266 |
| Effect of dilutive securities | | | | |
| Numerator for basic and diluted earnings per common share | \$12,202 | \$ 6,119 | \$19,888 | \$16,266 |
| Denominator Average Shares Outstanding: | | | | |
| Denominator for basic earnings per common share — weighted average shares | 18,314 | 19,119 | 18,527 | 19,153 |
| Effect of dilutive securities: | | | | |
| Stock options | 94 | 131 | 134 | 120 |
| Denominator for diluted earnings per common share | 18,408 | 19,250 | 18,661 | 19,273 |

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| | | | | |
|-----------------------------------|----------------|---------|----------------|---------|
| Basic earnings per common share | \$ 0.67 | \$ 0.32 | \$ 1.07 | \$ 0.85 |
| Diluted earnings per common share | \$ 0.66 | \$ 0.32 | \$ 1.07 | \$ 0.84 |

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 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:

| (In 000 s, except per share amounts) | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---------|--|----------|
| | 2004 | 2003 | 2004 | 2003 |
| Stock-based compensation cost included in net income (net of taxes) | \$ 760 | \$ 236 | \$ 1,501 | \$ 969 |
| Net income: | | | | |
| As reported | \$12,202 | \$6,119 | \$19,888 | \$16,266 |
| Pro forma compensation expense (net of taxes) | (203) | (206) | (605) | (569) |
| Pro forma net income | \$11,999 | \$5,913 | \$19,283 | \$15,697 |
| Basic earnings per share: | | | | |
| As reported | \$ 0.67 | \$ 0.32 | \$ 1.07 | \$ 0.85 |
| Pro forma | 0.66 | 0.31 | 1.04 | 0.82 |
| Diluted earnings per share: | | | | |
| As reported | \$ 0.66 | \$ 0.32 | \$ 1.07 | \$ 0.84 |
| Pro forma | 0.65 | 0.31 | 1.03 | 0.82 |

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:

| (In 000's) | Common Shares Outstanding | Common Stock |
|---|---------------------------------|------------------|
| Balance as of 12/31/03 | 18,931 | \$ 71,788 |
| Stock issued for employee benefit and performance incentive compensation programs | 528 | 22,377 |
| Income tax benefit resulting from employee exercise of options | | 1,183 |
| Stock repurchased | (689) | (33,167) |
| Balance as of 9/30/04 | 18,770 | \$ 62,181 |

During the first quarter of 2004, the Company funded the accrued 2003 discretionary contribution to its employee retirement and savings plan. Half of this funding, approximately \$1.6 million, was in the form of approximately 32,000 shares of Liberty common stock.

8. CREDIT FACILITY

On March 21, 2001, the Company entered into a \$100 million unsecured 364-day revolving credit facility with a bank. On February 2, 2004, the Company renewed the facility through May 18, 2005, on substantially similar terms. The Company currently has \$50 million drawn under such facility. Interest is payable quarterly at 2.4%.

9. IMPAIRMENT OF INVESTMENTS

During the second quarter of 2004, the Company recorded a \$5.3 million impairment on one of its strategic investments, a developer of digital entertainment to be viewed at existing movie theaters. The Company fully reserved this investment due to the investee company's current inadequate cash balances and inability to secure financing from additional investors.

10. 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 third quarter of 2004, management reassessed its potential liability related to current examinations, and the statute of limitations expired related to certain previous tax years. As a result the Company recorded a benefit from income taxes for the third quarter of 2004. The Company's effective tax rate exclusive of this reserve adjustment is expected to be approximately 38% for 2004.

11. 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, preexisting 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 any 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.

12. VARIABLE INTEREST ENTITIES

Variable interest entities are accounted for in accordance with Interpretation of Financial Standards (FIN) No. 46 Consolidation of Variable Interest Entities (FIN 46). The Interpretation requires the consolidation of entities by the party that is determined to be the primary beneficiary (as defined in FIN 46), as a result of its ownership, contractual or other financial interests in another entity.

As noted in the Company's Form 10-K for the year ended December 31, 2003, the Company performed an evaluation of its investments to determine if any investee companies were variable interest entities as defined by FIN 46. One investment was determined to be a variable interest entity. Liberty is a third party investor of the variable interest entity and has no other relationship with it or its management. Liberty acquired its interests from time to time since 2002 through the purchase of convertible notes. At no point has Liberty been the primary beneficiary of this entity.

During the third quarter of 2004, Liberty was informed by the management of its sole variable interest entity of their intentions to cease operations and wind up the entity's business. Liberty has no further obligations with respect to this entity.

The Company had previously fully impaired this investment (see Note No. 9 above).

13. NEW ACCOUNTING PRONOUNCEMENTS

At the September 29-30, 2004 Emerging Issues Task Force meeting, the SEC Staff Announcement Use of Residual Method to Value Acquired Assets Other Than Goodwill (the Announcement) was announced. The Announcement requires registrants to use a direct value method for valuing intangible assets in all acquisitions completed after September 29, 2004. In addition, registrants who have applied the residual method to the valuation of intangible assets for purposes of impairment testing are required to perform an impairment test using a direct value method on all intangible assets that were previously valued using the residual method by no later than the beginning of their first fiscal year beginning after December 15, 2004, which would be as of the beginning of the first quarter of 2005 for the Company. Impairments of intangible assets recognized upon application of a direct value method by entities previously applying the residual method will be reported as a non-cash charge related to the cumulative effect of a change in accounting principle.

Liberty has, in the past, used the residual method to value certain of its intangibles, most notably FCC licenses, and as such the Announcement applies to the Company. While the impact of the adoption of the Announcement is currently unknown, the Company believes that it may have a material impact to its financial statements.

14. RECLASSIFICATIONS

Certain reclassifications have been made in the previously reported financial statements to make the prior year amounts comparable to those of the current year.

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

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, 2004 Compared to Three Months Ended September 30, 2003

Total net revenue increased \$4.2 million on a year-over-year basis. Station net revenue increased \$4.1 million for the same period. Cable and other net revenue increased \$0.1 million as compared to the prior year quarter.

Local revenue was up \$2.5 million, while national revenue was flat on a year-over-year basis. Sales in the automotive, healthcare, and financial institution categories had healthy increases over 2003 levels, while most of the other categories tracked by the Company had more modest growth. Political revenue for the third quarter of 2004 was \$5.3 million as compared to \$3.3 million in the third quarter of 2003. 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 increase in advertising spending by auto manufacturers and dealers, financial institutions, or healthcare providers will continue at similar rates in future periods.

Operating expenses (including amortization of program rights) increased \$1.8 million. Operating expenses increased due mainly to planned annual increases in employee compensation, higher commissions paid to the Company's sales staff as a result of increased local revenues, and expenses related to sales incentive trips for clients to the Olympics. While the Company would expect continued increases in employee compensation related to annual increases, higher levels of commissions paid to the Company's sales staff will be dependent upon the realization of increased revenues. From time to time the Company may offer incentive trips to its clients. The future use of sales incentives will be evaluated based on the market conditions at that time.

Corporate expenses were \$5.2 million in the third quarter of 2004, an increase of \$1.8 million as compared to the \$3.4 million reported for the third quarter of 2003. The increase in corporate expenses is due mainly to planned annual increases in employee compensation, amortization expense related to restricted stock grants made during 2004, increased legal fees, and additional accounting and professional fees related to Sarbanes-Oxley Section 404 compliance initiatives. The Company would expect continued increases in employee compensation of similar amounts in future periods. The Company would expect the increased expenses related to its Sarbanes-Oxley Section 404 compliance initiatives to continue through the first quarter of 2005.

During the third quarter of 2004, management reassessed its potential liability related to current examinations, and the statute of limitations expired related to certain previous tax years. As a result the Company recorded a benefit from income taxes for the third quarter of 2004. The Company's effective tax rate exclusive of this reserve adjustment is expected to be approximately 38% for 2004.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Total net revenue increased \$11.5 million on a year-over-year basis. Station net revenue increased \$10.9 million for the same period. Cable and other net revenue increased \$0.6 million as compared to the prior year-to-date period.

Local revenue was up \$5.6 million, and national revenue was up \$1.8 million on a year-over-year basis. Sales in the automotive, retail, healthcare, and financial institution categories had healthy increases over 2003 levels, while most of the other categories tracked by the Company had more modest growth. Political revenue for the first nine months of 2004 was \$11.8 million as compared to \$6.0 million for the same period of 2003. 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 cyclical nature of political advertising revenues to continue to affect its revenues in future periods. The Company does not, however, know whether the increase in advertising spending by auto manufacturers and dealers, retailers, healthcare providers or financial institutions will continue in future periods.

Operating expenses (including amortization of program rights) increased \$5.0 million. Operating expenses increased due mainly to increased medical insurance costs, increased programming costs, planned annual increases in employee compensation, higher commissions paid to the Company's sales staff as a result of increased local revenues, and expenses related to sales incentive trips for clients to the Olympics. While the Company would expect continued increases in employee compensation related to annual salary increases and similar increases in medical insurance costs in future periods, higher levels of commissions paid to the Company's sales staff will be dependent upon the realization of increased revenues. From time to time the Company may offer incentive trips to its clients. The future use of sales incentives will be evaluated based on the market conditions at that time.

Corporate expenses were \$14.4 million in the first nine months of 2004, an increase of \$4.2 million as compared to the \$10.2 million reported for the same period of 2003. The increase in corporate expenses is due mainly to planned annual increases in employee compensation, amortization expense related to restricted stock grants made during 2004, increased legal fees, additional accounting and professional fees related to Sarbanes-Oxley Section 404 compliance initiatives, and the \$1.6 million charge taken related to the settlement of all outstanding issues associated with the terminated GNS media (GNS) 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. The Company would expect continued increases in employee compensation

of similar amounts in future periods. The Company would expect the increased expenses related to its Sarbanes-Oxley Section 404 compliance initiatives to continue through the first quarter of 2005.

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 \$0.7 million gain on the sale of an investment in the Company's venture capital portfolio were offset by \$6.4 million of impairments taken during the first and second quarters of 2004.

During the third quarter of 2004, management reassessed its potential liability related to current examinations, and the statute of limitations expired related to certain previous tax years. As a result the Company recorded a benefit from income taxes for the third quarter of 2004. The Company's effective tax rate exclusive of this reserve adjustment is expected to be approximately 38% for 2004.

Capital, Financing and Liquidity

At September 30, 2004, the Company had cash of \$37.7 million, outstanding debt of \$50.0 million, and \$50.0 million available under its \$100 million credit facility. During the first quarter of 2004, the Company declared a special dividend of \$4.00 per share, approximately \$75 million, in addition to its normal recurring quarterly dividend of \$0.25 per share. The special dividend was paid during the second quarter of 2004 using a significant portion of the Company's then available cash balance. The Company borrowed \$55.0 million under its credit facility to partially assist in funding the special dividend.

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 quarter.

The Company's current credit facility restricts payments for dividends and repurchases of its common stock to no more than \$180 million during the period January 1, 2004 through December 31, 2004, and for periods after January 1, 2005 to \$100 million plus fifty percent of cumulative net income of the Company for all fiscal periods beginning January 1, 2004.

The Company anticipates that its primary sources of cash, those being current cash balances, operating cash flow, and the available line of credit 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 flow provided by operating activities was \$41.2 million for the first nine months of 2004 compared to \$42.9 million for the same period of the prior year. The Company's net cash provided by investing activities was \$2.5 million for the nine-month period ended September 30, 2004, as compared to net cash used in investing activities of \$19.8 million for the same period of 2003. The increase in net cash provided by investing activities is attributable to lower levels of fixed asset purchases related to digital television broadcasting and lower levels of investments made during 2004 as compared to 2003, and the cash realized on the sale of investments in the Company's venture capital and strategic investment portfolios during 2004 that were not present during 2003. Net cash used in financing activities for the nine months ended September 30, 2004 was \$68.2 million compared to \$24.8 million for the first nine months of 2003. During 2004, the Company borrowed \$55.0 million under its previously unused \$100 million line of credit

to partially fund the payment of the special dividend. During the third quarter the Company repaid \$5.0 million, reducing its outstanding borrowings to \$50.0 million. Excluding the effect of the borrowings, the increase in net cash used in financing activities is due mainly to the special dividend of \$4.00 per share, approximately \$75 million, paid during the second quarter of 2004, and to higher levels of repurchase activity in the Company's stock buy-back program during 2004 as compared to 2003.

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 the Company, is or may be viewed as forward-looking. The words "expect," "believe," "anticipate" or similar expressions identify forward-looking statements. Although the Company 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: 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 the Company's products; and adverse litigation results. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

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 in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings. During the Company's last 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.

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, 2004 | 837 | \$ 45.80 | | 3,327,700 |
| August 1 31, 2004 | | | | 3,327,700 |
| September 1 30, 2004 | | | | 3,327,700 |
| | | | | |
| Total | 837 | \$ 45.80 | | 3,327,700 |

During the quarter the Company acquired 837 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 3, 2004 Liberty's Board of Directors extended to February 28, 2005 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 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 |

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 3, 2004

(Registrant)

/s/ Howard L. Schrott

Howard L. Schrott
Chief Financial Officer

/s/ Martha G. Williams

Martha G. Williams
Vice President, General Counsel and Secretary