

ENTRAVISION COMMUNICATIONS CORP

Form 10-Q

November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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, 2015

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 1-15997

ENTRAVISION COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 95-4783236
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

2425 Olympic Boulevard, Suite 6000 West

Santa Monica, California 90404

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(Address of principal executive offices) (Zip Code)

(310) 447-3870

(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large 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 ☒

As of November 2, 2015, there were 63,855,046 shares, \$0.0001 par value per share, of the registrant's Class A common stock outstanding, 14,927,613 shares, \$0.0001 par value per share, of the registrant's Class B common stock outstanding and 9,352,729 shares, \$0.0001 par value per share, of the registrant's Class U common stock outstanding.

ENTRAVISION COMMUNICATIONS CORPORATION

FORM 10-Q FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015

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Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. Some of the key factors impacting these risks and uncertainties include, but are not limited to:

- risks related to our substantial indebtedness or our ability to raise capital;
- provisions of our debt instruments, including the agreement dated as of May 31, 2013, or the 2013 Credit Agreement, which governs our current credit facility, or the 2013 Credit Facility, the terms of which restrict certain aspects of the operation of our business;
- our continued compliance with all of our obligations, including financial covenants and ratios, under the 2013 Credit Agreement;
- cancellations or reductions of advertising due to the then current economic environment or otherwise;
- advertising rates remaining constant or decreasing;
- the impact of rigorous competition in Spanish-language media and in the advertising industry generally;
- the impact on our business, if any, as a result of changes in the way market share is measured by third parties;
- our relationship with Univision Communications Inc., or Univision;
- the extent to which we continue to generate revenue under retransmission consent agreements;
- subject to restrictions contained in the 2013 Credit Agreement, the overall success of our acquisition strategy and the integration of any acquired assets with our existing operations;
- industry-wide market factors and regulatory and other developments affecting our operations;
- economic uncertainty;
- the impact of any potential future impairment of our assets;
- risks related to changes in accounting interpretations; and
- the impact, including additional costs, of mandates and other obligations that may be imposed upon us as a result of new federal healthcare laws, including the Affordable Care Act, the rules and regulations promulgated thereunder and any executive action with respect thereto.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see the section entitled “Risk Factors,” beginning on page 28 of our Annual Report on Form 10-K for the year ended December 31, 2014.

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share data)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$58,008	\$31,260
Trade receivables, net of allowance for doubtful accounts of \$3,049 and \$3,100 (including related parties of \$7,376 and \$10,882)	64,802	64,956
Deferred income taxes	5,900	5,900
Prepaid expenses and other current assets (including related parties of \$274 and \$274)	6,273	5,295
Total current assets	134,983	107,411
Property and equipment, net of accumulated depreciation of \$196,797 and \$193,532	59,012	56,784
Intangible assets subject to amortization, net of accumulated amortization of \$77,349 and \$74,697 (including related parties of \$14,498 and \$16,239)	17,541	20,193
Intangible assets not subject to amortization	220,701	220,701
Goodwill	50,081	50,081
Deferred income taxes	55,319	66,558
Other assets	5,421	6,039
Total assets	\$543,058	\$527,767

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Current maturities of long-term debt	\$3,750	\$3,750
Advances payable, related parties	118	118
Accounts payable and accrued expenses (including related parties of \$3,903 and \$3,695)	28,898	32,195
Total current liabilities	32,766	36,063
Long-term debt, less current maturities	333,750	336,563
Other long-term liabilities	15,581	9,583
Total liabilities	382,097	382,209

Commitments and contingencies (note 4)

Stockholders' equity

Class A common stock, \$0.0001 par value, 260,000,000 shares authorized; shares issued and outstanding 2015 63,840,046; 2014 58,893,970	6	6
Class B common stock, \$0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2015 14,927,613; 2014 18,930,035	2	2
Class U common stock, \$0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2015 and 2014 9,352,729	1	1
Additional paid-in capital	910,068	912,161
Accumulated deficit	(744,656)	(764,474)
Accumulated other comprehensive income (loss)	(4,460)	(2,138)
Total stockholders' equity	160,961	145,558
Total liabilities and stockholders' equity	\$543,058	\$527,767

See Notes to Consolidated Financial Statements

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share data)

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
Net revenue	\$69,261	\$62,274	\$188,702	\$176,776
Expenses:				
Cost of revenue - digital media	1,881	1,489	4,633	1,489
Direct operating expenses (including related parties of \$2,369, \$2,588, \$6,791 and \$7,824) (including non-cash stock-based compensation of \$274, \$278, \$980 and \$495)	27,624	26,307	81,353	76,732
Selling, general and administrative expenses	11,180	9,637	32,165	27,720
Corporate expenses (including non-cash stock-based compensation of \$603, \$611, \$1,704 and \$1,697)	5,535	4,899	15,578	14,996
Depreciation and amortization (includes direct operating of \$2,618, \$2,585, \$7,736 and \$7,471 selling, general and administrative of \$1,041, \$1,020, \$3,146 and \$2,789 and corporate of \$371, \$180, \$1,068 and \$543) (including related parties of \$580, \$580, \$1,741 and \$1,740)	4,030	3,785	11,950	10,803
	50,250	46,117	145,679	131,740
Operating income (loss)	19,011	16,157	43,023	45,036
Interest expense	(3,286)	(3,501)	(9,769)	(10,408)
Interest income	12	12	31	37
Income (loss) before income taxes	15,737	12,668	33,285	34,665
Income tax (expense) benefit	(6,444)	(4,611)	(13,467)	(13,485)
Net income (loss)	\$9,293	\$8,057	\$19,818	\$21,180
Basic and diluted earnings per share:				
Net income (loss) per share, basic	\$0.11	\$0.09	\$0.23	\$0.24
Net income (loss) per share, diluted	\$0.10	\$0.09	\$0.22	\$0.23
Cash dividends declared per common share	\$0.03	\$0.03	\$0.08	\$0.08
Weighted average common shares outstanding, basic	88,090,143	89,179,192	87,820,029	89,048,459
Weighted average common shares outstanding, diluted	90,423,333	91,239,798	90,202,389	91,130,613

See Notes to Consolidated Financial Statements

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands, except share and per share data)

	Three-Month Period Ended September 30, 2015		Nine-Month Period Ended September 30, 2015	
	2014		2014	
Net income (loss)	\$9,293	\$8,057	\$19,818	\$21,180
Other comprehensive income (loss), net of tax:				
Change in fair value of interest rate swap agreements	(1,126)	474	(2,322)	(1,296)
Total other comprehensive income (loss)	(1,126)	474	(2,322)	(1,296)
Comprehensive income (loss)	\$8,167	\$8,531	\$17,496	\$19,884

See Notes to Consolidated Financial Statements

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine-Month Period Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$ 19,818	\$ 21,180
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,950	10,803
Deferred income taxes	12,764	12,771
Amortization of debt issue costs	595	611
Amortization of syndication contracts	262	354
Payments on syndication contracts	(377)	(441)
Non-cash stock-based compensation	2,684	2,192
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,845	(5,523)
(Increase) decrease in prepaid expenses and other assets	(1,078)	(2,168)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(2,579)	(5,670)
Net cash provided by (used in) operating activities	46,884	34,109
Cash flows from investing activities:		
Purchases of property and equipment and intangibles	(11,546)	(6,390)
Purchases of a business, net of cash acquired	-	(15,048)
Net cash provided by (used in) investing activities	(11,546)	(21,438)
Cash flows from financing activities:		
Proceeds from stock option exercises	1,814	1,817
Payments on long-term debt	(2,813)	(1,875)
Dividends paid	(6,591)	(6,687)
Repurchase of Class A common stock	-	(3,482)
Payment of contingent consideration	(1,000)	-
Net cash provided by (used in) financing activities	(8,590)	(10,227)
Net increase (decrease) in cash and cash equivalents	26,748	2,444
Cash and cash equivalents:		
Beginning	31,260	43,822
Ending	\$ 58,008	\$ 46,266
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	\$ 9,173	\$ 11,977

Income taxes	\$703	\$714
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See Notes to Consolidated Financial Statements

ENTRAVISION COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2015

1. BASIS OF PRESENTATION

Presentation

The consolidated financial statements included herein have been prepared by Entravision Communications Corporation (the “Company”), pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2014 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The unaudited information contained herein has been prepared on the same basis as the Company’s audited consolidated financial statements and, in the opinion of the Company’s management, includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. The interim results presented herein are not necessarily indicative of the results of operations that may be expected for the full fiscal year ending December 31, 2015 or any other future period.

Certain amounts in the Company’s prior period consolidated financial statements and notes to the financial statements have been reclassified to conform to current period presentation.

2. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is a diversified media company serving Hispanic audiences primarily throughout the United States, as well as the border markets of Mexico, with a combination of television, radio, and digital media properties.

Revenue Recognition

Television and radio revenue related to the sale of advertising is recognized at the time of broadcast. Revenue for contracts with advertising agencies is recorded at an amount that is net of the commission retained by the agency. Revenue from contracts directly with the advertisers is recorded at gross revenue and the related commission or national representation fee is recorded in operating expense. Cash payments received prior to services rendered result in deferred revenue, which is then recognized as revenue when the advertising time or space is actually provided. Digital related revenue is recognized when display or other digital advertisements record impressions on the websites of our third-party publishers.

The Company also generates interactive revenue under arrangements that are sold on a standalone basis and those that are sold on a combined basis that are integrated with its broadcast revenue and reported within the television and radio

segments. The Company has determined that these integrated revenue arrangements include multiple deliverables and has separated them into different units of accounting based on their relative sales price based upon management's best estimate. Revenue for each unit of accounting is recognized as it is earned.

In August 2008, the Company entered into a proxy agreement with Univision pursuant to which the Company granted Univision the right to negotiate retransmission consent agreements for its Univision- and UniMás-affiliated television station signals. Advertising related to carriage of the Company's Univision- and UniMás-affiliated television station signals is recognized at the time of broadcast. See more details under the Related Party section below.

The Company also generates revenue from agreements associated with television stations in order to accommodate the operations of telecommunications operators. Revenue from such agreements is recognized when the Company has relinquished all rights to operate the station on the existing channel free from interference to the telecommunications operators.

Related Party

Substantially all of the Company's stations are Univision- or UniMás-affiliated television stations. The Company's network affiliation agreements, as amended, with Univision provide certain of its owned stations the exclusive right to broadcast Univision's primary network and UniMás network programming in their respective markets. These long-term affiliation agreements each expire in 2021, and can be renewed for multiple, successive two-year terms at Univision's option, subject to the Company's consent. Under the Univision network affiliation agreement, the Company retains the right to sell approximately six minutes per hour of the available

advertising time on Univision's primary network, subject to adjustment from time to time by Univision, but in no event less than four minutes. Under the UniMás network affiliation agreement, the Company retains the right to sell approximately four and a half minutes per hour of the available advertising time the UniMás network, subject to adjustment from time to time by Univision.

Under the network affiliation agreements, Univision acts as the Company's exclusive sales representative for the sale of national advertising on the Company's Univision- and UniMás-affiliate television stations, and the Company pays certain sales representation fees to Univision relating to sales of all advertising for broadcast on the Company's Univision- and UniMás-affiliate television stations. During the three-month periods ended September 30, 2015 and 2014, the amount the Company paid Univision in this capacity was \$2.4 million and \$2.6 million, respectively. During the nine-month periods ended September 30, 2015 and 2014, the amount the Company paid Univision in this capacity was \$6.8 million and \$7.8 million, respectively.

The Company also generates revenue under two marketing and sales agreements with Univision, which give the Company the right through 2021 to manage the marketing and sales operations of Univision-owned UniMás and Univision affiliates in six markets – Albuquerque, Boston, Denver, Orlando, Tampa and Washington, D.C.

In August 2008, the Company entered into a proxy agreement with Univision pursuant to which the Company granted Univision the right to negotiate the terms of retransmission consent agreements for its Univision- and UniMás-affiliated television station signals for a term of six years, expiring in December 2014, which Univision and the Company have extended through November 30, 2015. Among other things, the proxy agreement provides terms relating to compensation to be paid to the Company by Univision with respect to retransmission consent agreements entered into with Multichannel Video Programming Distributors ("MVPDs"). As of September 30, 2015, the amount due to the Company from Univision was \$7.4 million related to the agreements for the carriage of its Univision and UniMás-affiliated television station signals. The term of the proxy agreement extends with respect to any MVPD for the length of the term of any retransmission consent agreement in effect before the expiration of the proxy agreement.

Univision currently owns approximately 10% of the Company's common stock on a fully-converted basis. The Class U common stock held by Univision has limited voting rights and does not include the right to elect directors. As the holder of all of the Company's issued and outstanding Class U common stock, so long as Univision holds a certain number of shares, the Company will not, without the consent of Univision, merge, consolidate or enter into another business combination, dissolve or liquidate the Company or dispose of any interest in any Federal Communications Commission, or FCC, license for any of its Univision-affiliated television stations, among other things. Each share of Class U common stock is automatically convertible into one share of Class A common stock (subject to adjustment for stock splits, dividends or combinations) in connection with any transfer to a third party that is not an affiliate of Univision.

Stock-Based Compensation

The Company measures all stock-based awards using a fair value method and recognizes the related stock-based compensation expense in the consolidated financial statements over the requisite service period. As stock-based compensation expense recognized in the Company's consolidated financial statements is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures.

Stock-based compensation expense related to grants of stock options and restricted stock units was \$0.9 million for each of the three-month periods ended September 30, 2015 and 2014. Stock-based compensation expense related to grants of stock options and restricted stock units was \$2.7 million and \$2.2 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

Stock Options

Stock-based compensation expense related to stock options is based on the fair value on the date of grant using the Black-Scholes option pricing model and is amortized over the vesting period, generally between 1 to 4 years.

The fair value of each stock option granted was estimated using the following weighted-average assumptions:

	Nine-Month Period Ended September 30, 2015	
Fair value of options granted	\$ 4.10	
Expected volatility	84	%
Risk-free interest rate	1.6	%
Expected lives	6.0 years	
Dividend rate	1.6	%

As of September 30, 2015, there was approximately \$1.1 million of total unrecognized compensation expense related to grants of stock options that is expected to be recognized over a weighted-average period of 1.5 years.

Restricted Stock Units

Stock-based compensation expense related to restricted stock units is based on the fair value of the Company's stock price on the date of grant and is amortized over the vesting period, generally between 1 to 4 years.

The following is a summary of non-vested restricted stock units granted (in thousands, except grant date fair value data):

	Nine-Month Period Ended September 30, 2015	
	Weighted-Average	
	Number	Fair
	Granted	Value
Restricted stock units	62	\$ 6.76

As of September 30, 2015, there was approximately \$1.7 million of total unrecognized compensation expense related to grants of restricted stock units that is expected to be recognized over a weighted-average period of 1.4 years.

Income (Loss) Per Share

The following table illustrates the reconciliation of the basic and diluted income (loss) per share computations required by Accounting Standards Codification (ASC) 260-10, "Earnings per Share" (in thousands, except share and per share data):

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
Basic earnings per share:				
Numerator:				
Net income (loss)	\$9,293	\$8,057	\$19,818	\$21,180
Denominator:				
Weighted average common shares outstanding	88,090,143	89,179,192	87,820,029	89,048,459
Per share:				
Net income (loss) per share	\$0.11	\$0.09	\$0.23	\$0.24
Diluted earnings per share:				

Numerator:

Net income (loss)	\$9,293	\$8,057	\$19,818	\$21,180
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