ENTRAVISION COMMUNICATIONS CORP
Form 10-Q
May 10, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

2425 Olympic Boulevard, Suite 6000 West

Santa Monica, California 90404

(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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of May 8, 2006, there were 60,068,188 shares, $0.0001 par value per share, of the registrant s Class A common stock outstanding, 27,678,533 shares, $0.0001 par value per share, of the registrant s Class B common stock outstanding and 17,352,729 shares, $0.0001 par value per share, of the registrant s Class U common stock outstanding.

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ENTRAVISION COMMUNICATIONS CORPORATION

FORM 10-Q FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2006

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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. 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 or anticipate or words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

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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 history of operating losses, our substantial indebtedness or our ability to raise capital;
- provisions of the agreements governing our debt instruments that may restrict the operation of our business;
- cancellations or reductions of advertising, whether due to a general economic downturn or otherwise;
- our relationship with Univision Communications Inc.;
- the overall success of our acquisition strategy, which includes developing media clusters in key U.S. Hispanic markets, and the integration of any acquired assets with our existing business;
- the impact of rigorous competition in Spanish-language media and in the advertising industry generally; and
- industry-wide market factors and regulatory and other developments affecting our operations.

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 27 of our Annual Report on Form 10-K for the year ended December 31, 2005.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,219	$ 65,610
Trade receivables (including related parties of $3 and $14), net of allowance for doubtful accounts of $5,301 and $5,073	51,018	61,215
Assets held for sale		69,454
Deferred income taxes	36,500	36,500
Prepaid expenses and other current assets (including related parties of $715 and $691)	7,356	7,164
Total current assets	114,093	239,943
Property and equipment, net	151,607	152,114
Intangible assets subject to amortization, net (included related parties of $36,542 and $37,122)	104,249	108,532
Intangible assets not subject to amortization	843,857	843,332
Goodwill	385,833	385,833
Other assets	22,073	13,405
Total assets	$ 1,621,712	$ 1,743,159
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt (including related parties of $1,000 and $1,000)	$ 6,337	$ 6,333
Advances payable, related parties	118	118
Accounts payable and accrued expenses (including related parties of $2,538 and $2,802)	32,157	35,110
Total current liabilities	38,612	41,561
Long-term debt, less current maturities (including related parties of $5,000 and $5,000)	501,943	500,269
Other long-term liabilities	3,910	3,760
Deferred income taxes	175,973	168,636
Total liabilities	720,438	714,226
Commitments and contingencies (note 4)		
Stockholders equity		
Class A common stock, $0.0001 par value, 260,000,000 shares authorized; shares issued and outstanding 2006 59,884,664; 2005 59,770,587	6	6
Class B common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2006 and 2005 27,678,533	3	3
Class U common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2006 17,352,729 and 2005 36,926,600	2	4

Additional paid-in capital	1,045,536	1,185,312
Accumulated deficit	(144,273)	(156,392)
	901,274	1,028,933
Treasury stock, Class A common stock, $0.0001 par value, 2006 and 2005 5,101 shares		
Total stockholders equity	901,274	1,028,933
Total liabilities and stockholders equity	$ 1,621,712	$ 1,743,159

See Notes to Consolidated Financial Statements

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ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share data)

	Three-Month Period Ended March, 31	
	2006	**2005**
Net revenue (including related parties of $150 and $150)	$ 59,919	$ 57,155
Expenses:		
Direct operating expenses (including related parties of $2,453 and $2,355) (including non-cash stock-based compensation of $60 and $0)	28,657	27,305
Selling, general and administrative expenses (including non-cash stock-based compensation of $775 and $38)	12,838	12,706
Corporate expenses (including non-cash stock-based compensation of $675 and $219)	4,907	4,366
Gain on sale of assets	(19,308)	
Depreciation and amortization (includes direct operating of $9,764 and $9,992; selling, general and administrative of $1,052 and $1,198; and corporate of $207 and $241) (including related parties of $580 and $580)	11,023	11,431
	38,117	55,808
Operating income	21,802	1,347
Interest expense (including related parties of $87 and $102)	(2,493)	(8,181)
Interest income	664	148
Income (loss) before income taxes	19,973	(6,686)
Income tax (expense) benefit	(7,661)	2,362
Income (loss) before equity in net loss of nonconsolidated affiliate	12,312	(4,324)
Equity in net loss of nonconsolidated affiliate (including non-cash stock-based compensation of $116 and $35)	(193)	(161)
Net income (loss) applicable to common stockholders	$ 12,119	$ (4,485)
Basic and diluted earnings per share:		
Net income (loss) per share applicable to common stockholders, basic and diluted	$ 0.11	$ (0.04)
Weighted average common shares outstanding, basic	109,502,311	124,208,936
Weighted average common shares outstanding, diluted	109,507,016	124,208,936

See Notes to Consolidated Financial Statements

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ENTRAVISION COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three-Month Period Ended March 31, 2006	2005
Cash flows from operating activities:		
Net income (loss)	$ 12,119	$ (4,485)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,023	11,431
Deferred income taxes	7,337	(2,852)
Amortization of debt issue costs	100	598
Amortization of syndication contracts		10
Equity in net loss of nonconsolidated affiliate	193	161
Non-cash stock-based compensation	1,510	257
Gain on sale of media properties and other assets	(19,308)	
Change in fair value of interest rate swap agreements	(5,374)	
Changes in assets and liabilities, net of effect of acquisitions and dispositions:		
Decrease in accounts receivable	11,677	6,199
Increase in prepaid expenses and other assets	(843)	(1,703)
Decrease in accounts payable, accrued expenses and other liabilities	(6,463)	(6,681)
Net cash provided by operating activities	11,971	2,935
Cash flows from investing activities:		
Proceeds from sale of property and equipment and intangibles	3	9
Purchases of property and equipment and intangibles	(6,465)	(8,125)
Deposits on acquisitions	(4,515)	
Proceeds from collection of note receivable	1,288	
Net cash used in investing activities	(9,689)	(8,116)
Cash flows from financing activities:		
Proceeds from issuance of common stock	736	555
Payments on long-term debt	(6,321)	(32)
Repurchase of Class U common stock	(51,100)	
Proceeds from borrowings on long-term debt	8,000	
Excess tax benefits from exercise of stock options	12	
Net cash provided by (used in) financing activities	(48,673)	523
Net decrease in cash and cash equivalents	(46,391)	(4,658)
Cash and cash equivalents:		
Beginning	65,610	46,969
Ending	$ 19,219	$ 42,311
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	$ 8,047	$ 12,335

Income taxes	$ 408	$ 490
Supplemental disclosures of non-cash investing and financing activities:		
Property and equipment included in accounts payable	$ 51	$ 626
Intangibles included in accounts payable, accrued expenses and other liabilities	$ 614	$
Sale of San Francisco/San Jose radio station assets in exchange for Class U common stock	$ 90,000	$
Exchange of television assets in the McAllen, Texas market	$ 1,543	$

See Notes to Consolidated Financial Statements

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ENTRAVISION COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2006

1. BASIS OF PRESENTATION

Presentation

The consolidated financial statements included herein have been prepared by Entravision Communications Corporation (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (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, 2005 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. 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, 2006 or any other future period. Certain amounts in our 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

Related Party

Univision currently owns approximately 15% of the Company s common stock on a fully-converted basis. In connection with Univision s merger with Hispanic Broadcasting Corporation in September 2003, Univision entered into an agreement with the U.S. Department of Justice (DOJ), pursuant to which Univision agreed, among other things, to ensure that its percentage ownership of the Company will not exceed 10% by March 26, 2009.

Our Class U common stock held by Univision has limited voting rights and does not include the right to elect directors. However, as the holder of all of the Company s issued and outstanding Class U common stock, Univision currently has the right to approve any merger, consolidation or other business combination involving the Company, any dissolution of the Company and any assignment of the Federal Communications Commission, or FCC, licenses for any of the Company s Univision-affiliated television stations. Each share of Class U common stock is automatically convertible into one share (subject to adjustment for stock splits, dividends or combinations) of the Company s Class A common stock in connection with any transfer to a third party that is not an affiliate of Univision.

In January 2006, the Company sold the assets of radio stations KBRG-FM and KLOK-AM, serving the San Francisco/San Jose, California market, to Univision for $90 million. The full amount of the purchase price was paid in the form of 12,573,871 shares of the Company s Class U common stock held by Univision based on the ten day volume weighted average share price of $7.1577 between December 15, 2005 and December 29, 2005. The Company realized a gain on sale of $10.5 million, net of tax of $7 million.

In March 2006, the Company repurchased seven million shares of Class U common stock held by Univision for $51.1 million.

Univision provides network compensation and acts as the Company s exclusive sales representative for the sale of all national advertising aired on Univision-affiliate television stations. During the three-month periods ended March 31, 2006 and 2005, the amount paid by the Company to Univision in this capacity was $2.1 million and $1.8 million, respectively.

Stock-Based Compensation

Employee Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS 123R) which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors including employee stock options and employee stock purchases under the 2001 Employee Stock Purchase Plan (the Purchase Plan) based on estimated fair values. Prior to

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January 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 (SAB 107) providing supplemental implementation guidance for SFAS 123R. The Company has applied the provisions of SAB 107 in the adoption of SFAS 123R.

SFAS 123R requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Consolidated Statements of Operations. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Under that transition method, compensation cost recognized in the three-month period ended March 31, 2006 includes: (i) compensation cost for all stock-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123, and (ii) compensation cost for all stock-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

As stock-based compensation expense recognized in the Company s results is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to January 1, 2006, the Company accounted for forfeitures as they occurred for the purposes of pro forma information under SFAS 123 for the related periods.

Upon adoption of SFAS 123R, the Company selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value for stock-based awards. The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions which determine the fair value of stock-based awards, including the option s expected term, expected volatility of the underlying stock, risk-free rate, and expected dividends.