ENTRAVISION COMMUNICATIONS CORP
Form 10-Q
November 02, 2012
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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 SEPTEMBER 30, 2012**

**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 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 x 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 | x |
| 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 x

As of November 1, 2012, there were 54,404,226 shares, $0.0001 par value per share, of the registrant s Class A common stock outstanding, 22,188,161 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.

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**ENTRAVISION COMMUNICATIONS CORPORATION**

**FORM 10-Q FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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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 or anticipate or o 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.

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 our debt instruments, including the indenture governing our $364 million aggregate principal amount of 8.750% senior secured first lien notes due 2017, or the Notes, and the amended agreement governing the current credit facility that we entered into in July 2010, or our 2010 Credit Facility, 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 indenture governing the Notes, or the Indenture, and the amended agreement governing our 2010 Credit Facility, or the amended Credit Agreement;
- cancellations or reductions of advertising due to the 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 Indenture and the amended Credit Agreement, the overall success of our acquisition strategy, which historically has included developing media clusters in key U.S. Hispanic markets, and the integration of any acquired assets

with our existing business;

industry-wide market factors and regulatory and other developments affecting our operations;

continued uncertainty in the current economic environment;

the impact of previous and any 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 the passage of new federal healthcare laws.

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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 26 of our Annual Report on Form 10-K for the year ended December 31, 2011.

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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)**

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 45,238 | $ 58,719 |
| Trade receivables, net of allowance for doubtful accounts of $4,459 and $3,926 (including related parties of $6,063 and $5,608) | 48,059 | 44,270 |
| Prepaid expenses and other current assets (including related parties of $274 and $274) | 6,876 | 5,939 |
| Total current assets | 100,173 | 108,928 |
| Property and equipment, net | 62,063 | 65,226 |
| Intangible assets subject to amortization, net (including related parties of $21,459 and $23,513) | 22,457 | 24,598 |
| Intangible assets not subject to amortization | 220,701 | 220,701 |
| Goodwill | 36,647 | 36,647 |
| Other assets | 9,466 | 11,221 |
| Total assets | $ 451,507 | $ 467,321 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities | | |
| Advances payable, related parties | 118 | 118 |
| Accounts payable, accrued expenses and other liabilities (including related parties of $4,121 and $5,691) | 32,382 | 39,750 |
| Total current liabilities | 32,500 | 39,868 |
| Long-term debt, less current maturities (net of bond discount of $3,497 and $4,134) | 360,299 | 379,662 |
| Other long-term liabilities | 8,070 | 8,327 |
| Deferred income taxes | 43,510 | 40,025 |
| Total liabilities | 444,379 | 467,882 |
| Commitments and contingencies (note 4) | | |
| Stockholders equity (deficit) | | |
| Class A common stock, $0.0001 par value, 260,000,000 shares authorized; shares issued and outstanding 2012 54,404,226; 2011 53,514,769 | 5 | 5 |
| Class B common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2012 and 2011 22,188,161 | 2 | 2 |
| Class U common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2012 and 2011 9,352,729 | 1 | 1 |

| | | |
|---|---|---|
| Additional paid-in capital | 940,238 | 938,453 |
| Accumulated deficit | (933,118) | (939,022) |
| Total stockholders equity (deficit) | 7,128 | (561) |
| Total liabilities and stockholders equity (deficit) | $ 451,507 | $ 467,321 |

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 September 30, 2012 | Three-Month Period Ended September 30, 2011 | Nine-Month Period Ended September 30, 2012 | Nine-Month Period Ended September 30, 2011 |
|---|---|---|---|---|
| Net revenue | $ 58,486 | $ 50,115 | $ 159,501 | $ 144,424 |
| Expenses: | | | | |
| Direct operating expenses (including related parties of $2,788, $2,366, $7,493, and $5,885) (including non-cash stock-based compensation of $45, $51, $101 and $155) | 23,293 | 22,582 | 67,803 | 65,890 |
| Selling, general and administrative expenses (including non-cash stock-based compensation of $222, $157, $546, and $472) | 9,593 | 8,621 | 28,600 | 27,150 |
| Corporate expenses (including non-cash stock-based compensation of $498, $287, $1,116, and $732) | 4,465 | 3,885 | 12,527 | 11,402 |
| Depreciation and amortization (includes direct operating of $3,061, $3,333, $9,278, and $10,011;selling, general and administrative of $718, $797, $2,155, and $2,416;and corporate of $234, $885, $1,003, and $1,745) (including related parties of $580, $1,205, $2,053, and $2,725) | 4,013 | 5,015 | 12,436 | 14,172 |
| | 41,364 | 40,103 | 121,366 | 118,614 |
| Operating income (loss) | 17,122 | 10,012 | 38,135 | 25,810 |
| Interest expense (including related parties of $0, $0, $0, and $30) (note 2) | (8,671) | (9,444) | (26,730) | (28,346) |
| Interest income | 10 | | 23 | 2 |
| Other income (loss) | | | | 687 |
| Gain (loss) on debt extinguishment | | | (1,230) | |
| Income (loss) before income taxes | 8,461 | 568 | 10,198 | (1,847) |
| Income tax (expense) benefit | (1,228) | (1,952) | (4,294) | (4,321) |
| Net income (loss) applicable to common stockholders | $ 7,233 | $ (1,384) | $ 5,904 | $ (6,168) |
| Basic and diluted earnings per share: | | | | |
| Net income (loss) per share applicable to common stockholders, basic and diluted | $ 0.08 | $ (0.02) | $ 0.07 | $ (0.07) |
| Weighted average common shares outstanding, basic | 85,940,225 | 85,055,659 | 85,861,671 | 85,049,518 |
| Weighted average common shares outstanding, diluted | 86,386,655 | 85,055,659 | 86,220,868 | 85,049,518 |

See Notes to Consolidated Financial Statements

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**ENTRAVISION COMMUNICATIONS CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(In thousands)**

| | Nine-Month Period Ended September 30, 2012 | Nine-Month Period Ended September 30, 2011 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 5,904 | $ (6,168) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 12,436 | 14,172 |
| Deferred income taxes | 3,485 | 3,444 |
| Amortization of debt issue costs | 1,706 | 1,642 |
| Amortization of syndication contracts | 556 | 1,297 |
| Payments on syndication contracts | (1,369) | (1,506) |
| Non-cash stock-based compensation | 1,763 | 1,359 |
| Other (income) loss | | (687) |
| Gain (loss) on debt extinguishment | 1,230 | |
| Changes in assets and liabilities, net of effect of acquisitions and dispositions: | | |
| (Increase) decrease in restricted cash | | 809 |
| (Increase) decrease in accounts receivable | (3,511) | 1,655 |
| (Increase) decrease in prepaid expenses and other assets | (1,056) | (261) |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | (7,466) | (11,050) |
| **Net cash provided by (used in) operating activities** | 13,678 | 4,706 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment and intangibles | (6,502) | (6,542) |
| Purchase of a business | | (588) |
| **Net cash provided by (used in) investing activities** | (6,502) | (7,130) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock | 23 | 42 |
| Payments on long-term debt | (20,600) | (1,000) |
| Payments of deferred debt and offering costs | (80) | (29) |
| **Net cash provided by (used in) financing activities** | (20,657) | (987) |
| **Net increase (decrease) in cash and cash equivalents** | (13,481) | (3,411) |
| **Cash and cash equivalents:** | | |
| Beginning | 58,719 | 72,390 |
| Ending | $ 45,238 | $ 68,979 |
| Supplemental disclosures of cash flow information: | | |
| Cash payments for: | | |
| Interest | $ 33,708 | $ 35,843 |
| Income taxes | $ 809 | $ 877 |

See Notes to Consolidated Financial Statements

**ENTRAVISION COMMUNICATIONS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SEPTEMBER 30, 2012**

**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, 2011 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. 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, 2012 or any other future period.

**2. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES**

***Related Party***

A majority of the Company s television stations are Univision- or TeleFutura-affiliated television stations. The Company s network affiliation agreements with Univision provide certain of its owned stations the exclusive right to broadcast Univision s primary network and TeleFutura 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 network affiliation agreements, Univision acts as the Company s exclusive sales representative for the sale of national advertising sales on the Company s Univision- and TeleFutura-affiliate television stations, and the Company pays certain sales representation fees to Univision relating to sales of all advertising for broadcast on our Univision- and Telefutura-affiliate television stations. During the three-month periods ended September 30, 2012 and 2011, the amount the Company paid Univision in this capacity was $2.8 million and $2.4 million, respectively. During the nine-month periods ended September 30, 2012 and 2011, the amount the Company paid Univision in this capacity was $7.5 million and $5.9 million, respectively.

In August 2008, the Company entered into a proxy agreement with Univision pursuant to which the Company granted to Univision the right to negotiate the terms of retransmission consent agreements for its Univision- and TeleFutura-affiliated television station signals for a term of six years, expiring in December 2014. 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, 2012, the amount due to the Company from Univision was $6.1 million related to the agreements for the carriage of its Univision and TeleFutura-affiliated television station signals.

Univision currently owns approximately 10% of the Company s common stock on a fully-converted basis.

***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.

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Stock-based compensation expense related to grants of stock options and restricted stock units was $0.8 million and $0.5 million for the three-month periods ended September 30, 2012 and 2011, respectively. Stock-based compensation expense related to grants of stock options and restricted stock units was $1.8 million and $1.4 million for the nine-month periods ended September 30, 2012 and 2011, 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, 2012 |
|---|---|
| Fair value of options granted | $ 1.26 |
| Expected volatility | 89% |
| Risk-free interest rate | 1.5% |
| Expected lives | 7.0 years |
| Dividend rate | |

As of September 30, 2012, there was approximately $2.0 million of total unrecognized compensation expense related to grants of stock options that is expected to be recognized over a weighted-average period of 1.6 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.

As of September 30, 2012, there was approximately $0.7 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 1.0 years.

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***Income (Loss) Per Share***

The following table illustrates the reconciliation of the basic and diluted income per share computations required by 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, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Basic earnings per share:** | | | | |
| Numerator: | | | | |
| Net income (loss) applicable to common stockholders | $ 7,233 | $ (1,384) | $ 5,904 | $ (6,168) |
| Denominator: | | | | |
| Weighted average common shares outstanding | 85,940,225 | 85,055,659 | 85,861,671 | 85,049,518 |
| Per share: | | | | |
| Net income (loss) per share applicable to common stockholders | $ 0.08 | $ (0.02) | $ 0.07 | $ (0.07) |
| **Diluted earnings per share:** | | | | |
| Numerator: | | | | |
| Net income (loss) applicable to common stockholders | $ 7,233 | $ (1,384) | $ 5,904 | $ (6,168) |
| Denominator: | | | | |
| Weighted average common shares outstanding | 85,940,225 | 85,055,659 | 85,861,671 | 85,049,518 |
| Dilutive securities: | | | | |
| Stock options and restricted stock units | 446,430 | | 359,197 | |
| Diluted shares outstanding | 86,386,655 | 85,055,659 | 86,220,868 | 85,049,518 |
| Per share: | | | | |
| Net income (loss) per share applicable to common stockholders | $ 0.08 | $ (0.02) | $ 0.07 | $ (0.07) |

Basic income (loss) per share is computed as net income (loss) divided by the weighted average number of shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution, if any, that could occur from shares issuable through stock options, restricted stock units and convertible securities.

For the three- and nine-month periods ended September 30, 2012, a total of 9,104,987 and 8,666,586 shares of dilutive securities, respectively, were not included in the computation of diluted income per share because the exercise prices of the dilutive securities were greater than the average market price of the common shares.

For the three- and nine-month periods ended September 30, 2011, all dilutive securities have been excluded as their inclusion would have had an antidilutive effect on loss per share. The number of securities whose conversion would result in an incremental number of shares that would be included in determining the weighted average shares outstanding for diluted earnings per share if their effect was not antidilutive was 399,397 and 600,671 equivalent shares of dilutive securities for the three- and nine-month periods ended September 30, 2011, respectively.

***Notes***

On July 27, 2010, the Company completed the offering and sale of $400 million aggregate principal amount of its 8.75% Senior Secured First Lien Notes (the Notes ). The Notes were issued at a discount of 98.722% of their principal amount and mature on August 1, 2017. Interest on the Notes accrues at a rate of 8.75% per annum from the date of original issuance and is payable semi-annually in arrears on February 1 and August 1 of each year, commencing on February 1, 2011. The Company received net proceeds of approximately $388 million from the sale of the Notes (net of bond discount of $5 million and fees of $7 million), which were used to pay all indebtedness outstanding under the previous syndicated bank credit facility, terminate the related interest rate swap agreements, pay fees and expenses related to the offering of the Notes and for general corporate purposes.

During the fourth quarter of 2011, the Company repurchased Notes on the open market with a principal amount of $16.2 million. The Company recorded a loss on debt extinguishment of $0.4 million primarily due to the write off of unamortized finance costs and unamortized bond discount.

On May 30, 2012, the Company repurchased Notes with a principal amount of $20.0 million pursuant to the optional redemption provisions in the Indenture. The redemption price for the redeemed Notes was 103% of the principal amount plus all accrued and unpaid interest. The Company recorded a loss on debt extinguishment of $1.2 million related to the premium paid and the write off of unamortized finance costs and unamortized bond discount.

The Notes are guaranteed on a senior secured basis by all of the existing and future wholly-owned domestic subsidiaries (the Note Guarantors ). The Notes and the guarantees rank equal in right of payment to all of the Company s and the guarantors existing and future senior indebtedness and senior in right of payment to all of the Company s and the Note Guarantors existing and future subordinated indebtedness. In addition, the Notes and the guarantees are effectively junior: (i) to the Company s and the Note Guarantors indebtedness secured by assets that are not collateral; (ii) pursuant to an Intercreditor Agreement entered into at the same time that the Company entered into the 2010 Credit Facility described below; and (iii) to all of the liabilities of any of the Company s existing and future subsidiaries that do not guarantee the Notes, to the extent of the assets of those subsidiaries. The Notes are secured by substantially all of the assets, as well as the pledge of the stock of substantially all of the subsidiaries, including the special purpose subsidiary formed to hold the Company s FCC licenses.

At the Company s option, the Company may redeem:

- prior to August 1, 2013, on one or more occasions, up to 10% of the original principal amount of the Notes during each 12-month period beginning on August 1, 2010, at a redemption price equal to 103% of the principal amount of the Notes, plus accrued and unpaid interest;

- prior to August 1, 2013, on one or more occasions, up to 35% of the original principal amount of the Notes with the net proceeds from certain equity offerings, at a redemption price of 108.750% of the principal amount of the Notes, plus accrued and unpaid interest; provided that: (i) at least 65% of the aggregate principal amount of all Notes issued under the Indenture remains outstanding immediately after such redemption; and (ii) such redemption occurs within 60 days of the date of closing of any such equity offering;

- prior to August 1, 2013, some or all of the Notes may be redeemed at a redemption price equal to 100% of the principal amount of the Notes plus a make-whole premium plus accrued and unpaid interest; and

- on or after August 1, 2013, some or all of the Notes may be redeemed at a redemption price of: (i) 106.563% of the principal amount of the Notes if redeemed during the twelve-month period beginning on August 1, 2013; (ii) 104.375% of the principal amount of the Notes if redeemed during the twelve-month period beginning on August 1, 2014; (iii) 102.188% of the principal amount of the Notes if redeemed during the twelve-month period beginning on August 1, 2015; and (iv) 100% of the principal amount of the Notes if redeemed on or after August 1, 2016, in each case plus accrued and unpaid interest.

In addition, upon a change of control of the Company, as defined in the indenture governing the issuance of the Notes (the Indenture ), the Company must make an offer to repurchase all Notes then outstanding, at a purchase price equal to 101% of the aggregate principal amount of the Notes repurchased, plus accrued and unpaid interest. In addition, we may at any time and from time to time purchase Notes in the open market or otherwise.

Upon an event of default, as defined in the Indenture, the Notes will become due and payable: (i) immediately without further notice if such event of default arises from events of bankruptcy or insolvency of the Company, any Note Guarantor or any restricted subsidiary; or (ii) upon a declaration of acceleration of the Notes in writing to the Company by the Trustee or holders representing 25% of the aggregate principal amount of the Notes then outstanding, if an event of default occurs and is continuing. The Indenture contains additional provisions that are customary for an agreement of this type, including indemnification by the Company and the Note Guarantors.

The carrying amount and estimated fair value of the Notes as of September 30, 2012 was $360.3 million and $393.8 million, respectively. The estimated fair value is based on quoted market prices for the Notes.

The Company recognized interest expense related to amortization of the bond discount of $0.1 million for each of the three-month periods ended September 30, 2012 and 2011. The Company recognized interest expense related to amortization of the bond discount of $0.4 million for each of the nine-month periods ended September 30, 2012 and 2011.

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***2010 Credit Facility***

On July 27, 2010, the Company also entered into a $50 million revolving credit facility ( 2010 Credit Facility ) and terminated the amended syndicated bank credit facility agreement. The 2010 Credit Facility consists of a three-year $50 million revolving credit facility that expires on July 27, 2013, which includes a $3 million sub-facility for letters of credit. In addition, the Company may increase the aggregate principal amount of the 2010 Credit Facility by up to an additional $50 million, subject to the Company satisfying certain conditions. As of September 30, 2012, the Company had approximately $0.7 million in outstanding letters of credit. The Company currently has no outstanding borrowings under the 2010 Credit Facility.

The 2010 Credit Facility is guaranteed on a senior secured basis by all of the Company s existing and future wholly-owned domestic subsidiaries (the Credit Guarantors ), which are also the Note Guarantors (collectively, the Guarantors ). The 2010 Credit Facility is secured on a first priority basis by the Company s and the Credit Guarantors assets, which also secure the Notes. The Company s borrowings, if any, under the 2010 Credit Facility rank senior to the Notes upon the terms set forth in the Intercreditor Agreement that the Company entered into in connection with the 2010 Credit Facility. The 2010 Credit Facility is secured by substantially all of the assets, as well as the pledge of the stock of substantially all of the subsidiaries, including the special purpose subsidiary formed to hold the Company s FCC licenses.

In February 2012, the Company entered into an amendment to the credit agreement governing the 2010 Credit Facility (the amended Credit Agreement ). The amendment changed certain thresholds for financial covenants relating to total leverage ratio, fixed charge coverage ratio, cash interest coverage ratio and revolving credit facility leverage ratio. In addition, on or after March 31, 2012, the financial covenants shall not be applicable unless any loans are outstanding on the relevant date. The amendment also contains other provisions that are customary for an agreement of this type.

Borrowings under the 2010 Credit Facility bear interest at either: (i) the Base Rate (as defined in the amended Credit Agreement) plus a margin of 3.375% per annum; or (ii) LIBOR plus a margin of 4.375% per annum. The Company has not drawn on the 2010 Credit Facility.

Upon an event of default, as defined in the amended Credit Agreement, the lenders may, among other things, suspend or terminate their obligation to make further loans to the Company and/or declare all amounts then outstanding under the 2010 Credit Facility to be immediately due and payable. The amended Credit Agreement also contains additional provisions that are customary for an agreement of this type, including indemnification by the Company and the Credit Guarantors.

In connection with the Company entering into the Indenture and the amended Credit Agreement, the Company and the Guarantors also entered into the following agreements:

- A Security Agreement, pursuant to which the Company and the Guarantors each granted a first priority security interests in the collateral securing the Notes and the 2010 Credit Facility for the benefit of the holders of the Notes and the lenders under the 2010 Credit Facility; and

- An Intercreditor Agreement, in order to define the relative rights of the holders of the Notes and the lenders under the 2010 Credit Facility with respect to the collateral securing the Company s and the Guarantors respective obligations under the Notes and the 2010 Credit Facility.

- A Registration Rights Agreement, pursuant to which the Company registered the Notes and successfully conducted an exchange offering for the Notes in unregistered form, as originally issued.

Subject to certain exceptions, both the Indenture and the amended Credit Agreement contain various provisions that limit the Company s ability, among other things, to:

- incur additional indebtedness;

incur liens;

merge, dissolve, consolidate, or sell all or substantially all of the Company s assets;

make certain investments;

make certain restricted payments;

declare certain dividends or distributions or repurchase shares of the Company s capital stock;

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- enter into certain transactions with affiliates; and

- change the nature of the Company s business.

In addition, the Indenture contains various provisions that limit the Company s ability to:

- apply the proceeds from certain asset sales other than in accordance with the terms of the Indenture; and

- restrict dividends or other payments from subsidiaries.

In addition, the amended Credit Agreement contains various provisions that limit the Company s ability to:

- dispose of certain assets; and

- amend the Company s or any guarantor s organizational documents of the Company in any way that is materially adverse to the lenders under the 2010 Credit Facility.

Moreover, if the Company fails to comply with any of the financial covenants or ratios under the 2010 Credit Facility, the lenders could:

- Elect to declare all amounts borrowed to be immediately due and payable, together with accrued and unpaid interest; and/or

- Terminate their commitments, if any, to make further extensions of credit.

In addition, if the Company s total leverage ratio exceeds 6.50 to 1.00 as of the end of the most recently completed fiscal quarter, the maximum principal outstanding amount of all loans under the Company s 2010 Credit Facility cannot exceed $25.0 million. In the event that the maximum principal outstanding amount exceeds $25.0 million in that case, the Company must immediately prepay outstanding revolving loans in an amount sufficient to eliminate such excess.

***Recent Accounting Pronouncements***

In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment ( ASU 2012-02 ). Under this guidance, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 is effective during interim and annual periods beginning after September 15, 2012. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

**3. SEGMENT INFORMATION**

The Company operates in two reportable segments: television broadcasting and radio broadcasting.

***Television Broadcasting***

The Company owns and/or operates 53 primary television stations located primarily in California, Colorado, Connecticut, Florida, Massachusetts, Nevada, New Mexico, Texas and the Washington, D.C. area.

***Radio Broadcasting***

The Company owns and operates 49 radio stations (38 FM and 11 AM) located primarily in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas.

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Separate financial data for each of the Company s operating segments are provided below. Segment operating profit (loss) is defined as operating profit (loss) before corporate expenses and impairment charge. There were no significant sources of revenue generated outside the United States during the three- and nine-month periods ended September 30, 2012 and 2011. The Company evaluates the performance of its operating segments based on the following (in thousands):

| | Three-Month Period Ended September 30, | | % Change | Nine-Month Period Ended September 30, | | % Change |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012 to 2011** | **2012** | **2011** | **2012 to 2011** |
| Net Revenue | | | | | | |
| Television | $ 40,903 | $ 33,564 | 22% | $ 111,466 | $ 97,350 | 15% |
| Radio | 17,583 | 16,551 | 6% | 48,035 | 47,074 | 2% |
| Consolidated | 58,486 | 50,115 | 17% | 159,501 | 144,424 | 10% |
| Direct operating expenses | | | | | | |
| Television | 14,349 | 13,668 | 5% | 41,567 | 39,992 | 4% |
| Radio | 8,944 | 8,914 | 0% | 26,236 | 25,898 | 1% |
| Consolidated | 23,293 | 22,582 | 3% | 67,803 | 65,890 | 3% |
| Selling, general and administrative expenses | | | | | | |
| Television | 5,224 | 4,535 | 15% | 15,747 | 14,697 | 7% |
| Radio | 4,369 | 4,086 | 7% | 12,853 | 12,453 | 3% |
| Consolidated | 9,593 | 8,621 | 11% | 28,600 | 27,150 | 5% |
| Depreciation and amortization | | | | | | |
| Television | 3,227 | 4,160 | (22)% | 10,088 | 11,534 | (13)% |
| Radio | 786 | 855 | (8)% | 2,348 | 2,638 | (11)% |
| Consolidated | 4,013 | 5,015 | (20)% | 12,436 | 14,172 | (12)% |