ENTRAVISION COMMUNICATIONS CORP
Form 10-Q
August 11, 2008
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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 JUNE 30, 2008

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. (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 July 31, 2008, there were 51,286,904 shares, $0.0001 par value per share, of the registrant s Class A common stock outstanding, 22,887,433 shares, $0.0001 par value per share, of the registrant s Class B common stock outstanding and 15,652,729 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 SIX-MONTH PERIODS ENDED JUNE 30, 2008

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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 annual 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;
- risks related to our significant amount of goodwill and other intangible assets;
- 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., or Univision;
- 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;
- industry-wide market factors and regulatory and other developments affecting our operations; and

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, 2007.

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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)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 117,105	$ 86,945
Trade receivables, net of allowance for doubtful accounts of $6,040 and $5,771	55,963	55,986
Assets held for sale		102,974
Deferred income taxes	26,248	26,248
Prepaid expenses and other current assets (including related parties of $274 and $274)	6,810	8,158
Total current assets	206,126	280,311
Property and equipment, net	92,891	92,959
Intangible assets subject to amortization, net (included related parties of $31,321 and $32,482)	33,238	34,560
Intangible assets not subject to amortization	766,118	778,427
Goodwill	179,360	168,135
Other assets	14,831	11,756
Total assets	$ 1,292,564	$ 1,366,148
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt (including related parties of $1,000 and $1,000)	$ 1,004	$ 1,076
Advances payable, related parties	118	118
Accounts payable and accrued expenses (including related parties of $3,402 and $4,595)	34,050	57,944
Liabilities associated with assets held for sale		5,772
Total current liabilities	35,172	64,910
Long-term debt, less current maturities (including related parties of $2,000 and $3,000)	472,000	483,002
Other long-term liabilities	29,557	22,383
Deferred income taxes	139,646	138,043
Total liabilities	676,375	708,338
Commitments and contingencies (note 4)		
Stockholders equity		
Class A common stock, $0.0001 par value, 260,000,000 shares authorized; shares issued and outstanding 2008 52,078,804; 2007 57,740,370	6	6
Class B common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2008 22,887,433; 2007 22,887,433	2	2
Class U common stock, $0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2008 15,652,729; 2007 17,152,729	2	2

Additional paid-in capital	947,250	991,908
Accumulated deficit	(331,070)	(334,108)
	616,190	657,810
Treasury stock, Class A common stock, $0.0001 par value, 2008 7,814,281; 2007 2,060,001 shares	(1)	
Total stockholders equity	616,189	657,810
Total liabilities and stockholders equity	$ 1,292,564	$ 1,366,148

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 June 30, 2008	Three-Month Period Ended June 30, 2007 (As reclassified) (Note 1)	Six-Month Period Ended June 30, 2008	Six-Month Period Ended June 30, 2007 (As reclassified) (Note 1)
Net revenue (including related parties of $32, $150, $182 and $300)	$ 62,932	$ 66,536	$ 118,585	$ 123,431
Expenses:				
Direct operating expenses (including related parties of $3,079, $3,202, $5,572 and $5,929) (including non-cash stock-based compensation of $165, $97, $289 and $251)	25,942	25,009	50,676	49,225
Selling, general and administrative expenses (including non-cash stock-based compensation of $207, $135, $362 and $400)	10,956	11,764	21,631	22,593
Corporate expenses (including non-cash stock-based compensation of $468, $370, $903 and $1,018)	4,477	4,373	8,931	9,002
Depreciation and amortization (includes direct operating of $4,382, $4,412, $8,726 and $8,891; selling, general and administrative of $983, $975, $1,985 and $2,001; and corporate of $277, $216, $476 and $431) (including related parties of $580, $580, $1,160 and $1,160)	5,642	5,603	11,187	11,323
	47,017	46,749	92,425	92,143
Operating income	15,915	19,787	26,160	31,288
Interest expense (including related parties of $54, $68, $112 and $141)	3,172	(1,807)	(19,423)	(12,917)
Interest income	286	1,302	717	2,566
Income before income taxes	19,373	19,282	7,454	20,937
Income tax expense	(7,674)	(7,671)	(2,679)	(8,417)
Income before equity in net income (loss) of nonconsolidated affiliate and discontinued operations	11,699	11,611	4,775	12,520
Equity in net income (loss) of nonconsolidated affiliate	(38)	160	(164)	160
Income from continuing operations	11,661	11,771	4,611	12,680
Loss from discontinued operations, net of tax (expense) benefit of ($369), $1,514, $604 and $4,160	(919)	(3,173)	(1,573)	(7,369)
Net income applicable to common stockholders	$ 10,742	$ 8,598	$ 3,038	$ 5,311
Basic and diluted earnings per share:				
Net income per share from continuing operations applicable to common stockholders, basic and diluted	$ 0.13	$ 0.11	$ 0.05	$ 0.12

Net loss per share from discontinued operations, basic and diluted	$ (0.01)	$ (0.03)	$ (0.02)	$ (0.07)
Net income per share applicable to common stockholders, basic and diluted	$ 0.12	$ 0.08	$ 0.03	$ 0.05
Weighted average common shares outstanding, basic	91,573,187	104,174,725	93,495,230	104,018,118
Weighted average common shares outstanding, diluted	91,835,027	105,124,162	93,811,980	104,705,891

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 June 30,		Six-Month Period Ended June 30,	
	2008	2007 (As reclassified) (Note 1)	2008	2007 (As reclassified) (Note 1)
Cash flows from operating activities:				
Net income	$ 10,742	$ 8,598	$ 3,038	$ 5,311
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,642	5,603	11,187	11,323
Deferred income taxes	6,877	9,598	1,660	7,233
Amortization of debt issue costs	101	101	202	202
Amortization of syndication contracts	689	399	1,555	415
Payments on syndication contracts	(715)	(459)	(1,422)	(478)
Equity in net (income) loss of nonconsolidated affiliate	38	(160)	164	(160)
Non-cash stock-based compensation	840	602	1,554	1,669
Change in fair value of interest rate swap agreements	(10,832)	(6,082)	3,211	(2,796)
Changes in assets and liabilities, net of effect of acquisitions and dispositions:				
(Increase) decrease in accounts receivable	(6,317)	(8,699)	158	(5,983)
(Increase) decrease in prepaid expenses and other assets	733	322	78	(131)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(659)	1,806	(1,760)	(1,456)
Effect of discontinued operations	(1,569)	712	(2,230)	8,818
Net cash provided by operating activities	5,570	12,341	17,395	23,967
Cash flows from investing activities:				
Proceeds from sale of property and equipment and intangibles	101,407	20	101,498	20
Purchases of property and equipment and intangibles	(4,404)	(5,978)	(8,408)	(9,403)
Purchase of a business			(22,885)	
Effect of discontinued operations	(64)	(823)	(194)	(1,182)
Net cash provided by (used in) investing activities	96,939	(6,781)	70,011	(10,565)
Cash flows from financing activities:				
Proceeds from issuance of common stock		2,925	486	5,477
Payments on long-term debt	(1,007)	(1,068)	(11,034)	(1,144)
Repurchase of Class U common stock			(10,380)	
Repurchase of Class A common stock	(13,793)		(36,293)	(2,840)
Change in excess tax benefits from exercise of stock options	(25)	353	(25)	476
Net cash provided by (used in) financing activities	(14,825)	2,210	(57,246)	1,969
Net increase in cash and cash equivalents	87,684	7,770	30,160	15,371
Cash and cash equivalents:				
Beginning	29,421	126,126	86,945	118,525

Ending	$ 117,105	$ 133,896	$ 117,105	$ 133,896
Supplemental disclosures of cash flow information:				
Cash payments for:				
Interest	$ 7,628	$ 7,723	$ 16,202	$ 15,600
Income taxes	$ 822	$ 366	$ 1,044	$ 708

See Notes to Consolidated Financial Statements

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ENTRAVISION COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2008

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, 2007 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. 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, 2008 or any other future period.

Discontinued Operations

The Company sold the outdoor advertising business in May 2008 and no longer has outdoor operations. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS 144) the Company has reported the results of its outdoor advertising operations for all periods in discontinued operations within the consolidated statements of operations. In the statements of cash flows, the cash flows of discontinued operations have been reclassified for all periods presented and are separately classified within the respective categories with those of continuing operations. The outdoor advertising business has been presented as assets held for sale on the consolidated balance sheet as of December 31, 2007.

Assets classified as assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell and are not depreciated and amortized while classified as held for sale. Fair value of assets held for sale is based on estimates of future cash flows, which may include expected proceeds to be received or the present value of estimated future cash flows. Costs to sell are the direct incremental costs estimated to transact a sale. A loss is recognized for any initial or subsequent write-down to fair value less costs to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized.

2. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Related Party

Univision currently owns less than 15% of the Company s common stock on a fully-converted basis. In connection with Univision s merger with Hispanic Broadcasting Corporation (HBC) 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 would not exceed 15% by March 26, 2006 and will not exceed 10% by March 26, 2009.

During the six-month period ended June 30, 2008, the Company repurchased 1.5 million shares of Class U common stock held by Univision for $10.4 million.

The Company s 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 of the Company s Class A

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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. Pursuant to an investor rights agreement, as amended, between Univision and the Company, Univision has a right to demand the registration of the sale of shares of the Company s Class U common stock that it owns, which may be exercised on or before March 26, 2009.

Univision 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 June 30, 2008 and 2007, the amount paid by the Company to Univision in this capacity was $2.5 million and $2.6 million, respectively. During the six-month periods ended June 30, 2008 and 2007, the amount paid by the Company to Univision in this capacity was $4.7 million and $5.0 million, respectively.

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. Further, the Company estimates forfeitures for share based awards that are not expected to vest. 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.

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.

Stock-based compensation expense related to grants of restricted stock units was $0.7 million and $0.4 million for the three-month periods ended June 30, 2008 and 2007, respectively. Stock-based compensation expense related to grants of restricted stock units was $1.3 million and $0.9 million for the six-month periods ended June 30, 2008 and 2007, respectively.

The following is a summary of nonvested restricted stock units granted: (unaudited; in thousands, except grant date fair value data):

	Six-Month Period Ended June 30, 2008	
	Number Granted	Weighted-Average Fair Value
Restricted stock units	731	$ 6.06

As of June 30, 2008, there was approximately $5.7 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 2.0 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 Statement for Financial Accounting Standards No. 128 Earnings Per Share (unaudited; in thousands, except share and per share data):

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2008	2007	2008	2007
Basic earnings per share:				
Numerator:				
Income from continuing operations	$ 11,661	$ 11,771	$ 4,611	$ 12,680
Loss from discontinued operations	(919)	(3,173)	(1,573)	(7,369)
Net income applicable to common stockholders	$ 10,742	$ 8,598	$ 3,038	$ 5,311
Denominator:				
Weighted average common shares outstanding	91,573,187	104,174,725	93,495,230	104,018,118
Per share:				
Net income per share from continuing operations	$ 0.13	$ 0.11	$ 0.05	$ 0.12
Net loss per share from discontinued operations	(0.01)	(0.03)	(0.02)	(0.07)
Net income per share applicable to common stockholders	$ 0.12	$ 0.08	$ 0.03	$ 0.05
Diluted earnings per share:				
Numerator:				
Income from continuing operations	$ 11,661	$ 11,771	$ 4,611	$ 12,680
Loss from discontinued operations	(919)	(3,173)	(1,573)	(7,369)
Net income applicable to common stockholders	$ 10,742	$ 8,598	$ 3,038	$ 5,311
Denominator:				
Weighted average common shares outstanding	91,573,187	104,174,725	93,495,230	104,018,118
Dilutive securities:				
Stock options, restricted stock units and employee stock purchase plan	261,840	949,437	316,750	687,773
Diluted shares outstanding	91,835,027	105,124,162	93,811,980	104,705,891
Per share:				
Net income per share from continuing operations	$ 0.13	$ 0.11	$ 0.05	$ 0.12
Net loss per share from discontinued operations	(0.01)	(0.03)	(0.02)	(0.07)
Net income per share applicable to common stockholders	$ 0.12	$ 0.08	$ 0.03	$ 0.05

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 six-month period ended June 30, 2008, a total of 10,269,255 shares of dilutive securities 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 six-month period ended June 30, 2007, a total of 9,126,434 shares of dilutive securities 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.

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Disposition and Discontinued Operations

In May 2008, the Company sold the outdoor advertising business to Lamar Advertising Co. for $101.5 million. The Company reviewed the portfolio of media properties and decided to sell its outdoor advertising business as it was a non-core business where the opportunity to grow to scale was limited. The Company decided that the net proceeds of the sale would strengthen the ability to invest in the core television and radio businesses while improving financial flexibility, including stock repurchases.

As a result of the disposition, the Company no longer has outdoor advertising operations. Accordingly, the financial statements reflect the outdoor segment as discontinued operations; the Company has presented the related net assets and liabilities as assets held for sale and reclassified the related revenue and expenses as discontinued operations.

Summarized financial information of the major classes of assets and liabilities held for sale in the consolidated balance sheets for the discontinued outdoor operations is as follows (in thousands):

	December 31, 2007
Trade receivables (net of allowance of $502)	$ 10,510
Prepaid expenses and other current assets	2,960
Deferred income taxes	23,507
Property and equipment, net	44,850
Intangible assets subject to amortization (customer base) (1)	19,332
Goodwill and other assets (1)	1,815
Total assets held for sale	$ 102,974
Current liabilities	$ 5,670
Other liabilities	102
Total liabilities associated with assets held for sale	$ 5,772
Carrying value of net assets held for sale	$ 97,202

(1) Goodwill and intangible assets include reductions of $60 million and $19.5 million, respectively, to reduce the carrying value of the disposal group to fair value less costs to sell.

Summarized financial information in the consolidated statements of operations for the discontinued outdoor operations is as follows (unaudited; in thousands):

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2008	2007	2008	2007
Net revenue	$ 4,785	$ 9,508	$ 13,730	$ 16,541
Loss before income taxes	(550)	(4,687)	(2,177)	(11,529)
Income tax (expense) benefit	(369)	1,514	604	4,160
Loss from discontinued operations, net of tax	$ (919)	$ (3,173)	$ (1,573)	$ (7,369)

In presenting discontinued operations, corporate overhead expenses have not been allocated, consistent with historical outdoor segment presentation.

Acquisition of Assets

In March 2008, the Company completed the acquisition of the net assets of radio station WNUE-FM in Orlando, Florida, which was consolidated as a variable interest entity in December 2007, for $24.1 million.

The Company evaluated the transferred set of activities, assets, inputs, outputs, and processes in this acquisition and determined that the acquisition did constitute a business.

The following is a summary of the purchase price allocation for the Company s acquisition of the net assets of radio station WNUE-FM in Orlando, Florida (unaudited; in millions):

Property and equipment	$ 1.0
Intangible assets subject to amortization	0.4
Intangible assets not subject to amortization (FCC licenses)	11.5
Goodwill	11.2
	$ 24.1

Syndicated Bank Credit Facility

In September 2005, the Company entered into the current $650 million senior secured syndicated bank credit facility, consisting of a 7 1/2-year $500 million term loan and a 6 1/2-year $150 million revolving facility. The term loan under the current syndicated bank credit facility was drawn in full at that time, the proceeds of which were used (i) to refinance $250 million outstanding under the Company s former syndicated bank credit facility, (ii) to complete a tender offer for the Company s previously outstanding $225 million senior subordinated notes, and (iii) for general corporate purposes.

The term loan matures in 2013 and is subject to automatic quarterly reductions of $1.25 million starting on January 1, 2012. The revolving facility expires in 2012. The Company s ability to make additional borrowings under the syndicated bank credit facility is subject to compliance with certain financial covenants, including financial ratios, and other conditions set forth in the syndicated bank credit facility.

The syndicated bank credit facility is secured by substantially all of the Company s assets, as well as the pledge of the stock of substantially all of the Company s subsidiaries, including the special purpose subsidiary formed to hold the Company s FCC licenses.

The term loan bears interest at LIBOR plus a margin of 1.50%, for a total interest rate of 4.29% at June 30, 2008. As of June 30, 2008, $470 million of the term loan was outstanding.

The revolving facility bears interest at LIBOR plus a margin ranging from 1% to 2% based on leverage covenants. As of June 30, 2008, the Company had approximately $2 million in outstanding letters of credit and $148 million was available under the revolving facility for future borrowings. In addition, the Company pays a quarterly unused commitment fee ranging from 0.25% to 0.50% per annum, depending on the level of facility usage.

The syndicated bank credit facility contains customary events of default. If an event of default occurs and is continuing, the Company might be required to repay all amounts then outstanding under the syndicated bank credit facility. Lenders holding more than 50% of the loans and commitments under the syndicated bank credit facility may elect to accelerate the maturity of loans upon the occurrence and during the continuation of an event of default.

The syndicated bank credit facility contains a mandatory prepayment clause, triggered in the event that (i) the proceeds of certain asset dispositions are not utilized as provided under the syndicated bank credit facility within 18 months of such disposition; (ii) insurance or condemnation proceeds are not utilized as provided under the syndicated bank credit facility within 360 days following receipt thereof; or (iii) the proceeds from capital contributions or equity offerings are not utilized to acquire businesses or properties relating to radio and television advertising within 360 days following such capital contribution or equity offering. In addition, if the Company incurs certain additional indebtedness, then 100% of such proceeds must be used to reduce the outstanding loan balance; and if the Company has excess cash flow, as defined in the syndicated bank credit facility, then 75% of such excess cash flow must be used to reduce the outstanding loan balance.

The syndicated bank credit facility contains certain financial covenants relating to maximum net debt ratio, senior debt ratio, maximum capital expenditures and fixed charge coverage ratio. The covenants become increasingly restrictive in the later years of the syndicated bank credit facility. The syndicated bank credit facility also requires the Company to maintain FCC licenses for broadcast properties and contains restrictions on the incurrence of additional debt, the payment of dividends, the making of acquisitions and the sale of assets over a certain limit.

The Company can draw on the revolving facility without prior approval for working capital needs and for acquisitions having an aggregate maximum consideration of $25 million or less. Proposed acquisitions are conditioned upon the Company s delivery to the agent bank of a

covenant compliance certificate showing pro forma calculations assuming such acquisition had been consummated

and revised revenue projections for the acquired properties. For acquisitions having an aggregate maximum consideration in excess of $100 million, consent is required from lenders holding more than 50% of the loans and commitments under the syndicated bank credit facility.

Derivative Instruments

As of June 30, 2008, the Company had three interest rate swap agreements with a $346 million aggregate notional amount, with quarterly reductions, that expire on October 1, 2010, and a fourth interest rate swap agreement with a $124 million notional amount, with quarterly increases, that also expires on October 1, 2010. The three interest rate swap agreements convert a portion of the variable rate term loan into a fixed rate obligation of 5.96%, which includes a margin of 1.50%. The fourth interest rate swap agreement converts a portion of the variable rate term loan into a fixed rate obligation of 6.56%, which includes a margin of 1.50%.

As of June 30, 2008 and 2007, these interest rate swap agreements were not designated for hedge accounting treatment, and as a result, changes in their fair values are reflected currently in earnings. The Company recognized a reduction of $10.8 million and $6.1 million in interest expense related to the increase in fair value of the interest rate swap agreements for the three-month periods ended June 30, 2008 and 2007, respectively. The Company recognized an increase of $3.2 million and a reduction of $2.8 million in interest expense related to the change in fair value of the interest rate swap agreements for the six-month periods ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, the fair value of the interest rate swap agreements was a liability of $14.8 million and is classified in other liabilities on the balance sheet. As of December 31, 2007, the fair value of the interest rate swap agreements was a liability of $11.6 million and is classified in other liabilities on the balance sheet.

Fair Value Measurements

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to measure eligible financial instruments, commitments, and certain other arrangements at fair value at specified election dates with changes in fair value recognized in earnings at each subsequent reporting period. SFAS 159 is effective beginning in the first quarter of 2008. The Company has currently not chosen to elect the provisions of SFAS 159 for its existing financial instruments.

On January 1, 2008, the Company adopted SFAS No. 157 (SFAS 157), Fair Value Measurements, which defines and establishes a framework for measuring fair value and expands disclosures about fair value measurements. In accordance with SFAS 157, the Company has categorized its financial assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below.

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the company has the ability to access at the measurement date.

Level 2 Financial assets and liabilities whose values are based on quoted prices for similar attributes in active markets; quoted prices in markets where trading occurs infrequently; and inputs other than quoted prices that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The following table presents the financial liabilities measured at fair value on a recurring basis, based on the fair value hierarchy as of June 30, 2008 (unaudited; in millions):

Liabilities	**Level 2**
Interest rate swap agreements	$ 14.8

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Interest Rate Swap Agreements

The fair values of the interest rate swap agreements represent the present value of expected future cash flows estimated to be received from or paid to a marketplace participant in settlement of these instruments. They are valued using inputs including broker/dealer quotes based on valuation models that incorporate observable market information and are classified within Level 2 of the fair value hierarchy.

Recent Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 (FSP 157-2), Effective Date of FASB Statement No. 157 which defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 for items within the scope of FSP 157-2 is effective beginning in the first quarter of 2009. The Company is currently evaluating the impact of adopting SFAS 157 for items within the scope of FSP 157-2 on the financial statements.

In December 2007, the FASB issued SFAS No. 141R (SFAS 141R), Business Combinations , which requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS 141R is effective beginning in the first quarter of 2009. The Company is currently evaluating the impact of adopting SFAS 141R on the financial statements.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements , which clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 160 is effective beginning in the first quarter of 2009. The Company is currently evaluating the impact of adopting SFAS 160 on the financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161), which requires enhanced disclosures for derivative and hedging activities. SFAS 161 will become effective beginning in the first quarter of 2009. The Company is currently evaluating the impact of adopting SFAS 161 on the financial statements.

In April 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3, Determination of Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of an intangible asset determined under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R. FSP 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting FSP 142-3 on the financial statements.