



Edgar Filing: ENTRAVISION COMMUNICATIONS CORP - Form 10-Q

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      No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes      No

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

Large accelerated filer      Accelerated filer

Non-accelerated filer      Smaller reporting company

Emerging growth  
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

As of November 5, 2018, there were 64,576,497 shares, \$0.0001 par value per share, of the registrant's Class A common stock outstanding, 14,927,613 shares, \$0.0001 par value per share, of the registrant's Class B common stock outstanding and 9,352,729 shares, \$0.0001 par value per share, of the registrant's Class U common stock outstanding.

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ENTRAVISION COMMUNICATIONS CORPORATION

FORM 10-Q FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018

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## Forward-Looking Statements

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

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except 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 substantial indebtedness or our ability to raise capital;
- provisions of our debt instruments, including the agreement dated as of November 30, 2017, or (the “2017 Credit Agreement”), which governs our current credit facility, or (the “2017 Credit Facility”), the terms of which restrict certain aspects of the operation of our business;
- our continued compliance with all of our obligations under the 2017 Credit Agreement;
- cancellations or reductions of advertising due to the then current economic environment or otherwise;
- advertising rates remaining constant or decreasing;
- rapid changes in digital media advertising;
- the impact of rigorous competition in Spanish-language media and in the advertising industry generally;
  - the impact of changing preferences, if any, among Hispanic audiences in the United States (“U.S.”) for Spanish-language programming, especially among younger age groups;
- 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. (“Univision”);
- the extent to which we continue to generate revenue under retransmission consent agreements;
- subject to restrictions contained in the 2017 Credit Agreement, the overall success of our acquisition and disposition strategy and the integration of any acquired assets with our existing operations;
- our ability to implement effective internal controls to address a material weakness discussed in this report;
- industry-wide market factors and regulatory and other developments affecting our operations;
- the ability to manage our growth effectively, including having adequate personnel and other resources for both operational and administrative functions;
- economic uncertainty;
- the impact of any potential future impairment of our assets;
- risks related to changes in accounting interpretations;
- the impact of provisions of the Tax Cut and Jobs Act of 2017 (the “2017 Tax Act”), including, among other things, our ability to fully account for all effects of the 2017 Tax Act, reasonably estimate the income tax effect of the 2017 Tax Act on our financial statements and utilize provisional amounts during an interim period that in no circumstances will extend beyond one year after the enactment date of the 2017 Tax Act;
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consequences of, and uncertainties regarding, foreign currency exchange including fluctuations thereto from time to time;

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- legal, political and other risks associated with our operations located outside the United States;
- the effect of changes in broadcast transmission standards by the Advanced Television Systems Committee's 3.0 standard ("ATSC 3.0") that may impact our ability to monetize our spectrum assets; and
- the uncertainty and impact, including additional and/or changing costs, of mandates and other obligations that may be imposed upon us as a result of federal healthcare laws, including the Affordable Care Act, the rules and regulations promulgated thereunder, any executive action with respect thereto, and any changes with respect to any of the foregoing in Congress.

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 30 of our Annual Report on Form 10-K for the year ended December 31, 2017.

## PART I

## FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ENTRAVISION COMMUNICATIONS CORPORATION

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share data)

|  | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| <b>ASSETS</b>  |                          |                         |
| Current assets   |                          |                         |
| Cash and cash equivalents  | \$ 101,789               | 39,560                  |
| Marketable securities  | 132,410                  | -                       |
| Restricted cash  | 769                      | 222,294                 |
| Trade receivables, (including related parties of \$4,253 and \$4,653) net of allowance for doubtful accounts of \$3,131 and \$2,566                    | 78,092                   | 84,348                  |
| Assets held for sale   | 1,179                    | -                       |
| Prepaid expenses and other current assets (including related parties of \$274 and \$274)   | 13,217                   | 6,260                   |
| <b>Total current assets</b>  | <b>327,456</b>           | <b>352,462</b>          |
| Property and equipment, net of accumulated depreciation of \$185,229 and \$179,869   | 63,204                   | 60,337                  |
| Intangible assets subject to amortization, net of accumulated amortization of \$92,194 and \$87,632 (including related parties of \$8,633 and \$9,555) | 24,196                   | 26,758                  |
| Intangible assets not subject to amortization  | 254,506                  | 251,163                 |
| Goodwill   | 74,149                   | 70,557                  |
| Other assets   | 5,087                    | 4,690                   |
| <b>Total assets</b>  | <b>\$748,598</b>         | <b>\$765,967</b>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                          |                         |
| Current liabilities  |                          |                         |
| Current maturities of long-term debt   | \$ 3,000                 | \$ 3,000                |
| Accounts payable and accrued expenses (including related parties of \$2,392 and \$2,548)   | 52,795                   | 57,563                  |
| Deferred revenue   | 4,351                    | 1,959                   |
| <b>Total current liabilities</b>   | <b>60,146</b>            | <b>62,522</b>           |
| Long-term debt, less current maturities, net of unamortized debt issuance costs of \$3,386 and \$3,761   | 290,614                  | 292,489                 |
| Other long-term liabilities  | 19,237                   | 21,447                  |
| Deferred income taxes  | 43,172                   | 40,639                  |
| <b>Total liabilities</b>   | <b>413,169</b>           | <b>417,097</b>          |
| Commitments and contingencies (note 5)   |                          |                         |



## Stockholders' equity

|   |           |           |
|---|-----------|-----------|
| Class A common stock, \$0.0001 par value, 260,000,000 shares authorized; shares issued and outstanding 2018 64,576,497; 2017 66,069,325 | 6         | 7         |
| Class B common stock, \$0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2018 and 2017 14,927,613          | 2         | 2         |
| Class U common stock, \$0.0001 par value, 40,000,000 shares authorized; shares issued and outstanding 2018 and 2017 9,352,729           | 1         | 1         |
| Additional paid-in capital  | 871,321   | 888,650   |
| Accumulated deficit   | (534,482) | (539,730) |
| Accumulated other comprehensive income (loss)   | (1,419 )  | (60 )     |
| Total stockholders' equity  | 335,429   | 348,870   |
| Total liabilities and stockholders' equity  | \$748,598 | \$765,967 |

See Notes to Consolidated Financial Statements

## ENTRA VISION COMMUNICATIONS CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except share and per share data)

|   | Three-Month Period<br>Ended September 30, |           | Nine-Month Period<br>Ended September 30, |            |
|---|---|-----------|--|------------|
|   | 2018                                      | 2017      | 2018                                     | 2017       |
| <b>Net revenue:</b>   |   |           |  |            |
| Revenue from advertising and retransmission consent   | \$73,397                                  | \$70,612  | \$213,933                                | \$198,631  |
| Revenue from spectrum usage rights  | 1,178                                     | 263,943   | 1,809                                    | 263,943    |
| Total net revenue   | \$74,575                                  | \$334,555 | \$215,742                                | \$462,574  |
| <b>Expenses:</b>  |   |           |  |            |
| Cost of revenue - television (spectrum usage rights)  | -   | 12,131    | -  | 12,131     |
| Cost of revenue - digital   | 13,240                                    | 9,910     | 35,249                                   | 20,424     |
| Direct operating expenses (including related parties of \$2,175, \$2,404, \$6,431 and \$7,116) (including non-cash stock-based compensation of \$156, \$276, \$448 and \$806)   | 31,694                                    | 30,231    | 93,844                                   | 87,238     |
| Selling, general and administrative expenses  | 12,398                                    | 12,813    | 38,365                                   | 36,043     |
| Corporate expenses (including non-cash stock-based compensation of \$1,130, \$813, \$3,263 and \$2,343)   | 6,913                                     | 8,209     | 19,154                                   | 19,695     |
| Depreciation and amortization (includes direct operating of \$2,504, \$2,221, \$7,606 and \$6,825; selling, general and administrative of \$1,434, \$1,798, \$4,048 and \$4,663; and corporate of \$156, \$318, \$398 and \$972) (including related parties of \$308, \$580, \$922 and \$1,741) | 4,094                                     | 4,337     | 12,052                                   | 12,460     |
| Change in fair value of contingent consideration  | (114 )                                    | -         | 1,073                                    | -          |
| Foreign currency (gain) loss  | 335                                       | (58 )     | 531                                      | 293        |
|   | 68,560                                    | 77,573    | 200,268                                  | 188,284    |
| Operating income (loss)   | 6,015                                     | 256,982   | 15,474                                   | 274,290    |
| Interest expense  | (3,995 )                                  | (3,756 )  | (11,394 )                                | (11,084 )  |
| Interest income   | 933                                       | 256       | 2,885                                    | 475        |
| Dividend income   | 457                                       | -         | 1,002                                    | -          |
| Other income (loss)   | 327                                       | -         | 622                                      | -          |
| Income (loss) before income taxes   | 3,737                                     | 253,482   | 8,589                                    | 263,681    |
| Income tax benefit (expense)  | (1,443 )                                  | (96,167 ) | (3,164 )                                 | (100,185 ) |
| Income (loss) before equity in net income (loss) of nonconsolidated affiliate   | 2,294                                     | 157,315   | 5,425                                    | 163,496    |
| Equity in net income (loss) of nonconsolidated affiliate, net of tax  | (79 )                                     | (107 )    | (177 )                                   | (175 )     |
| Net income (loss)   | \$2,215                                   | \$157,208 | \$5,248                                  | \$163,321  |
| <b>Basic and diluted earnings per share:</b>  |   |           |  |            |
| Net income per share, basic   | \$0.02                                    | \$1.74    | \$0.06                                   | \$1.81     |
| Net income per share, diluted   | \$0.02                                    | \$1.71    | \$0.06                                   | \$1.78     |

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Cash dividends declared per common share            | \$0.05     | \$0.05     | \$0.15     | \$0.11     |
| Weighted average common shares outstanding, basic   | 88,852,342 | 90,517,492 | 89,371,750 | 90,370,679 |
| Weighted average common shares outstanding, diluted | 90,122,425 | 92,161,108 | 90,574,663 | 91,985,946 |

See Notes to Consolidated Financial Statements

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## ENTRAVISION COMMUNICATIONS CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands, except share and per share data)

|   | Three-Month<br>Period<br>Ended September<br>30, |           | Nine-Month Period<br>Ended September<br>30, |           |
|---|---|-----------|---|-----------|
|   | 2018  | 2017      | 2018  | 2017      |
| Net income (loss)                                     | \$2,215   | \$157,208 | \$5,248                                     | \$163,321 |
| Other comprehensive income (loss), net of tax:        |   |           |   |           |
| Change in foreign currency translation                | 40  | 4         | (220 )                                      | 65        |
| Change in fair value of available for sale securities | 103   | -         | (1,139)                                     | -         |
| Change in fair value of interest rate swap agreements | -   | 451       | -   | 1,287     |
| Total other comprehensive income (loss)               | 143   | 455       | (1,359)                                     | 1,352     |
| Comprehensive income (loss)                           | \$2,358   | \$157,663 | \$3,889                                     | \$164,673 |

See Notes to Consolidated Financial Statements

## ENTRAVISION COMMUNICATIONS CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

|  | Nine-Month Period<br>Ended September 30, |           |
|--|--|-----------|
|  | 2018                                     | 2017      |
| Cash flows from operating activities:  |  |           |
| Net income (loss)  | \$5,248                                  | \$163,321 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |           |
| Depreciation and amortization  | 12,052                                   | 12,460    |
| Cost of revenue - television (spectrum usage rights)                                     | -  | 12,131    |
| Deferred income taxes  | 1,942                                    | 99,514    |
| Non-cash interest expense  | 828                                      | 595       |
| Amortization of syndication contracts  | 526                                      | 311       |
| Payments on syndication contracts  | (516 )                                   | (300 )    |
| Equity in net (income) loss of nonconsolidated affiliate                                 | 177                                      | 175       |
| Non-cash stock-based compensation  | 3,711                                    | 3,149     |
| Changes in assets and liabilities:   |  |           |
| (Increase) decrease in accounts receivable   | 8,578                                    | 12,790    |
| (Increase) decrease in prepaid expenses and other assets                                 | (7,210 )                                 | (1,830 )  |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities          | (2,839 )                                 | (8,862 )  |
| Net cash provided by (used in) operating activities                                      | 22,497                                   | 293,454   |
| Cash flows from investing activities:  |  |           |
| Proceeds from sale of property and equipment and intangible assets                       | 33                                       | -         |
| Purchases of property and equipment  | (12,277 )                                | (9,639 )  |
| Purchases of intangible assets   | (3,153 )                                 | (32,588 ) |
| Purchases of businesses, net of cash acquired  | (3,522 )                                 | (7,489 )  |
| Purchases of marketable securities   | (159,403)                                | -         |
| Proceeds from marketable securities  | 25,000                                   | -         |
| Purchases of investments   | (970 )                                   | (2,200 )  |
| Deposits on acquisitions   | -  | (1,240 )  |
| Net cash provided by (used in) investing activities                                      | (154,292)                                | (53,156)  |
| Cash flows from financing activities:  |  |           |
| Proceeds from stock option exercises   | 77                                       | 11        |
| Tax payments related to shares withheld for share-based compensation plans               | (2,239 )                                 | -         |
| Payments on long-term debt   | (2,250 )                                 | (2,813 )  |
| Dividends paid   | (13,403 )                                | (10,179 ) |
| Repurchase of Class A common stock   | (7,660 )                                 | (1,778 )  |
| Payment of contingent consideration  | (2,015 )                                 | -         |
| Net cash provided by (used in) financing activities                                      | (27,490 )                                | (14,759 ) |
| Effect of exchange rates on cash, cash equivalents and restricted cash                   | (11 )                                    | 17        |
| Net increase (decrease) in cash, cash equivalents and restricted cash                    | (159,296)                                | 225,556   |
| Cash, cash equivalents and restricted cash:  |  |           |
| Beginning  | 261,854                                  | 61,520    |

|  |            |            |
|--|------------|------------|
| Ending   | \$ 102,558 | \$ 287,076 |
| Supplemental disclosures of cash flow information:   |            |            |
| Cash payments for:   |            |            |
| Interest   | \$ 10,566  | \$ 10,489  |
| Income taxes   | \$ 1,222   | \$ 671     |
| Supplemental disclosures of non-cash investing and financing activities:                       |            |            |
| Capital expenditures financed through accounts payable, accrued expenses and other liabilities | \$ 950     | \$ 604     |
| Contingent consideration included in accounts payable, accrued expenses and other liabilities  | \$ 14,982  | \$ 18,026  |

See Notes to Consolidated Financial Statements

ENTRAVISION COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 2018

1. BASIS OF PRESENTATION

Presentation

The consolidated financial statements included herein have been prepared by Entravision Communications Corporation (the “Company”), pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) 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, 2017 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. 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, 2018 or any other future period.

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

2. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is a leading global media company that, through its television and radio segments, reaches and engages U.S. Hispanics across acculturation levels and media channels. Additionally, the Company’s digital segment, whose operations are located primarily in Spain, Mexico, Argentina and other countries in Latin America, reaches a global market. The Company’s portfolio encompasses integrated marketing and media solutions, comprised of television, radio, and digital properties (including data analytics services). The Company’s management has determined that the Company operates in three reportable segments as of September 30, 2018, based upon the type of advertising medium, which segments are television, radio, and digital. As of September 30, 2018, the Company owns and/or operates 55 primary television stations, located primarily in California, Colorado, Connecticut, Florida, Kansas, Massachusetts, Nevada, New Mexico, Texas and Washington, D.C. The Company’s television operations comprise the largest affiliate group of both the top-ranked primary television network of Univision and Univision’s UniMás network. The television broadcasting segment includes revenue generated from advertising, retransmission consent agreements and the monetization of the Company’s spectrum assets. Radio operations consist of 49 operational radio stations, 38 FM and 11 AM, in 16 markets located in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas. The

Company also operates Entravision Solutions as its national sales representation division, through which it sells advertisements and syndicate radio programming to more than 300 stations across the United States. The Company operates a proprietary technology and data platform that delivers digital advertising in various advertising formats that allows advertisers to reach audiences across a wide range of Internet-connected devices on its owned and operated digital media sites, the digital media sites of its publisher partners, and on other digital media sites it can access through third-party platforms and exchanges.

#### Restricted Cash

As of September 30, 2018, the Company's balance sheet includes \$0.8 million in restricted cash, which was deposited into a separate account as temporary collateral for the Company's letters of credit. As of December 31, 2017, the Company's balance sheet includes \$222.3 million in restricted cash of which \$221.5 million relates to proceeds received by the Company for its participation in the Federal Communications Commission ("FCC") auction for broadcast spectrum which were deposited into the account of a qualified intermediary to comply with Internal Revenue Code Section 1031 requirements to execute a like-kind exchange. The remaining \$0.8 million in restricted cash was used as temporary collateral for the Company's letters of credit.

#### Related Party

Substantially all of the Company's stations are Univision- or UniMás-affiliated television stations. The Company's network affiliation agreement with Univision provides certain of its owned stations the exclusive right to broadcast Univision's primary network and UniMás network programming in their respective markets. Under the network affiliation agreement, the Company retains the right to sell no less than four minutes per hour of the available advertising time on stations that broadcast Univision network programming, and the right to sell approximately four and a half minutes per hour of the available advertising time on stations that broadcast UniMás network programming, subject to adjustment from time to time by Univision.



Under the network affiliation agreement, Univision acts as the Company's exclusive third-party sales representative for the sale of certain national advertising on the Company's Univision- and UniMás-affiliate television stations, and it pays certain sales representation fees to Univision relating to sales of all advertising for broadcast on the Company's Univision- and UniMás-affiliate television stations. During the three-month periods ended September 30, 2018 and 2017, the amount the Company paid Univision in this capacity was \$2.2 million and \$2.4 million, respectively. During the nine-month periods ended September 30, 2018 and 2017, the amount the Company paid Univision in this capacity was \$6.4 million and \$7.1 million, respectively.

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

Under the Company's proxy agreement with Univision, the Company grants Univision the right to negotiate the terms of retransmission consent agreements for its Univision- and UniMás-affiliated television station signals. 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, 2018, the amount due to the Company from Univision was \$4.3 million related to the agreements for the carriage of its Univision and UniMás-affiliated television station signals. During the three-month periods ended September 30, 2018 and 2017, retransmission consent revenue accounted for approximately \$8.4 million and \$8.5 million, respectively, of which \$6.5 million and \$8.3 million, respectively, relate to the Univision proxy agreement. During the nine-month periods ended September 30, 2018 and 2017, retransmission consent revenue accounted for approximately \$26.4 million and \$23.9 million, respectively, of which \$21.5 million and \$22.9 million, respectively, relate to the Univision proxy agreement. The term of the proxy agreement extends with respect to any MVPD for the length of the term of any retransmission consent agreement in effect before the expiration of the proxy agreement.

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

#### Stock-Based Compensation

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

Stock-based compensation expense related to grants of stock options and restricted stock units was \$1.3 million and \$1.1 million for the three-month periods ended September 30, 2018 and 2017, respectively. Stock-based compensation expense related to grants of stock options and restricted stock units was \$3.7 million and \$3.1 million for the nine-month periods ended September 30, 2018 and 2017, 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.

As of September 30, 2018, there was less than \$0.1 million of total unrecognized compensation expense related to grants of stock options that is expected to be recognized over a weighted-average period of 0.4 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.

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

|                        | Nine-Month Period<br>Ended September 30,<br>2018        |               |
|------------------------|---|---------------|
|                        | Weighted-Average<br>Number of<br>Restricted stock units | Fair<br>Value |
| Restricted stock units | 120   | \$ 4.00       |

As of September 30, 2018, there was approximately \$3.7 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 1.3 years.

#### Income (Loss) Per Share

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

|  | Three-Month Period<br>Ended September 30, |            | Nine-Month Period<br>Ended September 30, |            |
|--|---|------------|--|------------|
|  | 2018                                      | 2017       | 2018                                     | 2017       |
| <b>Basic earnings per share:</b>           |   |            |  |            |
| Numerator:                                 |   |            |  |            |
| Net income (loss)                          | \$2,215                                   | \$157,208  | \$5,248                                  | \$163,321  |
| Denominator:                               |   |            |  |            |
| Weighted average common shares outstanding | 88,852,342                                | 90,517,492 | 89,371,750                               | 90,370,679 |
| Per share:                                 |   |            |  |            |
| Net income (loss) per share                | \$0.02                                    | \$1.74     | \$0.06                                   | \$1.81     |
| <b>Diluted earnings per share:</b>         |   |            |  |            |
| Numerator:                                 |   |            |  |            |
| Net income (loss)                          | \$2,215                                   | \$157,208  | \$5,248                                  | \$163,321  |
| Denominator:                               |   |            |  |            |
| Weighted average common shares outstanding | 88,852,342                                | 90,517,492 | 89,371,750                               | 90,370,679 |
| Dilutive securities:                       |   |            |  |            |
| Stock options and restricted stock units   | 1,270,083                                 | 1,643,616  | 1,202,913                                | 1,615,267  |
| Diluted shares outstanding                 | 90,122,425                                | 92,161,108 | 90,574,663                               | 91,985,946 |
| Per share:                                 |   |            |  |            |

|                             |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|
| Net income (loss) per share | \$0.02 | \$1.71 | \$0.06 | \$1.78 |
|-----------------------------|--------|--------|--------|--------|

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 and restricted stock awards.

For the three-month period ended September 30, 2018 there were no dilutive securities excluded from the computation of diluted income per share. For the nine-month period ended September 30, 2018, a total 92,979 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 three- and nine-month periods ended September 30, 2017, a total of 277 and 11,346 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.

#### Treasury Stock

Treasury stock is included as a deduction from equity in the Stockholders' Equity section of the consolidated balance sheets.

On July 13, 2017, the Board of Directors approved a share repurchase program of up to \$15.0 million of the Company's outstanding common stock. On April 11, 2018, the Board of Directors approved the repurchase of up to an additional \$15.0 million of the Company's Class A common stock, for a total repurchase authorization of up to \$30.0 million. Under the share repurchase program, the Company is authorized to purchase shares from time to time through open market purchases or negotiated purchases, subject to market conditions and other factors. The share repurchase program may be suspended or discontinued at any time without prior notice.

There were no repurchases of shares of Class A common stock during the three-month period ended September 30, 2018. As of September 30, 2018, the Company repurchased a total of approximately 2.5 million shares of Class A common stock for an aggregate purchase price of approximately \$13.0 million, or an average price per share of \$5.08, since the beginning of the share repurchase program. All such repurchased shares were retired as of September 30, 2018.

#### 2017 Credit Facility

On November 30, 2017 (the "Closing Date"), the Company entered into its 2017 Credit Facility pursuant to the 2017 Credit Agreement. The 2017 Credit Facility consists of a \$300.0 million senior secured Term Loan B Facility (the "Term Loan B Facility"), which was drawn in full on the Closing Date. In addition, the 2017 Credit Facility provides that the Company may increase the aggregate principal amount of the 2017 Credit Facility by up to an additional \$100.0 million plus the amount that would result in its first lien net leverage ratio (as such term is used in the 2017 Credit Agreement) not exceeding 4.0 to 1.0, subject to satisfying certain conditions.

Borrowings under the Term Loan B Facility were used on the Closing Date to (a) repay in full all of the Company's and its subsidiaries' outstanding obligations under the Company's previous credit facility ("2013 Credit Facility") and to terminate the agreement governing the 2013 Credit Facility ("2013 Credit Agreement"), (b) pay fees and expenses in connection with the 2017 Credit Facility, and (c) for general corporate purposes.

The 2017 Credit Facility is guaranteed on a senior secured basis by certain of its existing and future wholly-owned domestic subsidiaries, and is secured on a first priority basis by the Company's and those subsidiaries' assets.

The Company's borrowings under the 2017 Credit Facility bear interest on the outstanding principal amount thereof from the date when made at a rate per annum equal to either: (i) the Eurodollar Rate (as defined in the 2017 Credit Agreement) plus 2.75%; or (ii) the Base Rate (as defined in the 2017 Credit Agreement) plus 1.75%. The Term Loan B Facility expires on November 30, 2024 (the "Maturity Date").

The amounts outstanding under the 2017 Credit Facility may be prepaid at the Company's option without premium or penalty, provided that certain limitations are observed, and subject to customary breakage fees in connection with the prepayment of a Eurodollar rate loan. The principal amount of the Term Loan B Facility shall be paid in installments on the dates and in the respective amounts set forth in the 2017 Credit Agreement, with the final balance due on the Maturity Date.

Subject to certain exceptions, the 2017 Credit Facility contains covenants that limit the ability of the Company and its restricted subsidiaries to, among other things:

- incur liens on the Company's property or assets;
- make certain investments;
- incur additional indebtedness;
- consummate any merger, dissolution, liquidation, consolidation or sale of substantially all assets;
- dispose of certain assets;
- make certain restricted payments;

make certain acquisitions;  
enter into substantially different lines of business;  
enter into certain transactions with affiliates;  
use loan proceeds to purchase or carry margin stock or for any other prohibited purpose;  
change or amend the terms of the Company's organizational documents or the organization documents of certain restricted subsidiaries in a materially adverse way to the lenders, or change or amend the terms of certain indebtedness;  
enter into sale and leaseback transactions;  
make prepayments of any subordinated indebtedness, subject to certain conditions; and  
change the Company's fiscal year, or accounting policies or reporting practices.

The 2017 Credit Facility also provides for certain customary events of default, including the following:

default for three (3) business days in the payment of interest on borrowings under the 2017 Credit Facility when due;  
default in payment when due of the principal amount of borrowings under the 2017 Credit Facility;  
failure by the Company or any subsidiary to comply with the negative covenants and certain other covenants relating to maintaining the legal existence of the Company and certain of its restricted subsidiaries and compliance with anti-corruption laws;  
failure by the Company or any subsidiary to comply with any of the other agreements in the 2017 Credit Agreement and related loan documents that continues for thirty (30) days [or ten (10) days in the case of failure to comply with covenants related to inspection rights of the administrative agent and lenders and permitted uses of proceeds from borrowings under the 2017 Credit Facility] after the Company's officers first become aware of such failure or first receive written notice of such failure from any lender;

- default in the payment of other indebtedness if the amount of such indebtedness aggregates to \$15.0 million or more, or failure to comply with the terms of any agreements related to such indebtedness if the holder or holders of such indebtedness can cause such indebtedness to be declared due and payable;

certain events of bankruptcy or insolvency with respect to the Company or any significant subsidiary;

- final judgment is entered against the Company or any restricted subsidiary in an aggregate amount over \$15.0 million, and either enforcement proceedings are commenced by any creditor or there is a period of thirty (30) consecutive days during which the judgment remains unpaid and no stay is in effect;

any material provision of any agreement or instrument governing the 2017 Credit Facility ceases to be in full force and effect; and  
any revocation, termination, substantial and adverse modification, or refusal by final order to renew, any media license, or the requirement (by final non-appealable order) to sell a television or radio station, where any such event or failure is reasonably expected to have a material adverse effect.

The Term Loan B Facility does not contain any financial covenants. In connection with the Company entering into the 2017 Credit Agreement, the Company and its restricted subsidiaries also entered into a Security Agreement, pursuant to which the Company and the Credit Parties each granted a first priority security interest in the collateral securing the 2017 Credit Facility for the benefit of the lenders under the 2017 Credit Facility.

Additionally, the 2017 Credit Agreement contains a definition of "Consolidated EBITDA" that excludes revenue related to the Company's participation in the FCC auction for broadcast spectrum and related expenses, as compared to the definition of "Consolidated Adjusted EBITDA" under the 2013 Credit Agreement which included such items.

The carrying amount of the Term Loan B Facility as of September 30, 2018 was \$293.6 million, net of \$3.4 million of unamortized debt issuance costs and original issue discount. The estimated fair value of the Term Loan B Facility as of September 30, 2018 was \$293.3 million. The estimated fair value is based on quoted prices in markets where trading occurs infrequently.





## Derivative Instruments

Prior to November 28, 2017, the Company used derivatives in the management of interest rate risk with respect to interest expense on variable rate debt. The Company was party to interest rate swap agreements with financial institutions that fixed the variable benchmark component (LIBOR) of its interest rate on a portion of its term loan beginning December 31, 2015. On November 28, 2017, the Company terminated these swap agreements in conjunction with the refinancing of its debt. The Company's current policy prohibits entering into derivative instruments for speculation or trading purposes.

The carrying amount of the Company's interest rate swap agreements were recorded at fair value, including consideration of non-performance risk, when material. The fair value of each interest rate swap agreement was determined by using multiple broker quotes, adjusted for non-performance risk, when material, which estimate the future discounted cash flows of any future payments that may be made under such agreements.

## Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date.

ASC Topic 820, "Fair Value Measurements and Disclosures" ("Topic 820"), defines and establishes a framework for measuring fair value and expands disclosures about fair value measurements. In accordance with Topic 820, 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 – 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 – 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 – 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 Company's financial assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets (in millions):

| September 30, 2018 |                                 |
|--------------------|---------------------------------|
| Total              | Fair Value Measurement Category |
| Fair               |                                 |
| Value              |                                 |

and  
Carrying

|                          | Value on Balance Sheet |         |          |        |
|--------------------------|------------------------|---------|----------|--------|
|                          | Level 1                | Level 2 | Level 3  |        |
| <b>Assets:</b>           |                        |         |          |        |
| Money market account     | \$ 83.3                | \$ -    | \$ 83.3  | \$     |
| Certificates of deposit  | \$ 8.2                 | \$ -    | \$ 8.2   | \$     |
| Corporate bonds          | \$ 124.2               | \$ -    | \$ 124.2 | \$     |
| <b>Liabilities:</b>      |                        |         |          |        |
| Contingent consideration | \$ 15.0                | \$ -    | \$ -     | \$15.0 |

December 31, 2017  
Total  
Fair  
Value

and  
Carrying

|                          | Value on Balance Sheet |         |         |        |
|--------------------------|------------------------|---------|---------|--------|
|                          | Level 1                | Level 2 | Level 3 |        |
| <b>Liabilities:</b>      |                        |         |         |        |
| Contingent consideration | \$ 15.9                | \$ -    | \$ -    | \$15.9 |

As of September 30, 2018, the Company held investments in a money market fund, certificates of deposit, and corporate bonds. All certificates of deposit are within the current Federal Deposit Insurance Corporation insurance limits and all corporate bonds are investment grade.

The Company's available for sale securities are comprised of certificates of deposit and bonds. These securities are valued using quoted prices for similar attributes in active markets (Level 2). Since these investments are classified as available for sale, they are recorded at their fair market value within "Marketable securities" in the consolidated balance sheet and their unrealized gains or losses are included in "Accumulated other comprehensive income (loss)".

As of September 30, 2018, the following table summarizes the amortized cost and the unrealized gains (losses) of the available for sale securities (in thousands):

|                                       | Certificates of Deposit |          | Corporate Bonds  |             |
|---------------------------------------|-------------------------|----------|------------------|-------------|
|                                       | Unrealized gains        |          | Unrealized gains |             |
|                                       | Amortized               |          | Amortized        |             |
|                                       | Cost                    | (losses) | Cost             | (losses)    |
| Due within a year                     | \$2,400                 | \$ (5)   | \$25,118         | \$ (67 )    |
| Due after one year through five years | 5,882                   | (53)     | 100,528          | (1,393)     |
| Total                                 | \$8,282                 | \$ (58)  | \$125,646        | \$ (1,460 ) |

The Company periodically reviews its available for sale securities for other-than-temporary impairment. For the three- and nine-month periods ended September 30, 2018, the Company did not consider any of its securities to be other-than-temporarily impaired and, accordingly, did not recognize any impairment losses.

Included in interest income for the three- and nine-month periods ended September 30, 2018 was interest income related to the Company's available-for-sale securities of \$0.9 and \$2.7 million, respectively.

#### Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the cumulative gains and losses of derivative instruments that qualify as cash flow hedges, foreign currency translation adjustments and changes in the fair value of available for sale securities. The following table provides a roll-forward of accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2018 and 2017 (in millions):

|  | 2018    | 2017    |
|--|---------|---------|
| Accumulated other comprehensive income (loss) as of January 1, | \$(0.1) | \$(3.0) |
| Foreign currency translation (gain) loss                       | (0.2)   | 0.1     |
| Change in fair value of available for sale securities          | (1.5)   | -       |
| Change in fair value of interest rate swap agreements          | -       | 2.1     |
| Income tax benefit (expense)                                   | 0.4     | (0.8)   |

|   |         |         |
|---|---------|---------|
| Other comprehensive income (loss), net of tax                     | (1.3)   | 1.4     |
| Accumulated other comprehensive income (loss) as of September 30, | \$(1.4) | \$(1.6) |

#### Foreign Currency

The Company's reporting currency is the United States dollar. All transactions initiated in foreign currencies are translated into U.S. dollars in accordance with ASC Topic 830, "Foreign Currency Matters" and the related rate fluctuation on transactions is included in "Foreign currency gain (loss)" in the consolidated statements of operations.

For foreign operations with the local currency as the functional currency, assets and liabilities are translated from the local currencies into U.S. dollars at the exchange rate prevailing at the balance sheet date and equity is translated at historical rates. Revenues and expenses are translated at the average exchange rate for the period. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining other comprehensive (income) loss.

Based on recent data reported by the International Monetary Fund, Argentina was identified as a country with a highly inflationary economy. According to U.S. GAAP, a registrant should apply highly inflationary accounting in the first reporting period after such determination. Therefore, the Company transitioned the accounting for its Argentine operations to highly inflationary status as of July 1, 2018 and, commencing that date, changed the functional currency from the Argentine Peso to U.S. dollar.

#### Cost of Revenue

Cost of revenue related to the Company's television segment consists primarily of the carrying value of spectrum usage rights that were surrendered in the FCC auction for broadcast spectrum. Cost of revenue related to the Company's digital segment consists primarily of the costs of online media acquired from third-party publishers.

#### Assets Held For Sale

Assets are classified as held for sale when the carrying value is expected to be recovered through a sale rather than through their continued use and all of the necessary classification criteria have been met. Assets held for sale are recorded at the lower of their carrying value or estimated fair value less selling costs and classified as current assets. Depreciation is not recorded on assets classified as held for sale.

During the second quarter, the Company relocated the operations of two of its television stations in the Palm Springs market and management approved the sale of the vacated building. The building and related improvements met the criteria for classification as assets held for sale and their carrying value is presented separately in the consolidated balance sheet. Assets held for sale are classified as current assets as management believes the sale will be completed within one year.

#### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), which specifies the accounting for leases. Subsequently, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842), ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842): Targeted Improvements which address several issues and assist entities with the application of the new lease accounting standard. ASU 2016-02 will require that companies recognize lease assets and lease liabilities on its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Company continues to evaluate the impact of this standard but expects that most of its operating lease commitments will be recognized as right-of-use assets and operating lease liabilities on its consolidated balance sheet. The Company has implemented an enterprise-wide lease management system to support the new reporting requirements and is evaluating its processes and internal controls to ensure the Company meets the standard's reporting and disclosure requirements. The Company has also elected to apply the transition provisions of the new standard such that periods prior to the effective date of adoption will continue to be reported using current GAAP. The Company, however, is currently evaluating other practical expedients offered by the standard and has not yet determined whether it will elect to apply them.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs

incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this update are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is in the process of assessing the impact of this ASU on its Consolidated Financial Statements but does not expect this update to have a material impact on the Company's Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-based Payment Accounting, which supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees and expands the scope of ASC Topic 718, “Compensation—Stock Compensation” (“Topic 718”) to include share-based payments issued to nonemployees for goods and services. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC Topic 606, “Revenue from Contracts with Customers” (“Topic 606”). The amendments in this

ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than a company's adoption date of Topic 606. The Company is currently in the process of evaluating the impact of this guidance on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Act and also requires entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. This update is effective in fiscal years, including interim periods, beginning after December 15, 2018, and early adoption is permitted. This guidance should be applied either in the period of adoption or retrospectively to each period in which the effects of the change in the U.S. federal income tax rate in the 2017 Tax Act is recognized. The Company is currently in the process of evaluating the impact of this guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which amends current guidance on other-than-temporary impairments of available-for-sale debt securities. This amended standard requires the use of an allowance to record estimated credit losses on these assets when the fair value is below the amortized cost of the asset. This standard also removes the evaluation of the length of time that a security has been in a loss position to avoid recording a credit loss. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is still assessing the impact this standard will have on its consolidated financial statements and related disclosures.

#### Newly Adopted Accounting Standards

In March 2018, the FASB issued ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The ASU adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118")*, which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the 2017 Tax Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the 2017 Tax Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. The Company has accounted for the tax effects of the 2017 Tax Act under the guidance of SAB 118, on a provisional basis. The Company's accounting for certain income tax effects is incomplete, but it has determined reasonable estimates for those effects and has recorded provisional amounts in its consolidated financial statements as of September 30, 2018 and December 31, 2017.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, to clarify and reduce both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to change the terms and conditions of a share-based payment award. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted ASU 2017-09 on January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on its financial condition or results of operations, as the Company has not had any modifications to share-based payment awards. However, if the Company does have a modification to an award in the future, it will follow the guidance in ASU 2017-09.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to provide a more robust framework to use in determining when a set of assets and activities is considered a business. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017. The

Company adopted this standard prospectively on January 1, 2018.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which provides specific guidance on eight cash flow classification issues arising from certain cash receipts and cash payments. The Company adopted this guidance on January 1, 2018 and is required to apply it on a retrospective basis. There was no material impact on the Company's consolidated statements of cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers .



On January 1, 2018, the Company adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605, "Revenue Recognition".

Opening retained earnings as of January 1, 2018 were not affected as there was no cumulative impact of adopting Topic 606.

#### United States Tax Reform

On December 22, 2017, the President signed the 2017 Tax Act. The 2017 Tax Act makes broad and complex changes to the United States tax code that affected the Company's financial results for the year ended December 31, 2017 and may affect financial results for the year ending December 31, 2018 and future years, including, but not limited to, some or all of the following: (1) a reduction of the U.S. federal corporate tax rate from 35% to 21%; (2) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (3) a new provision designed to tax global intangible low-taxed income ("GILTI"); (4) limitations on the deductibility of certain executive compensation; and (5) limitations on the use of Federal Tax Credits to reduce the U.S. income tax liability.

The staff of the SEC issued SAB 118, which provides guidance on accounting for the tax effects of the 2017 Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the 2017 Tax Act enactment date for the Company to complete the accounting under ASC Topic 740, "Income Taxes" ("Topic 740"). In accordance with SAB 118, the Company must reflect the income tax effects of those aspects of the Act for which the accounting under Topic 740 is complete. To the extent that accounting for certain income tax effects of the 2017 Tax Act is incomplete but the Company is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. The Company was able to make a reasonable estimate of the impact of the reduction in the corporate tax rate and no significant provisional items were identified that could result in a material impact to the estimate upon finalization in 2018.

Effective January 1, 2018, the 2017 Tax Act subjects a U.S. corporation to tax on its GILTI. The Company has elected an accounting policy to treat taxes due on the GILTI inclusion as a current period expense. The impact of this treatment on the effective tax rate for the period ended September 30, 2018 was not significant.

### 3. REVENUES

#### Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

##### Revenue Recognition

Revenues are recognized when control of the promised services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

Broadcast Advertising. Television and radio revenue related to the sale of advertising is recognized at the time of broadcast. Broadcast advertising rates are fixed based on each medium's ability to attract audiences in demographic groups targeted by advertisers and rates can vary based on the time of day and ratings of the programming airing in that day part.

Digital Advertising. Revenue from digital advertising primarily consists of two types: (1) display advertisements on websites and mobile applications that are sold based on a cost-per-thousand impressions delivered (typically referred to as “CPM”). These impressions are delivered through the Company’s websites and through third party publishers either through direct relationships with the publishers or through digital advertising exchanges. (2) performance driven advertising whereby the customer engages the Company to drive consumers to perform an action such as the download of a mobile application, the installation of an application, or the first use of an application (typically referred to cost per action (“CPA”) or cost per installation (“CPI”).

Broadcast and digital advertising revenue is recognized over time in a series as a single performance obligation as the ad, impression or performance advertising is delivered per the insertion order. The Company applies the practical expedient to recognize revenue for each distinct advertising service delivered at the amount the Company has the right to invoice, which corresponds directly to the value a customer has received relative to the Company’s performance. Contracts with customers are short term in nature and billing occurs on a monthly basis with payment due in 30 days. Value added taxes collected concurrent with advertising revenue producing activities are excluded from revenue. Cash payments received prior to services rendered result in deferred revenue, which is then recognized as revenue when the advertising time or space is actually provided.

Retransmission Consent. The Company generates revenue from retransmission consent agreements that are entered into with multichannel video programming distributors, or MVPDs. The Company grants the MVPDs access to its television station signals so that they may rebroadcast the signals and charge their subscribers for this programming. Payments are received on a monthly basis based on the number of monthly subscribers.

Retransmission consent revenues are considered licenses of functional intellectual property and are recognized over time utilizing the sale-based or usage-based royalty exception. The Company's performance obligation is to provide the licensee access to our intellectual property. MVPD subscribers receive and consume the content monthly as the television signal is delivered.

**Spectrum Usage Rights.** The Company generates revenue from agreements associated with its television stations' spectrum usage rights from a variety of sources, including but not limited to agreements with third parties to utilize excess spectrum for the broadcast of their multicast networks; charging fees to accommodate the operations of third parties, including moving channel positions or accepting interference with broadcasting operations; and modifying and/or relinquishing spectrum usage rights while continuing to broadcast through channel sharing or other arrangements.

Revenue generated by spectrum usage rights agreements are recognized over the period of the lease or when we have relinquished all or a portion of our spectrum usage rights for a station or have relinquished our rights to operate a station on the existing channel free from interference.

**Other Revenue.** The Company generates other revenues that are related to its broadcast operations, which primarily consist of representation fees earned by the Company's radio national representation firm, talent fees for the Company's on air personalities, ticket and concession sales for radio events, rent from tenants of the Company's owned facilities, barter revenue, and revenue generated under joint sales agreements.

In the case of representation fees, the Company does not control the distinct service, the commercial advertisement, prior to delivery and therefore recognizes revenue on a net basis. Similarly for joint service agreements, the Company does not own the station providing the airtime and therefore recognizes revenue on a net basis. In the case of talent fees, the on air personality is an employee of the Company and therefore the Company controls the service provided and recognizes revenue gross with an expense for fees paid to the employee.

#### Practical Expedients and Exemptions

The Company does not disclose the value of unsatisfied performance obligations when (i) contracts have an original expected length of one year or less, which applies to effectively all advertising contracts, and (ii) variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property, which applies to retransmission consent revenue.

The Company applies the practical expedient to expense contract acquisition costs, such as sales commissions generated either by internal direct sales employees or through third party advertising agency intermediaries, when incurred because the amortization period is one year or less. These costs are recorded within direct operating expenses.

#### Disaggregated Revenue

The following table presents our revenues disaggregated by major source for the three- and nine-month periods ended (in thousands):

| Three-Month<br>Period | Nine-Month Period |
|-----------------------|-------------------|
|-----------------------|-------------------|

|                        | Ended September |           | Ended September |           |
|------------------------|-----------------|-----------|-----------------|-----------|
|                        | 30,             |           | 30,             |           |
|                        | 2018            | 2017      | 2018            | 2017      |
| Broadcast advertising  | \$40,183        | \$42,104  | \$119,425       | \$128,918 |
| Digital advertising    | 22,431          | 17,131    | 61,233          | 36,794    |
| Spectrum usage rights  | 1,178           | 263,943   | 1,809           | 263,943   |
| Retransmission consent | 8,432           | 8,494     | 26,428          | 23,925    |
| Other                  | 2,351           | 2,883     | 6,847           | 8,994     |
| Total revenue          | \$74,575        | \$334,555 | \$215,742       | \$462,574 |

Contracts are entered into directly with customers or through an advertising agency that represents the customer. Sales of advertising to customers or agencies within a station's designated market area ("DMA") are referred to as local revenue, whereas sales from outside the DMA are referred to as national revenue. The following table further disaggregates the Company's broadcast advertising revenue by sales channel for the three- and nine-month periods ended (in thousands):

|                 | Three-Month<br>Period<br>Ended September<br>30, |          | Nine-Month Period<br>Ended September<br>30, |           |
|-----------------|---|----------|---|-----------|
|                 | 2018  | 2017     | 2018  | 2017      |
| Local direct    | \$6,802   | \$7,711  | \$20,983                                    | \$22,654  |
| Local agency    | 15,215  | 15,504   | 45,123                                      | 49,048    |
| National agency | 18,166  | 18,889   | 53,319                                      | 57,216    |
| Total revenue   | \$40,183  | \$42,104 | \$119,425                                   | \$128,918 |

#### Deferred Revenues

The Company records deferred revenues when cash payments are received or due in advance of its performance, including amounts which are refundable. The increase in the deferred revenue balance for the nine-month period ended September 30, 2018 is primarily driven by cash payments received or due in advance of satisfying the Company's performance obligations, offset by revenues recognized that were included in the deferred revenue balance as of December 31, 2017.

The Company's payment terms vary by the type and location of customer and the products or services offered. The term between invoicing and when payment is due is not significant, typically 30 days. For certain customer types, the Company requires payment before the services are delivered to the customer.

| (in thousands)   | December |          | September  |          |
|------------------|----------|----------|------------|----------|
|                  | 31, 2017 | Increase | Decrease * | 30, 2018 |
| Deferred revenue | \$ 1,959 | 4,351    | (1,959)    | \$ 4,351 |

\*The amount disclosed in the decrease column reflects revenue that has been recorded in the nine-month period ended September 30, 2018.

#### 4. SEGMENT INFORMATION

The Company's management has determined that the Company operates in three reportable segments as of September 30, 2018, based upon the type of advertising medium, which segments are television, radio, and digital. The Company's segments results reflect information presented on the same basis that is used for internal management reporting and it is also how the chief operating decision maker evaluates the business.

### Television

The Company owns and/or operates 55 primary television stations, located primarily in California, Colorado, Connecticut, Florida, Kansas, Massachusetts, Nevada, New Mexico, Texas and Washington, D.C.

### Radio

The Company owns and operates 49 radio stations (38 FM and 11 AM) in 16 U.S. markets, located in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas.

The Company owns and operates a national sales representation division, Entravision Solutions, through which the Company sells advertisements and syndicates radio programming to more than 300 stations across the United States.

### Digital

The Company owns and operates certain digital assets, offering mobile, digital and other interactive media platforms and services on Internet-connected devices, including local websites and social media, which provide users with news, information and other content.

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 foreign currency (gain) loss. The Company generated 21% and 3% of

its revenue outside the United States during the three-month periods ended September 30, 2018 and 2017, respectively. The Company generated 20% and 5% of its revenue outside the United States during the nine-month periods ended September 30, 2018 and 2017, respectively. The Company evaluates the performance of its operating segments based on the following (in thousands):

|   | Three-Month Period       |          |          | Nine-Month Period        |           |          |
|---|--------------------------|----------|----------|--------------------------|-----------|----------|
|   | Ended September 30, 2018 | 2017     | % Change | Ended September 30, 2018 | 2017      | % Change |
| <b>Net revenue</b>  |                          |          |          |                          |           |          |
| <b>Revenue from advertising and retransmission consent</b>  |                          |          |          |                          |           |          |
| Television  | \$35,183                 | \$36,547 | (4 )%    | \$105,574                | \$112,021 | (6 )%    |
| Radio   | 15,783                   | 16,934   | (7 )%    | 47,126                   | 49,816    | (5 )%    |
| Digital   | 22,431                   | 17,131   | 31 %     | 61,233                   | 36,794    | 66 %     |
| Total   | 73,397                   | 70,612   | 4 %      | 213,933                  | 198,631   | 8 %      |
| Revenue from spectrum usage rights                          | 1,178                    | 263,943  | (100 )%  | 1,809                    | 263,943   | (99 )%   |
| Consolidated  | 74,575                   | 334,555  | (78 )%   | 215,742                  | 462,574   | (53 )%   |
| <b>Cost of revenue - television (spectrum usage rights)</b> |                          |          |          |                          |           |          |
|   | -                        | 12,131   | (100 )%  | -                        | 12,131    | (100 )%  |
| Cost of revenue - digital                                   | 13,240                   | 9,910    | 34 %     | 35,249                   | 20,424    | 73 %     |
| Consolidated  | 13,240                   | 22,041   | (40 )%   | 35,249                   | 32,555    | 8 %      |
| <b>Direct operating expenses</b>                            |                          |          |          |                          |           |          |
| Television  | 15,315                   | 14,365   | 7 %      | 45,903                   | 43,992    | 4 %      |
| Radio   | 10,402                   | 11,306   | (8 )%    | 32,011                   | 33,362    | (4 )%    |
| Digital   | 5,977                    | 4,560    | 31 %     | 15,930                   | 9,884     | 61 %     |
| Consolidated  | 31,694                   | 30,231   | 5 %      | 93,844                   | 87,238    | 8 %      |
| <b>Selling, general and administrative expenses</b>         |                          |          |          |                          |           |          |
| Television  | 5,147                    | 5,796    | (11 )%   | 16,670                   | 16,524    | 1 %      |
| Radio   | 4,274                    | 4,647    | (8 )%    | 13,382                   | 13,932    | (4 )%    |
| Digital   | 2,977                    | 2,370    | 26 %     | 8,313                    | 5,587     | 49 %     |
| Consolidated  | 12,398                   | 12,813   | (3 )%    | 38,365                   | 36,043    | 6 %      |
| <b>Depreciation and amortization</b>                        |                          |          |          |                          |           |          |
| Television  | 2,227                    | 2,489    | (11 )%   | 6,708                    | 7,452     | (10 )%   |
| Radio   | 615                      | 648      | (5 )%    | 1,855                    | 2,036     | (9 )%    |
| Digital   | 1,252                    | 1,200    | 4 %      | 3,489                    | 2,972     | 17 %     |
| Consolidated  | 4,094                    | 4,337    | (6 )%    | 12,052                   | 12,460    | (3 )%    |
| <b>Segment operating profit (loss)</b>                      |                          |          |          |                          |           |          |
| Television  | 13,672                   | 265,709  | (95 )%   | 38,102                   | 295,865   | (87 )%   |
| Radio   | 492                      | 333      | 48 %     | (122 )                   | 486       | (125 )%  |
| Digital   | (1,015 )                 | (909 )   | 12 %     | (1,748 )                 | (2,073 )  | (16 )%   |
| Consolidated  | 13,149                   | 265,133  | (95 )%   | 36,232                   | 294,278   | (88 )%   |

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|  |        |         |        |        |         |        |
|--|--------|---------|--------|--------|---------|--------|
| Corporate expenses                               | 6,913  | 8,209   | (16 )% | 19,154 | 19,695  | (3 )%  |
| Change in fair value of contingent consideration | (114 ) | -       | *      | 1,073  | -       | *      |
| Foreign currency (gain) loss                     | 335    | (58 )   | *      | 531    | 293     | 81 %   |
| Operating income (loss)                          | 6,015  | 256,982 | (98 )% | 15,474 | 274,290 | (94 )% |

|                                   |            |            |        |             |             |        |
|-----------------------------------|------------|------------|--------|-------------|-------------|--------|
| Interest expense                  | \$(3,995 ) | \$(3,756 ) | 6 %    | \$(11,394 ) | \$(11,084 ) | 3 %    |
| Interest income                   | 933        | 256        | 264 %  | 2,885       | 475         | 507 %  |
| Dividend income                   | 457        | -          | *      | 1,002       | -           | *      |
| Other income (loss)               | 327        | -          | *      | 622         | -           | *      |
| Income (loss) before income taxes | 3,737      | 253,482    | (99 )% | 8,589       | 263,681     | (97 )% |

Capital expenditures

|              |         |         |  |          |         |
|--------------|---------|---------|--|----------|---------|
| Television   | \$6,819 | \$1,863 |  | \$10,841 | \$7,815 |
| Radio        | 71      | 453     |  | 233      | 1,296   |
| Digital      | 226     | 50      |  | 473      | 63      |
| Consolidated | \$7,116 | \$2,366 |  | \$11,547 | \$9,174 |

|              | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--------------|--------------------------|-------------------------|
| Total assets |                          |                         |
| Television   | 538,177                  | 556,942                 |
| Radio        | 123,639                  | 126,248                 |
| Digital      | 86,782                   | 82,777                  |
| Consolidated | \$748,598                | \$765,967               |

\*Percentage not meaningful.



## 5. COMMITMENTS AND CONTINGENCIES

The Company is subject to various outstanding claims and other legal proceedings that may arise in the ordinary course of business. In the opinion of management, any liability of the Company that may arise out of or with respect to these matters will not materially adversely affect the financial position, results of operations or cash flows of the Company.

## 6. ACQUISITIONS

### KMCC-TV

On January 16, 2018, the Company completed the acquisition of television station KMCC-TV, which serves the Las Vegas, Nevada area, for an aggregate \$3.6 million. The transaction was treated as an asset acquisition with the majority of the purchase price recorded in “Intangible assets not subject to amortization” on the Company’s consolidated balance sheet.

### Smadex

On June 11, 2018, the Company completed the acquisition of 100% of the stock of Smadex, S.L. (“Smadex”), a mobile programmatic solutions provider and demand-side platform that delivers performance-based solutions and data insights for marketers. The transaction was treated as a business acquisition in accordance with the guidance of ASU 2017-01. The Company acquired Smadex to expand its technology platform, broaden its digital solutions offering and enhance its execution of performance campaigns. The transaction was funded from cash on hand for an aggregate cash consideration of \$3.5 million, net of \$1.2 million of cash acquired.

The following is a summary of the initial purchase price allocation for the Company’s acquisition of Smadex (unaudited; in millions):

|   |       |
|---|-------|
| Accounts receivable                       | \$0.9 |
| Other current assets                      | 0.4   |
| Intangible assets subject to amortization | 2.0   |
| Goodwill                                  | 3.6   |
| Current liabilities                       | (2.8) |
| Long-term liabilities                     | (0.2) |
| Deferred Tax                              | (0.4) |

The fair value of assets acquired includes trade receivables of \$0.9 million. The gross amount due under contract is \$0.9 million, all of which is expected to be collectible.

During the three-month period ended September 30, 2018, Smadex generated net revenue and expenses of \$3.5 million and \$3.2 million, respectively, which are included in the Company’s consolidated statements of operations. During the nine-month period ended September 30, 2018, Smadex generated net revenue and expenses of \$3.9 million and \$3.7 million, respectively, which are included in the Company’s consolidated statements of operations.

The goodwill, which is not expected to be deductible for tax purposes, is assigned to the digital segment and is attributable to the Smadex workforce and expected synergies from combining its operations with those of the

Company. The changes in the carrying amount of goodwill for each of the Company's operating segments for the nine-month period ended September 30, 2018 are as follows (in thousands):

|              | December 31,<br>2017 | Acquisition | September 30,<br>2018 |
|--------------|----------------------|-------------|-----------------------|
| Television   | \$40,549             | \$-         | \$40,549              |
| Digital      | 30,008               | 3,592       | 33,600                |
| Consolidated | \$70,557             | \$3,592     | \$74,149              |

The fair value of the acquired intangible assets is provisional pending receipt of the final valuations for those assets.

The following unaudited pro-forma information for the three- and nine-month periods ended September 30, 2018 and 2017, has been prepared to give effect to the acquisition of Smadex as if the acquisition had occurred on January 1, 2017. This pro-forma

information does not purport to represent what the actual results of operations of the Company would have been had this acquisition occurred on such date, nor does it purport to predict the results of operations for future periods.

|   | Three-Month Period<br>Ended September 30, |            | Nine-Month Period<br>Ended September 30, |            |
|---|---|------------|--|------------|
|   | 2018                                      | 2017       | 2018                                     | 2017       |
| <b>Pro-Forma:</b>                                   |   |            |  |            |
| Total revenue                                       | \$74,575                                  | \$336,503  | \$219,400                                | \$467,050  |
| Net income (loss)                                   | \$2,215                                   | \$157,428  | \$5,841                                  | \$163,540  |
| <b>Basic and diluted earnings per share:</b>        |   |            |  |            |
| Net income per share, basic                         | \$0.02                                    | \$1.74     | \$0.07                                   | \$1.81     |
| Net income per share, diluted                       | \$0.02                                    | \$1.71     | \$0.06                                   | \$1.78     |
| Weighted average common shares outstanding, basic   | 88,852,342                                | 90,517,492 | 89,371,750                               | 90,370,679 |
| Weighted average common shares outstanding, diluted | 90,122,425                                | 92,161,108 | 90,574,663                               | 91,985,946 |

The unaudited pro-forma information for the nine-month periods ended September 30, 2018 was adjusted to exclude acquisition fees and costs of \$0.4 million.

## 7. SIGNIFICANT TRANSACTIONS

### Change in Fair Value of Contingent Consideration

On April 4, 2017, the Company completed the acquisition of 100% of the stock of several entities collectively doing business as Headway (“Headway”), a provider of mobile, programmatic, data and performance digital marketing solutions primarily in the United States, Mexico and other markets in Latin America. The acquisition of Headway includes a contingent consideration arrangement that requires additional consideration to be paid by the Company to Headway based upon the achievement of certain annual performance benchmarks over a three-year period. As of September 30, 2018, the Company adjusted the fair value of contingent consideration to \$15.0 million, resulting in income of \$0.1 million and a loss of \$1.1 million for the three- and nine-month periods ended September 30, 2018, respectively. These amounts were recorded in “Change in Fair Value of Contingent Consideration” in the Company’s consolidated statement of operations.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

We are a leading global media company that, through our television and radio segments, reaches and engages U.S. Hispanics across acculturation levels and media channels. Additionally, our digital segment, whose operations are located primarily in Spain, Mexico, Argentina and other countries in Latin America, reaches a global market. Our portfolio encompasses integrated marketing and media solutions, comprised of television, radio and digital properties (including data analytics services). For financial reporting purposes, we report in three segments, based upon the type of advertising medium: television, radio and digital. Our net revenue for the three-month period ended September 30, 2018 was \$74.6 million. Of that amount, revenue attributed to our television segment accounted for approximately 49%, revenue attributed to our digital segment accounted for approximately 30% and revenue attributed to our radio segment accounted for approximately 21%.

As of the date of filing this report, we own and/or operate 55 primary television stations, located primarily in California, Colorado, Connecticut, Florida, Kansas, Massachusetts, Nevada, New Mexico, Texas and Washington, D.C. We own and operate 49 radio stations in 16 U.S. markets. Our radio stations consist of 38 FM and 11 AM stations located in Arizona, California, Colorado, Florida, Nevada, New Mexico and Texas. We also operate Entravision Solutions as our national sales representation division, through which we sell advertisements and syndicate radio programming to more than 300 stations across the United States. We own and operate certain digital assets, offering mobile, digital and other interactive media platforms and services on Internet-connected devices, including local websites and social media, which provide users with news, information and other content. We provide digital advertising solutions that allow advertisers to reach primarily online Hispanic audiences worldwide. We operate a proprietary technology and data platform that delivers digital advertising in various advertising formats that allows advertisers to reach audiences across a wide range of Internet-connected devices on our owned and operated digital media sites; the digital media sites of our publisher partners; and on other digital media sites we access through third-party platforms and exchanges.

We generate revenue primarily from sales of national and local advertising time on television stations, radio stations and digital media platforms, and from retransmission consent agreements that are entered into with MVPDs. Advertising rates are, in large part, based on each medium's ability to attract audiences in demographic groups targeted by advertisers. We recognize advertising revenue when commercials are broadcast and when display or other digital advertisements record impressions on the websites of our third party publishers or as the advertiser's previously agreed-upon performance criteria are satisfied. We do not obtain long-term commitments from our advertisers and, consequently, they may cancel, reduce or postpone orders without penalties. We pay commissions to agencies for local, regional and national advertising. For contracts directly with agencies, we record net revenue from these agencies. Seasonal revenue fluctuations are common in our industry and are due primarily to variations in advertising expenditures by both local and national advertisers. Our first fiscal quarter generally produces the lowest net revenue for the year. In addition, advertising revenue is generally higher during presidential election years (2016, 2020, etc.) resulting from significant political advertising and, to a lesser degree, Congressional mid-term election years (2018, 2022, etc.), resulting from increased political advertising, compared to other years.

We refer to the revenue generated by agreements with MVPDs as retransmission consent revenue, which represents payments from MVPDs for access to our television station signals so that they may rebroadcast our signals and charge their subscribers for this programming. We recognize retransmission consent revenue earned as the television signal is delivered to the MVPD.

Our FCC licenses grant us spectrum usage rights within each of the television markets in which we operate. We regard these rights as a valuable asset. With the proliferation of mobile devices and advances in technology that have

freed up excess spectrum capacity, the monetization of our spectrum usage rights has become a significant part of our business in recent years. We generate revenue from agreements associated with these television stations' spectrum usage rights from a variety of sources, including but not limited to agreements with third parties to utilize excess spectrum for the broadcast of their multicast networks; charging fees to accommodate the operations of third parties, including moving channel positions or accepting interference with broadcasting operations; and modifying and/or relinquishing spectrum usage rights while continuing to broadcast through channel sharing or other arrangements. Revenue generated by such agreements is recognized over the period of the lease or when we have relinquished all or a portion of our spectrum usage rights for a station or have relinquished our rights to operate a station on the existing channel free from interference. In addition, we will consider strategic acquisitions of television stations to further this strategy from time to time, as well as additional monetization opportunities expected to arise as the television broadcast industry anticipates advances in ATSC 3.0.

Our primary expenses are employee compensation, including commissions paid to our sales staff and amounts paid to our national representative firms, as well as expenses for general and administrative functions, promotion and selling, engineering, marketing, and local programming. Our local programming costs for television consist primarily of costs related to producing a local newscast in most of our markets. Cost of revenue related to our television segment consists primarily of the carrying value of spectrum usage rights that were surrendered in the FCC auction for broadcast spectrum. In addition, cost of revenue related to our digital

segment consists primarily of the costs of online media acquired from third-party publishers and third party server costs. Direct operating expenses include salaries and commissions of sales staff, amounts paid to national representation firms, production and programming expenses, fees for ratings services, and engineering costs. Corporate expenses consist primarily of salaries related to corporate officers and back office functions, third party legal and accounting services, and fees incurred as a result of being a publicly traded company.

### Highlights

During the third quarter of 2018, our consolidated revenue decreased to \$74.6 million from \$334.6 million in the prior year period, primarily as a result of revenue from spectrum usage rights of \$263.9 million in 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in the current year.

However, we continue to experience growth in our digital segment and in retransmission consent revenue in our television segment. Our audience shares remained strong in the nation's most densely populated Hispanic markets.

Net revenue in our television segment decreased to \$36.4 million in the third quarter of 2018 from \$300.5 million in the third quarter of 2017. This decrease of approximately \$264.1 million was primarily the result of \$263.9 million in revenue from spectrum usage rights in 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in the current year. The decrease was partially offset by an increase in local advertising revenue, as well as an increase in political advertising revenue, which was not material in 2017.

Net revenue in our radio segment decreased to \$15.8 million in the third quarter of 2018 from \$16.9 million in the third quarter of 2017, a decrease of \$1.1 million. The decrease was primarily due to decreases in local and national advertising revenue, partially offset by an increase in political advertising revenue, which was not material in 2017, and an increase in revenue from the 2018 FIFA World Cup.

Net revenue in our digital segment increased to \$22.4 million in the third quarter of 2018 from \$17.1 million in the third quarter of 2017. This increase of approximately \$5.3 million in net revenue was primarily due to the growth in the Headway business, which we acquired in the second quarter of 2017, and the acquisition of Smadex in the second quarter of 2018.

### Relationship with Univision

Substantially all of our television stations are Univision- or UniMás-affiliated television stations. Our network affiliation agreement with Univision provides certain of our owned stations the exclusive right to broadcast Univision's primary network and UniMás network programming in their respective markets. Under the network affiliation agreement, we retain the right to sell no less than four minutes per hour of the available advertising time on stations that broadcast Univision network programming, and the right to sell approximately four and a half minutes per hour of the available advertising time on stations that broadcast UniMás network programming, subject to adjustment from time to time by Univision.

Under the network affiliation agreement, Univision acts as our exclusive third-party sales representative for the sale of certain national advertising on our Univision- and UniMás-affiliate television stations, and we pay certain sales representation fees to Univision relating to sales of all advertising for broadcast on our Univision- and UniMás-affiliate television stations. During the three-month periods ended September 30, 2018 and 2017, the amount we paid Univision in this capacity was \$2.2 million and \$2.4 million, respectively. During the nine-month periods ended September 30, 2018 and 2017, the amount we paid Univision in this capacity was \$6.4 million and \$7.1 million, respectively.

We also generate revenue under two marketing and sales agreements with Univision, which give us the right to manage the marketing and sales operations of Univision-owned Univision affiliates in six markets – Albuquerque, Boston, Denver, Orlando, Tampa and Washington, D.C.

Under our proxy agreement with Univision, we grant Univision the right to negotiate the terms of retransmission consent agreements for our Univision- and UniMás-affiliated television station signals. Among other things, the proxy agreement provides terms relating to compensation to be paid to us by Univision with respect to retransmission consent agreements entered into with MVPDs. During the three-month periods ended September 30, 2018 and 2017, retransmission consent revenue accounted for approximately \$8.4 million and \$8.5 million, respectively, of which \$6.5 million and \$8.3 million, respectively, relate to the Univision proxy agreement. During the nine-month periods ended September 30, 2018 and 2017, retransmission consent revenue accounted for approximately \$26.4 million and \$23.9 million, respectively, of which \$21.5 million and \$22.9 million, respectively, relate to the Univision proxy agreement. The term of the proxy agreement extends with respect to any MVPD for the length of the term of any retransmission consent agreement in effect before the expiration of the proxy agreement

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

### Critical Accounting Policies

For a description of our critical accounting policies, please refer to “Application of Critical Accounting Policies and Accounting Estimates” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 30, 2018.

### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842), which specifies the accounting for leases. Subsequently, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842), ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842): Targeted Improvements which address several issues and assist entities with the application of the new lease accounting standard. ASU 2016-02 will require that companies recognize lease assets and lease liabilities on its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. We continue to evaluate the impact of this standard but expects that most of our operating lease commitments will be recognized as right-of-use assets and operating lease liabilities on our consolidated balance sheet. We have implemented an enterprise-wide lease management system to support the new reporting requirements and are evaluating our processes and internal controls to ensure we meet the standard’s reporting and disclosure requirements. We have also elected to apply the transition provisions of the new standard such that periods prior to the effective date of adoption will continue to be reported using current GAAP. We, however, are currently evaluating other practical expedients offered by the standard and have not yet determined whether we will elect to apply them.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this update are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are in the process of assessing the impact of this ASU on our Consolidated Financial Statements but does not expect this update to have a material impact on our Consolidated Financial Statements.



In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Non-employee Share-based Payment Accounting, which supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees and expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods and services. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than a company’s adoption date of Topic 606. We are currently in the process of evaluating the impact of this guidance on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Act, which was signed into law on December 22, 2017, and also requires entities to disclose their accounting policy for releasing income tax effects from accumulated other comprehensive income. This update is effective in fiscal years, including interim periods, beginning after December 15, 2018, and early adoption is permitted. This guidance should be applied either in the period of adoption or retrospectively to each period in which the effects of the change in the U.S. federal income tax rate in the 2017 Tax Act is recognized. We are currently evaluating the impact this guidance will have on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) that amends current guidance on other-than-temporary impairments of available-for-sale debt securities. This amended standard requires the use of an allowance to record estimated credit losses on these assets when the fair value is below the amortized cost of the asset. This standard also removes the evaluation of the length of time that a security has been in a loss position to avoid recording a credit loss. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are still assessing the impact this standard will have on our consolidated financial statements and related disclosures.

Three- and Nine-Month Periods Ended September 30, 2018 and 2017

The following table sets forth selected data from our operating results for the three- and nine-month periods ended September 30, 2018 and 2017 (in thousands):

|   | Three-Month<br>Period<br>Ended September<br>30, |           |       | % | Nine-Month Period<br>Ended September 30, |           |       | % |
|---|---|-----------|-------|---|--|-----------|-------|---|
|   | 2018  | 2017      |       |   | 2018                                     | 2017      |       |   |
| Statements of Operations Data:  |   |           |       |   |  |           |       |   |
| Net revenue:  |   |           |       |   |  |           |       |   |
| Revenue from advertising and retransmission consent                           | \$73,397  | \$70,612  | 4     | % | \$213,933                                | \$198,631 | 8     | % |
| Revenue from spectrum usage rights  | 1,178   | 263,943   | (100) | % | 1,809                                    | 263,943   | (99)  | % |
| Total net revenue   | \$74,575  | \$334,555 | (78)  | % | \$215,742                                | \$462,574 | (53)  | % |
| Cost of revenue - television (spectrum usage rights)                          |   |           |       |   |  |           |       |   |
|   | -   | 12,131    | (100) | % | -  | 12,131    | (100) | % |
| Cost of revenue - digital   | 13,240  | 9,910     | 34    | % | 35,249                                   | 20,424    | 73    | % |
| Direct operating expenses   | 31,694  | 30,231    | 5     | % | 93,844                                   | 87,238    | 8     | % |
| Selling, general and administrative expenses                                  | 12,398  | 12,813    | (3)   | % | 38,365                                   | 36,043    | 6     | % |
| Corporate expenses  | 6,913   | 8,209     | (16)  | % | 19,154                                   | 19,695    | (3)   | % |
| Depreciation and amortization   | 4,094   | 4,337     | (6)   | % | 12,052                                   | 12,460    | (3)   | % |
| Change in fair value of contingent consideration                              | (114)   | -         | *     |   | 1,073                                    | -         | *     |   |
| Foreign currency (gain) loss  | 335   | (58)      | *     |   | 531                                      | 293       | 81    | % |
|   | 68,560  | 77,573    | (12)  | % | 200,268                                  | 188,284   | 6     | % |
| Operating income  | 6,015   | 256,982   | (98)  | % | 15,474                                   | 274,290   | (94)  | % |
| Interest expense  | (3,995)   | (3,756)   | 6     | % | (11,394)                                 | (11,084)  | 3     | % |
| Interest income   | 933   | 256       | 264   | % | 2,885                                    | 475       | 507   | % |
| Dividend income   | 457   | -         | *     |   | 1,002                                    | -         | *     |   |
| Other income (loss)   | 327   | -         | *     |   | 622                                      | -         | *     |   |
| Income before taxes   | 3,737   | 253,482   | (99)  | % | 8,589                                    | 263,681   | (97)  | % |
| Income tax expense  | (1,443)   | (96,167)  | (98)  | % | (3,164)                                  | (100,185) | (97)  | % |
| Income (loss) before equity in net income (loss) of nonconsolidated affiliate | 2,294   | 157,315   | (99)  | % | 5,425                                    | 163,496   | (97)  | % |
| Equity in net income (loss) of nonconsolidated affiliate, net of tax          | (79)  | (107)     | (26)  | % | (177)                                    | (175)     | 1     | % |
| Net income  | \$2,215   | \$157,208 | (99)  | % | \$5,248                                  | \$163,321 | (97)  | % |

## Other Data:

|   |       |       |           |           |
|---|-------|-------|-----------|-----------|
| Capital expenditures  | 7,116 | 2,366 | 11,547    | 9,174     |
| Consolidated adjusted EBITDA (adjusted for non-cash stock-based compensation) (1) |       |       | 33,102    | 40,201    |
| Net cash provided by (used in) operating activities                               |       |       | 22,497    | 293,454   |
| Net cash provided by (used in) investing activities                               |       |       | (154,292) | (53,156 ) |
| Net cash provided by (used in) financing activities                               |       |       | (27,490 ) | (14,759 ) |

(1) Consolidated adjusted EBITDA means net income (loss) plus gain (loss) on sale of assets, depreciation and amortization, non-cash impairment charge, non-cash stock-based compensation included in operating and corporate expenses, net interest expense, other income (loss), non-recurring cash expenses, gain (loss) on debt extinguishment, income tax (expense) benefit, equity in net income (loss) of nonconsolidated affiliate, non-cash losses, syndication programming amortization less syndication programming payments, revenue from FCC spectrum incentive auction less related expenses, expenses associated with investments, acquisitions and dispositions and certain pro-forma cost savings. We use the term consolidated adjusted EBITDA

because that measure is defined in our 2017 Credit Facility and does not include gain (loss) on sale of assets, depreciation and amortization, non-cash impairment charge, non-cash stock-based compensation, net interest expense, other income (loss), non-recurring cash expenses, gain (loss) on debt extinguishment, income tax (expense) benefit, equity in net income (loss) of nonconsolidated affiliate, non-cash losses, syndication programming amortization less syndication programming payments, revenue from FCC spectrum incentive auction less related expenses, expenses associated with investments, acquisitions and dispositions and certain pro-forma cost savings.

Since consolidated adjusted EBITDA is a measure governing several critical aspects of our 2017 Credit Facility, we believe that it is important to disclose consolidated adjusted EBITDA to our investors. We may increase the aggregate principal amount outstanding by an additional amount equal to \$100.0 million plus the amount that would result in our total net leverage ratio, or the ratio of consolidated total senior debt (net of up to \$75.0 million of unrestricted cash) to trailing-twelve-month consolidated adjusted EBITDA, not exceeding 4.0. In addition, beginning December 31, 2018, at the end of every calendar year, in the event our total net leverage ratio is within certain ranges, we must make a debt prepayment equal to a certain percentage of our Excess Cash Flow, which is defined as consolidated adjusted EBITDA, less consolidated interest expense, less debt principal payments, less taxes paid, less other amounts set forth in the definition of Excess Cash Flow in the 2017 Credit Agreement. The total leverage ratio was as follows (in each case as of September 30): 2018, 5.0 to 1; 2017, 3.5 to 1.

While many in the financial community and we consider consolidated adjusted EBITDA to be important, it should be considered in addition to, but not as a substitute for or superior to, other measures of liquidity and financial performance prepared in accordance with accounting principles generally accepted in the United States of America, such as cash flows from operating activities, operating income and net income. As consolidated adjusted EBITDA excludes non-cash gain (loss) on sale of assets, non-cash depreciation and amortization, non-cash impairment charge, non-cash stock-based compensation expense, net interest expense, other income (loss), non-recurring cash expenses, gain (loss) on debt extinguishment, income tax (expense) benefit, equity in net income (loss) of nonconsolidated affiliate, non-cash losses, syndication programming amortization less syndication programming payments, revenue from FCC spectrum incentive auction less related expenses, expenses associated with investments, acquisitions and dispositions and certain pro-forma cost savings, consolidated adjusted EBITDA has certain limitations because it excludes and includes several important financial line items. Therefore, we consider both non-GAAP and GAAP measures when evaluating our business. Consolidated adjusted EBITDA is also used to make executive compensation decisions. Consolidated adjusted EBITDA is a non-GAAP measure. The most directly comparable GAAP financial measure to consolidated adjusted EBITDA is cash flows from operating activities. A reconciliation of this non-GAAP measure to cash flows from operating activities follows (in thousands):

|   | Nine-Month Period<br>Ended September 30, |           |
|---|--|-----------|
|   | 2018                                     | 2017      |
| Consolidated adjusted EBITDA  | \$33,102                                 | \$40,201  |
| Net revenue - FCC spectrum incentive auction                            | -  | 263,943   |
| Expenses - FCC spectrum incentive auction                               | -  | (14,234 ) |
| Interest expense  | (11,394)                                 | (11,084 ) |
| Interest income   | 2,885                                    | 475       |
| Dividend income   | 1,002                                    | -         |
| Income tax benefit (expense)  | (3,164 )                                 | (100,185) |
| Equity in net loss of nonconsolidated affiliates                        | (177 )                                   | (175 )    |
| Amortization of syndication contracts                                   | (526 )                                   | (311 )    |
| Payments on syndication contracts                                       | 516                                      | 300       |
| Non-cash stock-based compensation included in direct operating expenses | (448 )                                   | (806 )    |
| Non-cash stock-based compensation included in corporate expenses        | (3,263 )                                 | (2,343 )  |
| Depreciation and amortization   | (12,052)                                 | (12,460 ) |
| Change in fair value of contingent consideration                        | (1,073 )                                 | -         |
| Non-recurring cash severance charge                                     | (782 )                                   | -         |
| Other income (loss)   | 622                                      | -         |
| Net income (loss)   | 5,248                                    | 163,321   |
| Depreciation and amortization   | 12,052                                   | 12,460    |
| Cost of revenue - television (spectrum usage rights)                    | -  | 12,131    |
| Deferred income taxes   | 1,942                                    | 99,514    |
| Non-cash interest expense   | 828                                      | 595       |
| Amortization of syndication contracts                                   | 526                                      | 311       |
| Payments on syndication contracts                                       | (516 )                                   | (300 )    |
| Equity in net (income) loss of nonconsolidated affiliate                | 177                                      | 175       |
| Non-cash stock-based compensation                                       | 3,711                                    | 3,149     |
| Changes in assets and liabilities:                                      |  |           |

|   |          |           |
|---|----------|-----------|
| (Increase) decrease in accounts receivable                                      | 8,578    | 12,790    |
| (Increase) decrease in prepaid expenses and other assets                        | (7,210 ) | (1,830 )  |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities | (2,839 ) | (8,862 )  |
| Cash flows from operating activities  | \$22,497 | \$293,454 |

### Consolidated Operations

Revenue from Advertising and Retransmission Consent. Net revenue from advertising and retransmission consent increased to \$73.4 million for the three-month period ended September 30, 2018 from \$70.6 million for the three-month period ended September 30, 2017, an increase of \$2.8 million. Of the overall increase, approximately \$5.3 million was attributable to our digital segment and was primarily due to the growth in the Headway business, which we acquired in the second quarter of 2017. This overall increase was

offset by a decrease of approximately \$1.3 million that was attributable to our television segment and was primarily due to decreases in national and local advertising revenue, partially offset by an increase in political advertising revenue, which was not material in 2017. In addition, the overall increase was offset by a decrease of approximately \$1.1 million that was attributable to our radio segment and was primarily due to decreases in local and national advertising revenue, partially offset by an increase in revenue from the 2018 FIFA World Cup, and an increase in political advertising revenue, which was not material in 2017.

Net revenue from advertising and retransmission consent increased to \$213.9 million for the nine-month period ended September 30, 2018 from \$198.6 million for the nine-month period ended September 30, 2017, an increase of \$15.3 million. Of the overall increase, approximately \$24.4 million was attributable to our digital segment and was primarily due to the growth in the Headway business, which we acquired in the second quarter of 2017, and which did not contribute to our results of operations for the full nine-month period in 2017. This overall increase was offset by a decrease of approximately \$6.4 million that was attributable to our television segment and was primarily due to decreases in national and local advertising revenue, partially offset by increases in retransmission consent revenue and political advertising revenue, the latter of which was not material in 2017. In addition, the overall increase was offset by a decrease of approximately \$2.7 million that was attributable to our radio segment and was primarily due to decreases in local and national advertising revenue, partially offset by an increase in revenue from the 2018 FIFA World Cup, and an increase in political advertising revenue, which was not material in 2017.

Revenue from Spectrum Usage Rights. Net revenue from spectrum usage rights decreased to \$1.2 million for the three-month period ended September 30, 2018 from \$263.9 million for the three-month period ended September 30, 2017, a decrease of \$262.7 million. The decrease was primarily due to revenue earned in 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in the current year.

Net revenue from spectrum usage rights decreased to \$1.8 million for the nine-month period ended September 30, 2018 from \$263.9 million for the nine-month period ended September 30, 2017, a decrease of \$262.1 million. The decrease was primarily due to revenue earned in 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in the current year.

We currently anticipate that for the full year 2018 net revenue will increase from our digital segment, political advertising revenue in all our segments, and retransmission consent revenue in our television segment, compared to 2017. In general, we have seen a decline in advertising in traditional media, including television and radio, as advertising moves increasingly to new media, such as digital media. We anticipate that this trend will continue for at least the foreseeable future.

Cost of revenue – Television (spectrum usage rights). We did not incur cost of revenue related to revenue from spectrum usage rights for the three- and nine-month periods ended September 30, 2018. Cost of revenue related to revenue from spectrum usage rights was \$12.1 million for the three- and nine-month periods ended September 30, 2017, related to the FCC auction for broadcast spectrum.

Cost of revenue - Digital. Cost of revenue in our digital media segment increased to \$13.2 million for the three-month period ended September 30, 2018 from \$9.9 million for the three-month period ended September 30, 2017, an increase of \$3.3 million, primarily due to the growth in the Headway business, which we acquired in the second quarter of 2017.

Cost of revenue in our digital media segment increased to \$35.2 million for the nine-month period ended September 30, 2018 from \$20.4 million for the nine-month period ended September 30, 2017, an increase of \$14.8 million, primarily due to the growth in the Headway business, which we acquired in the second quarter of 2017, and which did not contribute to our results of operations for the full nine-month period in 2017.

**Direct Operating Expenses.** Direct operating expenses increased to \$31.7 million for the three-month period ended September 30, 2018 from \$30.2 million for the three-month period ended September 30, 2017, an increase of \$1.5 million. Of the overall increase, approximately \$1.4 million was attributable to our digital segment and was primarily driven by expenses associated with the increase in revenue and an increase in salary expense. Additionally, approximately \$1.0 million of the overall increase was attributable to our television segment and was primarily due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to direct operating expenses in the prior year period, partially offset by a decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense. The overall increase was partially offset by a decrease in our radio segment of approximately \$0.9 million primarily due to a decrease in salary expense. As a percentage of net revenue, direct operating expenses increased to 42% for the three-month period ended September 30, 2018 from 9% for the three-month period ended September 30, 2017. The increase in direct operating expenses as a percentage of net revenue is due to revenue from spectrum usage rights recorded in the three-month period ended September 30, 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in 2018.



Direct operating expenses increased to \$93.8 million for the nine-month period ended September 30, 2018 from \$87.2 million for the nine-month period ended September 30, 2017, an increase of \$6.6 million. Of the overall increase, approximately \$6.0 million was attributable to our digital segment and was primarily due to the acquisition of Headway during the second quarter of 2017, which did not contribute to direct operating expenses for the full nine-month period in 2017. Additionally, approximately \$1.9 million of the overall increase was attributable to our television segment and was primarily due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to direct operating expenses in the prior year period, partially offset by a decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense. The overall increase was partially offset by a decrease in radio segment of approximately \$1.4 million primarily due to a decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense. As a percentage of net revenue, direct operating expenses increased to 43% for the nine-month period ended September 30, 2018 from 19% for the nine-month period ended September 30, 2017. The increase in direct operating expenses as a percentage of net revenue is due to revenue from spectrum usage rights recorded in the nine-month period ended September 30, 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in 2018.

We currently anticipate that for the full year 2018, direct operating expenses will increase as a result of our acquisition of station KMIR-TV in the fourth quarter of 2017 and operating Headway for a full year in 2018 compared to nine months in 2017, partially offset by decreases associated with a previously announced reduction in personnel and other discretionary expense cuts, both of which were implemented beginning in the second quarter of 2018.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses decreased to \$12.4 million for the three-month period ended September 30, 2018 from \$12.8 million for the three-month period ended September 30, 2017, a decrease of \$0.4 million. Of the overall decrease, approximately \$0.6 million was attributable to our television segment primarily due to a decrease in salary expense. Additionally, approximately \$0.4 million of the decrease was attributable to our radio segment primarily due to a decrease in salary expense. The overall decrease was partially offset by an increase in our digital segment of \$0.6 million that was primarily due to increases in salary expense of the Headway business. As a percentage of net revenue, selling, general and administrative expenses increased to 17% for the three-month period ended September 30, 2018 from 4% for the three-month period ended September 30, 2017. The increase in selling, general and administrative expenses as a percentage of net revenue is due to revenue from spectrum usage rights recorded in the three-month period ended September 30, 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in 2018.

Selling, general and administrative expenses increased to \$38.4 million for the nine-month period ended September 30, 2018 from \$36.0 million for the nine-month period ended September 30, 2017, an increase of \$2.4 million. Of the overall increase, \$2.7 million was attributable to our digital segment and was primarily due to the growth in the Headway business, which we acquired in the second quarter of 2017, and which did not contribute to our results of operations for the full nine-month period in 2017. Additionally, approximately \$0.1 million of the increase was attributable to our television segment due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to selling, general and administrative expenses in the prior year period. The overall increase was partially offset by a decrease in radio segment of approximately \$0.5 million and was primarily due to a decrease in promotional expenses. As a percentage of net revenue, selling, general and administrative expenses increased to 18% for the nine-month period ended September 30, 2018 compared to 8% for the nine-month period ended September 30, 2017. The increase in selling, general and administrative expenses as a percentage of net revenue is due to revenue from spectrum usage rights recorded in the nine-month period ended September 30, 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in 2018.

We currently anticipate that for the full year 2018, selling, general and administrative expenses will increase as a result of our acquisition of station KMIR-TV in the fourth quarter of 2017 and operating Headway for a full year in 2018 compared to nine months in 2017, partially offset by decreases associated with a previously announced reduction

in personnel and other discretionary expense cuts, both of which were implemented beginning in the second quarter of 2018.

Corporate Expenses. Corporate expenses decreased to \$6.9 million for the three-month period September 30, 2018 from \$8.2 million for the three-month period ended September 30, 2017, a decrease of \$1.3 million. The decrease was primarily due to expenses associated with the FCC auction for broadcast spectrum recorded in the three-month period ended September 30, 2017 and which did not recur in 2018, partially offset by an increase in salary expense and non-cash stock-based compensation expense. As a percentage of net revenue, corporate expenses increased to 9% for the three-month period ended September 30, 2018 from 2% for the three-month period ended September 30, 2017. The increase in corporate expenses as a percentage of net revenue is due to revenue from spectrum usage rights recorded in the three-month period ended September 30, 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in 2018.

Corporate expenses decreased to \$19.2 million for the nine-month period ended September 30, 2018 from \$19.7 million for the nine-month period ended September 30, 2017, a decrease of \$0.5 million. The decrease was primarily due to expenses associated with the FCC auction for broadcast spectrum recorded in the nine-month period ended September 30, 2017 which did not recur in 2018, and due to due diligence costs related to the Headway acquisition during the second quarter of 2017, partially offset by increase in salary expense, non-cash stock-based compensation expense, and legal and finance due diligence costs related to the Smadex acquisition. As a percentage of net revenue, corporate expenses increased to 9% for the nine-month period ended September 30, 2018 from 4% for the nine-month period ended September 30, 2017. The increase in corporate expenses as a percentage of net revenue is due to revenue from spectrum usage rights recorded in the nine-month period ended September 30, 2017 in connection with our participation in the FCC auction for broadcast spectrum, which revenue did not recur in 2018.

We currently anticipate that corporate expenses will decrease for the full year 2018 compared to 2017, as a result of expenses in 2017 related to the FCC auction for broadcast spectrum and the acquisition of Headway.

**Depreciation and Amortization.** Depreciation and amortization decreased to \$4.1 million for the three-month period ended September 30, 2018 from \$4.3 million for the three-month period ended September 30, 2017, a decrease of \$0.2 million. The decrease was primarily due to certain assets becoming fully depreciated, partially offset by increased amortization related to intangible assets acquired in the Smadex acquisition.

Depreciation and amortization decreased to \$12.1 million for the nine-month period ended September 30, 2018 from \$12.5 million for the nine-month period ended September 30, 2017, a decrease of \$0.4 million. The decrease was primarily due to certain assets becoming fully depreciated, partially offset by increased amortization related to intangible assets acquired in the Headway and Smadex acquisitions.

**Change in fair value of contingent consideration.** As a result of the change in fair value of the contingent consideration related to the Headway acquisition, we recognized income of \$0.1 million for the three-month period ended September 30, 2018.

As a result of the change in fair value of the contingent consideration related to the Headway acquisition, we recognized an expense of \$1.1 million for the nine-month period ended September 30, 2018.

**Operating Income.** As a result of the above factors, operating income was \$6.0 million for the three-month period ended September 30, 2018, compared to operating income of \$257.0 million for the three-month period ended September 30, 2017. As a result of the above factors, operating income was \$15.5 million for the nine-month period ended September 30, 2018, compared to operating income of \$274.3 million for the nine-month period ended September 30, 2017.

**Interest Expense, net.** Interest expense, net decreased to \$3.1 million for the three-month period ended September 30, 2018 from \$3.5 million for the three-month period ended September 30, 2017, a decrease of \$0.4 million. This decrease was primarily due to interest income earned on available-for-sale securities.

Interest expense, net decreased to \$8.5 million for the nine-month period ended September 30, 2018 from \$10.6 million for the nine-month period ended September 30, 2017, a decrease of \$2.1 million. This decrease was primarily due to interest income earned on available-for-sale securities.

**Income Tax Expense.** Income tax expense for the nine-month period ended September 30, 2018 was \$3.2 million, or 37% of our pre-tax income. Income tax expense for the nine-month period ended September 30, 2017 was \$100.2 million, or 38% of our pre-tax income. The effective tax rate for the nine-month period ended September 30, 2018 differed from the statutory rate of 21% primarily because of foreign and state taxes, and nondeductible expenses. The

effective tax rate differs from prior quarters as a result of the change in the US federal statutory tax rate from 35% to 21% due to the enactment of the 2017 Tax Act, partially offset by increases in foreign taxes and tax on GILTI. The company computes its interim tax expense by projecting its effective tax rate for the year and applying the projected annual effective tax rate to the year to date pre-tax income from continuing operations for the reporting quarter. Additional discrete items (such as excess tax benefits from share based compensation) may adjust the year to date tax expense in the quarter in which such items occur.

Our management periodically evaluates the realizability of the deferred tax assets and, if it is determined that it is more likely than not that the deferred tax assets are realizable, adjusts the valuation allowance accordingly. Valuation allowances are established and maintained for deferred tax assets on a “more likely than not” threshold. The process of evaluating the need to maintain a valuation allowance for deferred tax assets and the amount maintained in any such allowance is highly subjective and is based on many factors, several of which are subject to significant judgment calls.

Based on our analysis we determined that it was more likely than not that our deferred tax assets would be realized.

## Segment Operations

## Television

Net Revenue from Advertising and Retransmission Consent. Net revenue from advertising and retransmission consent in our television segment decreased to \$35.2 million for the three-month period ended September 30, 2018 from \$36.5 million for the three-month period ended September 30, 2017, a decrease of approximately \$1.3 million. The decrease was primarily due to decreases in national and local advertising revenue, as part of a trend for advertising to move increasingly from traditional media, such as television, to new media, such as digital media. The overall decrease was partially offset by an increase in political advertising revenue which was not material in 2017. We generated a total of \$8.4 million and \$8.5 million in retransmission consent revenue for the three-month periods ended September 30, 2018 and 2017, respectively.

Net revenue from advertising and retransmission consent in our television segment decreased to \$105.6 million for the nine-month period ended September 30, 2018 from \$112.0 million for the nine-month period ended September 30, 2017, a decrease of approximately \$6.4 million. The decrease was primarily due decreases in national and local advertising revenue, as part of a trend for advertising to move increasingly from traditional media, such as television, to new media, such as digital media. The overall decrease was partially offset by increases in retransmission consent revenue and political advertising revenue, the latter of which was not material in 2017. We generated a total of \$26.4 million and \$23.9 million in retransmission consent revenue for the nine-month periods ended September 30, 2018 and 2017, respectively.

Revenue from Spectrum Usage Rights. Net revenue from spectrum usage rights decreased to \$1.2 million for the three-month period ended September 30, 2018 from \$263.9 million for the three-month period ended September 30, 2017, a decrease of \$262.7 million. The decrease was primarily due to revenue from the FCC auction for broadcast spectrum in the prior year, which revenue did not recur in 2018.

Net revenue from spectrum usage rights decreased to \$1.8 million for the nine-month period ended September 30, 2018 from \$263.9 million for the nine-month period ended September 30, 2017, a decrease of \$262.1 million. The decrease was primarily due to revenue from the FCC auction for broadcast spectrum in the prior year, which revenue did not recur in 2018.

Cost of revenue – Spectrum Usage Rights. We did not incur cost of revenue related to revenue from spectrum usage rights for the three- and nine-month periods ended September 30, 2018. Cost of revenue related to revenue from spectrum usage rights was \$12.1 million for the three- and nine-month periods ended September 30, 2017, related to the FCC auction for broadcast spectrum.

Direct Operating Expenses. Direct operating expenses in our television segment increased to \$15.3 million for the three-month period ended September 30, 2018 from \$14.4 million for the three-month period ended September 30, 2017, an increase of approximately \$0.9 million. The increase was primarily due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to direct operating expenses in the prior year period, partially offset by a decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense resulting from the previously announced reduction in personnel, which was implemented beginning in the second quarter of 2018.

Direct operating expenses in our television segment increased to \$45.9 million for the nine-month period ended September 30, 2018 from \$44.0 million for the nine-month period ended September 30, 2017, an increase of approximately \$1.9 million. The increase was primarily due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to direct operating expenses in the prior year period, partially offset by a

decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense resulting from the previously announced reduction in personnel, which was implemented beginning in the second quarter of 2018.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses in our television segment decreased to \$5.1 million for the three-month period ended September 30, 2018 from \$5.8 million for the three-month period ended September 30, 2017, a decrease of approximately \$0.7 million. The decrease was primarily due to a decrease in promotional expenses, partially offset by an increase due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to selling, general and administrative expenses in the prior year period, and an increase in salary expense.

Selling, general and administrative expenses in our television segment increased to \$16.7 million for the nine-month period ended September 30, 2018 from \$16.5 million for the nine-month period ended September 30, 2017, an increase of approximately \$0.2 million. The increase was primarily due to the acquisition of station KMIR-TV in the fourth quarter of 2017, which did not contribute to selling, general and administrative expenses in the prior year period, and an increase in salary expense, partially offset by a decrease in promotional expenses.

## Radio

**Net Revenue.** Net revenue in our radio segment decreased to \$15.8 million for the three-month period ended September 30, 2018 from \$16.9 million for the three-month period ended September 30, 2017, a decrease of \$1.1 million. The decrease was primarily due to decreases in local and national advertising revenue, as part of the trend for advertising to move increasingly from traditional media, such as radio, to new media, such as digital media. These decreases were partially offset by an increase in revenue from the 2018 FIFA World Cup, and an increase in political advertising revenue, which was not material in 2017.

Net revenue in our radio segment decreased to \$47.1 million for the nine-month period ended September 30, 2018 from \$49.8 million for the nine-month period ended September 30, 2017, a decrease of \$2.7 million. The decrease was primarily due to decreases in local and national advertising revenue, as part of a trend for advertising to move increasingly from traditional media, such as radio, to new media, such as digital media. These decreases were partially offset by an increase in revenue from the 2018 FIFA World Cup, and an increase in political advertising revenue, which was not material in 2017.

**Direct Operating Expenses.** Direct operating expenses in our radio segment decreased to \$10.4 million for the three-month period ended September 30, 2018 from \$11.3 million for the three-month period ended September 30, 2017, a decrease of \$0.9 million. The decrease was primarily due to a decrease in salary expense resulting from the previously announced reduction in personnel, which was implemented beginning in the second quarter of 2018.

Direct operating expenses in our radio segment decreased to \$32.0 million for the nine-month period ended September 30, 2018 from \$33.4 million for the nine-month period ended September 30, 2017, a decrease of \$1.4 million. The decrease was primarily due to a decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense resulting from the previously announced reduction in personnel, which was implemented beginning in the second quarter of 2018.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses in our radio segment decreased to \$4.3 million for the three-month period ended September 30, 2018 from \$4.6 million for the three-month period ended September 30, 2017, a decrease of \$0.3 million. The decrease was primarily due to a decrease in salary expense resulting from the previously announced reduction in personnel, which was implemented beginning in the second quarter of 2018.

Selling, general and administrative expenses in our radio segment decreased to \$13.4 million for the nine-month period ended September 30, 2018 from \$13.9 million for the nine-month period ended September 30, 2017, a decrease of \$0.5 million. The decrease was primarily due to a decrease in salary expense resulting from the previously announced reduction in personnel, which was implemented beginning in the second quarter of 2018, and a decrease in promotional expense.

## Digital

**Net Revenue.** Net revenue in our digital segment increased to \$22.4 million for the three-month period ended September 30, 2018 from \$17.1 million for the three-month period ended September 30, 2017, an increase of \$5.3 million. The increase was primarily due to growth in the Headway business that we acquired in the second quarter of 2017, and the acquisition of Smadex in the second quarter of 2018. This increase was partially offset by a decrease in national revenue in our preexisting digital business, driven by continued shifts in the digital advertising industry toward video advertising and the increased use of automated buying platforms, referred to in our industry as programmatic revenue. The digital advertising industry is dynamic and undergoing rapid change, including the shift towards programmatic revenue. We anticipate that rapid change, including the shift to programmatic revenue, will

continue in the digital advertising industry for the foreseeable future, and we are responding by continuing to emphasize our programmatic revenue offerings within our digital segment. We also anticipate that other trends may emerge, which will require us to respond to those changing consumer demands as, when and how they occur.

Net revenue in our digital segment increased to \$61.2 million for the nine-month period ended September 30, 2018 from \$36.8 million for the nine-month period ended September 30, 2017, an increase of \$24.4 million. The increase was primarily due to growth in the Headway business, which we acquired in the second quarter of 2017, and which did not contribute to our results of operations for the full nine-month period in 2017, and the acquisition of Smadex in the second quarter of 2018. This increase was partially offset by a decrease in national revenue in our preexisting digital business, driven by continued shifts in the digital advertising industry toward video advertising and the increased use of automated buying platforms, referred to in our industry as programmatic revenue. The digital advertising industry is dynamic and undergoing rapid change, including the shift towards programmatic revenue. We anticipate that rapid change, including the shift to programmatic revenue, will continue in the digital advertising industry for the foreseeable future, and we are responding by continuing to emphasize our programmatic revenue offerings within our digital segment. We also anticipate that other trends may emerge, which will require us to respond to those changing consumer demands as, when and how they occur.



Cost of revenue. Cost of revenue in our digital segment increased to \$13.2 million for the three-month period ended September 30, 2018 from \$9.9 million for the three-month period ended September 30, 2017, an increase of \$3.3 million. This increase was due to expenses associated with the increase in revenue in the third quarter of 2018. Because of third party media costs, our margins tend to be smaller in our digital segment than in our other segments. As a percentage of digital net revenue, cost of revenue increased to 59% for the three-month period ended September 30, 2018 from 58% for the three-month period ended September 30, 2017. The increase in cost of revenue as a percentage of digital revenue was primarily due to the acquisition of Smadex in the second quarter of 2018 and a higher percentage of programmatic revenue in our preexisting digital business. Because of the high volume and relative efficiencies of these programmatic platforms, the margins tend to be lower.

Cost of revenue in our digital segment increased to \$35.2 million for the nine-month period ended September 30, 2018 from \$20.4 million for the nine-month period ended September 30, 2017, an increase of \$14.8 million. This increase was due to the acquisition of Headway during the second quarter of 2017, which did not contribute to our results of operations for the full nine-month period in 2017, and the acquisition of Smadex in the second quarter of 2018. Because of third party media costs, our margins tend to be smaller in our digital segment than in our other segments. As a percentage of digital net revenue, cost of revenue increased to 58% for the nine-month period ended September 30, 2018 from 56% for the nine-month period ended September 30, 2017. The increase in cost of revenue as a percentage of digital revenue was primarily due to the acquisitions of Headway and Smadex and a higher percentage of programmatic revenue in our preexisting digital business. Because of the high volume and relative efficiencies of these programmatic platforms, the margins tend to be lower.

Direct operating expenses. Direct operating expenses in our digital segment increased to \$6.0 million for the three-month period ended September 30, 2018 from \$4.6 million for the three-month period ended September 30, 2017, an increase of \$1.4 million. The increase was primarily due to expenses associated with the increase in revenue, an increase in salary expense, and expenses of Smadex which we acquired in the second quarter of 2018.

Direct operating expenses in our digital segment increased to \$15.9 million for the nine-month period ended September 30, 2018 from \$9.9 million for the nine-month period ended September 30, 2017, an increase of \$6.0 million. The increase was primarily due to the acquisition of Headway in the second quarter of 2017, which did not contribute to our results of operations for the full nine-month period in 2017, and the acquisition of Smadex in the second quarter of 2018. The increase was partially offset by a decrease in our preexisting digital business due to a decrease in expenses associated with the decrease in advertising revenue and a decrease in salary expense.

Selling, general and administrative expenses. Selling, general and administrative expenses in our digital segment increased to \$3.0 million for the three-month period ended September 30, 2018 from \$2.4 million for the three-month period ended September 30, 2017, an increase of \$0.6 million. The increase was primarily due to an increase in salary expense.

Selling, general and administrative expenses in our digital segment increased to \$8.3 million for the nine-month period ended September 30, 2018 from \$5.6 million for the nine-month period ended September 30, 2017, an increase of \$2.7 million. The increase was primarily due to the acquisition of Headway in the second quarter of 2017, which did not contribute to our results of operations for the full nine-month period in 2017.

#### Liquidity and Capital Resources

We had net income of \$176.3 million, \$20.4 million, and \$25.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. We had positive cash flow from operations of \$301.5 million, \$57.3 million and \$62.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. We generated cash flows from operations of \$22.5 million for the nine-month period ended September 30, 2018. We expect to fund our working capital

requirements, capital expenditures and payments of principal and interest on outstanding indebtedness, with cash on hand and cash flows from operations. We currently anticipate that funds generated from operations, cash on hand and available borrowings under our 2017 Credit Facility will be sufficient to meet our anticipated cash requirements for at least the next twelve months. At September 30, 2018, we held cash and cash equivalents of \$4.8 million in accounts outside the United States. Our liquidity is not materially impacted by the amount held in accounts outside the United States as our operating cash flows are driven primarily by U.S. sources.

#### 2017 Credit Facility

On November 30, 2017 (the “Closing Date”), we entered into our 2017 Credit Facility pursuant to the 2017 Credit Agreement. The 2017 Credit Facility consists of a \$300.0 million senior secured Term Loan B Facility which was drawn in full on the Closing Date. In addition, the 2017 Credit Facility provides that we may increase the aggregate principal amount of the 2017 Credit Facility by up to an additional \$100.0 million plus the amount that would result in our first lien net leverage ratio (as such term is used in the 2017 Credit Agreement) not exceeding 4.0 to 1.0, subject to us satisfying certain conditions.

Borrowings under the Term Loan B Facility were used on the Closing Date to (a) repay in full all of our and our subsidiaries' outstanding obligations under the 2013 Credit Facility and to terminate the 2013 Credit Agreement, (b) pay fees and expenses in connection with the 2017 Credit Facility, and (c) for general corporate purposes.

The 2017 Credit Facility is guaranteed on a senior secured basis by certain of our existing and future wholly-owned domestic subsidiaries, and is secured on a first priority basis by our and those subsidiaries' assets.

Our borrowings under the 2017 Credit Facility bear interest on the outstanding principal amount thereof from the date when made at a rate per annum equal to either: (i) the Eurodollar Rate (as defined in the 2017 Credit Agreement) plus 2.75%; or (ii) the Base Rate (as defined in the 2017 Credit Agreement) plus 1.75%. The Term Loan B Facility expires on November 30, 2024 (the "Maturity Date").

The amounts outstanding under the 2017 Credit Facility may be prepaid at our option without premium or penalty, provided that certain limitations are observed, and subject to customary breakage fees in connection with the prepayment of a Eurodollar rate loan. The principal amount of the Term Loan B Facility shall be paid in installments on the dates and in the respective amounts set forth in the 2017 Credit Agreement, with the final balance due on the Maturity Date.

Subject to certain exceptions, the 2017 Credit Facility contains covenants that limit the ability of us and our restricted subsidiaries to, among other things:

- incur liens on our property or assets;
- make certain investments;
- incur additional indebtedness;
- consummate any merger, dissolution, liquidation, consolidation or sale of substantially all assets;
- dispose of certain assets;
- make certain restricted payments;
- make certain acquisitions;
- enter into substantially different lines of business;
- enter into certain transactions with affiliates;
- use loan proceeds to purchase or carry margin stock or for any other prohibited purpose;
- change or amend the terms of our organizational documents or the organization documents of certain restricted subsidiaries in a materially adverse way to the lenders, or change or amend the terms of certain indebtedness;
- enter into sale and leaseback transactions;
- make prepayments of any subordinated indebtedness, subject to certain conditions; and
- change our fiscal year, or accounting policies or reporting practices.

The 2017 Credit Facility also provides for certain customary events of default, including the following:

- default for three (3) business days in the payment of interest on borrowings under the 2017 Credit Facility when due;
- default in payment when due of the principal amount of borrowings under the 2017 Credit Facility;
- failure by us or any subsidiary to comply with the negative covenants and certain other covenants relating to maintaining the legal existence of the Company and certain of its restricted subsidiaries and compliance with anti-corruption laws;
- failure by us or any subsidiary to comply with any of the other agreements in the 2017 Credit Agreement and related loan documents that continues for thirty (30) days [or ten (10) days in the case of failure to comply with covenants related to inspection rights of the administrative agent and lenders and permitted uses of proceeds from borrowings under the 2017 Credit Facility] after our officers first become aware of such failure or first receive written notice of such failure from any lender;



- default in the payment of other indebtedness if the amount of such indebtedness aggregates to \$15.0 million or more, or failure to comply with the terms of any agreements related to such indebtedness if the holder or holders of such indebtedness can cause such indebtedness to be declared due and payable;
- certain events of bankruptcy or insolvency with respect to us or any significant subsidiary;
- final judgment is entered against us or any restricted subsidiary in an aggregate amount over \$15.0 million, and either enforcement proceedings are commenced by any creditor or there is a period of thirty (30) consecutive days during which the judgment remains unpaid and no stay is in effect;
- any material provision of any agreement or instrument governing the 2017 Credit Facility ceases to be in full force and effect; and
- any revocation, termination, substantial and adverse modification, or refusal by final order to renew, any media license, or the requirement (by final non-appealable order) to sell a television or radio station, where any such event or failure is reasonably expected to have a material adverse effect.

In connection with our entering into the 2017 Credit Agreement, we and our restricted subsidiaries also entered into a Security Agreement, pursuant to which we and the Credit Parties each granted a first priority security interest in the collateral securing the 2017 Credit Facility for the benefit of the lenders under the 2017 Credit Facility.

Additionally, the 2017 Credit Agreement contains a definition of “Consolidated EBITDA” that excludes revenue related to our participation in the FCC auction for broadcast spectrum and related expenses, as compared to the definition of “Consolidated Adjusted EBITDA” under the 2013 Credit Agreement which included such items.

The carrying amount of the Term Loan B Facility as of September 30, 2018 was \$293.6 million, net of \$3.4 million of unamortized debt issuance costs and original issue discount. The estimated fair value of the Term Loan B Facility as of September 30, 2018 was \$293.3 million. The estimated fair value is based on quoted prices in markets where trading occurs infrequently.

#### Derivative Instruments

Prior to November 28, 2017, we used derivatives in the management of interest rate risk with respect to interest expense on variable rate debt. We were party to interest rate swap agreements with financial institutions that fixed the variable benchmark component (LIBOR) of our interest rate on a portion of our term loan beginning December 31, 2015. On November 28, 2017, we terminated these swap agreements in conjunction with the refinancing of our debt under our 2017 Credit Facility, as discussed above. Our current policy prohibits entering into derivative instruments for speculation or trading purposes.

We recognize all of our derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. The interest rate swap agreements were designated and qualified as a cash flow hedge; therefore, the effective portion of the changes in fair value was a component of other comprehensive income. Any ineffective portions of the changes in fair value of the interest rate swap agreements would be immediately recognized directly to interest expense in the consolidated statement of operations.

The carrying amount of our interest rate swap agreements were recorded at fair value, including consideration of non-performance risk, when material. The fair value of each interest rate swap agreement was determined by using multiple broker quotes, adjusted for non-performance risk, when material, which estimate the future discounted cash flows of any future payments that may be made under such agreements

#### Share Repurchase Program

On July 13, 2017, our Board of Directors approved a share repurchase program of up to \$15.0 million of our outstanding common stock. On April 11, 2018, our Board of Directors approved the repurchase of up to an additional \$15.0 million of our outstanding common stock, for a total repurchase authorization of up to \$30.0 million. Under the share repurchase program we are authorized to purchase shares from time to time through open market purchases or negotiated purchases, subject to market conditions and other factors.

We did not repurchase any shares of Class A common stock during the three-month period ended September 30, 2018. As of September 30, 2018, we repurchased a total of approximately 2.5 million shares of our Class A common stock for aggregate purchase price of approximately \$13.0 million, or an average price per share of \$5.08, since the beginning of share repurchase program. All such repurchased shares were retired as of September 30, 2018.

## Consolidated Adjusted EBITDA

Consolidated adjusted EBITDA (as defined below) decreased to \$33.1 million for the nine-month period ended September 30, 2018 compared to \$40.2 million for the nine-month period ended September 30, 2017. As a percentage of net revenue, consolidated adjusted EBITDA increased to 15% for the nine-month period ended September 30, 2018 compared to 9% for the nine-month period ended September 30, 2017. The increase as a percentage of net revenue is primarily due to higher revenue for the nine-month period ended September 30, 2017, as a result of revenue from the FCC auction for broadcast spectrum, which revenue did not recur in the nine-month period ended September 30, 2018.

Consolidated adjusted EBITDA, as defined in our 2017 Credit Agreement, means net income (loss) plus gain (loss) on sale of assets, depreciation and amortization, non-cash impairment charge, non-cash stock-based compensation included in operating and corporate expenses, net interest expense, other income (loss), non-recurring cash expenses, gain (loss) on debt extinguishment, income tax (expense) benefit, equity in net income (loss) of nonconsolidated affiliate, non-cash losses, syndication programming amortization less syndication programming payments, revenue from FCC spectrum incentive auction less related expenses, expenses associated with investments, acquisitions and dispositions and certain pro-forma cost savings. We use the term consolidated adjusted EBITDA because that measure is defined in our 2017 Credit Agreement and does not include gain (loss) on sale of assets, depreciation and amortization, non-cash impairment charge, non-cash stock-based compensation, net interest expense, other income (loss), non-recurring cash expenses, gain (loss) on debt extinguishment, income tax (expense) benefit, equity in net income (loss) of nonconsolidated affiliate, non-cash losses, syndication programming amortization less syndication programming payments, revenue from FCC spectrum incentive auction less related expenses, expenses associated with investments, acquisitions and dispositions and certain pro-forma cost savings.

Since consolidated adjusted EBITDA is a measure governing several critical aspects of our 2017 Credit Facility, we believe that it is important to disclose consolidated adjusted EBITDA to our investors. We may increase the aggregate principal amount outstanding by an additional amount equal to \$100.0 million plus the amount that would result in our total net leverage ratio, or the ratio of consolidated total senior debt (net of up to \$75.0 million of unrestricted cash) to trailing-twelve-month consolidated adjusted EBITDA, not exceeding 4.0. In addition, beginning December 31, 2018, at the end of every calendar year, in the event our total net leverage ratio is within certain ranges, we must make a debt prepayment equal to a certain percentage of our Excess Cash Flow, which is defined as consolidated adjusted EBITDA, less consolidated interest expense, less debt principal payments, less taxes paid, less other amounts set forth in the definition of Excess Cash Flow in the 2017 Credit Agreement. The total leverage ratio was as follows (in each case as of September 30): 2018, 5.0 to 1; 2017, 3.5 to 1.

While many in the financial community and we consider consolidated adjusted EBITDA to be important, it should be considered in addition to, but not as a substitute for or superior to, other measures of liquidity and financial performance prepared in accordance with accounting principles generally accepted in the United States of America, such as cash flows from operating activities, operating income and net income. As consolidated adjusted EBITDA excludes non-cash gain (loss) on sale of assets, non-cash depreciation and amortization, non-cash impairment charge, non-cash stock-based compensation expense, net interest expense, other income (loss), non-recurring cash expenses, gain (loss) on debt extinguishment, income tax (expense) benefit, equity in net income (loss) of nonconsolidated affiliate, non-cash losses, syndication programming amortization less syndication programming payments, revenue from FCC spectrum incentive auction less related expenses, expenses associated with investments, acquisitions and dispositions and certain pro-forma cost savings, consolidated adjusted EBITDA has certain limitations because it excludes and includes several important financial line items. Therefore, we consider both non-GAAP and GAAP measures when evaluating our business. Consolidated adjusted EBITDA is also used to make executive compensation decisions.

Consolidated adjusted EBITDA is a non-GAAP measure. For a reconciliation of consolidated adjusted EBITDA to cash flows from operating activities, its most directly comparable GAAP financial measure, please see page 28.

#### Cash Flow

Net cash flow provided by operating activities was \$22.5 million for the nine-month period ended September 30, 2018, compared to net cash flow provided by operating activities of \$293.5 million for the nine-month period ended September 30, 2017. We had net income of \$5.2 million for the nine-month period ended September 30, 2018, which was partially reduced by non-cash items such as depreciation and amortization expense of \$12.1 million and non-cash stock-based compensation of \$3.7 million. We had net income of \$163.3 million for the nine-month period ended September 30, 2017, which was partially reduced by non-cash items, including depreciation and amortization expense of \$12.5 million, deferred income taxes of \$99.5 million, and non-cash stock-based compensation of \$3.1 million. We expect to have positive cash flow from operating activities for the full year 2018.



Net cash flow used in investing activities was \$154.3 million for the nine-month period ended September 30, 2018, compared to net cash flow used in investing activities of \$53.2 million for the nine-month period ended September 30, 2017. During the nine-month period ended September 30, 2018, we spent \$159.4 million on the purchase of marketable securities, \$3.5 million on the acquisition of Smadex, \$12.3 million on net capital expenditures, \$3.2 million on the purchase of intangible assets, and \$1.0 million on investments offset by \$25.0 million in proceeds from the maturity of marketable securities. During the nine-month period ended September 30, 2017, we spent \$32.6 million on intangibles for the relocation of station WJAL-TV, purchased the business of Headway for \$7.5 million, net of cash acquired, spent \$9.6 million on net capital expenditures, spent \$2.2 million on investments and made deposits on potential future acquisitions of \$1.2 million. We anticipate that our capital expenditures will be approximately \$22.0 million during the full year 2018. Of this amount, we expect that approximately \$10.0 million will be expended in connection with the required relocation of certain of our television stations to a different channel as part of the broadcast television repack following the FCC auction for broadcast spectrum, which amount we expect to be reimbursed to us by the FCC. The amount of our anticipated capital expenditures may change based on future changes in business plans, our financial condition and general economic conditions, and the amount of net capital expenditures may change depending upon FCC reimbursement policy for broadcast television repack. We expect to fund capital expenditures with cash on hand and net cash flow from operations.

Net cash flow used in financing activities was \$27.5 million for the nine-month period ended September 30, 2018, compared to net cash flow used in financing activities of \$14.8 million for the nine-month period ended September 30, 2017. During the nine-month period ended September 30, 2018, we made dividend payments of \$13.4 million, payments of \$7.7 million for the repurchase of Class A common stock under our stock repurchase program, payments of \$2.2 million for taxes related to shares withheld for share-based compensation plans, contingent consideration payments of \$2.0 million and debt payments of \$2.3 million. During the nine-month period ended September 30, 2017, we made dividend payments of \$10.2 million, debt repayments of principal in the amount of \$2.8 million and spent \$1.8 million on the repurchase of stock.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### General

Market risk represents the potential loss that may impact our financial position, results of operations or cash flows due to adverse changes in the financial markets. We are exposed to market risk from changes in the base rates on our Term Loan B.

#### Interest Rates

As of September 30, 2018, we had \$297.0 million of variable rate bank debt outstanding under our 2017 Credit Facility. The debt bears interest at the three-month Eurodollar rate plus a margin of 2.75%.

Because our debt is subject to interest at a variable rate, our earnings will be affected in future periods by changes in interest rates. Hypothetically, if the three-month Eurodollar rate were to increase by 100 basis points, or one percentage point, from its September 30, 2018 level, our annual interest expense would increase and cash flow from operations would decrease by approximately \$3.0 million based on the outstanding balance of our term loan as of September 30, 2018.

Prior to November 28, 2017, we used derivative instruments in the management of interest rate risk with respect to interest expense on variable debt as required by the terms of our previous 2013 Credit Agreement. On December 16, 2013, we entered into three forward-starting interest rate swap agreements with an aggregate notional amount of \$186.0 million at a fixed rate of 2.73%, resulting in an all-in fixed rate of 5.23%. The interest rate swap agreements took effect on December 31, 2015 with a maturity date on December 31, 2018. Under these interest rate swap

agreements, we paid at a fixed rate and received payments at a variable rate based on three-month Eurodollar rate. The interest rate swap agreements effectively fixed the floating Eurodollar rate-based interest of \$186.0 million outstanding Eurodollar rate-based debt. The interest rate swap agreements were designated and qualified as a cash flow hedge; therefore, the effective portion of the changes in fair value was recorded in accumulated other comprehensive income. Any ineffective portions of the changes in fair value of the interest rate swap agreements were immediately recognized directly to interest expense in the consolidated statement of operations. On November 28, 2017, we terminated these swap agreements in conjunction with the refinancing of our debt under our 2017 Credit Facility, as discussed above. Our current policy prohibits entering into derivative instruments for speculation or trading purposes.

## Foreign Currency

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar. Our historical revenues have primarily been denominated in U.S. dollars, and the majority of our current revenues continue to be, and are expected to remain, denominated in U.S. dollars. However, we expect an increasing portion of our future revenues to be denominated in currencies other than the U.S. dollar, primarily the Mexican peso, Argentine peso and various other Latin American currencies. The effect of an immediate and hypothetical 10% adverse change in foreign exchange rates on foreign-denominated accounts receivable at September 30, 2018 would not be material to our overall financial condition or consolidated results of operations. Our operating expenses are generally denominated in the currencies of the countries in which our operations are located, primarily the United States and, to a much lesser extent, Spain, Mexico, Argentina and other Latin American countries. Increases and decreases in our foreign-denominated revenue from movements in foreign exchange rates are partially offset by the corresponding decreases or increases in our foreign-denominated operating expenses.

Based on recent inflation trends, the economy in Argentina has been classified as highly inflationary. As a result, the Company applied the guidance in ASC 830 by remeasuring non-monetary assets and liabilities at historical exchange rates and monetary-assets and liabilities using current exchange rates (see Note 2 to Notes to Consolidated Financial Statements).

As our operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. dollar can increase the costs of our international operations. To date, we have not entered into any foreign currency hedging contracts, since exchange rate fluctuations historically have not had a material impact on our operating results and cash flows.

## ITEM 4. CONTROLS AND PROCEDURES

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of the evaluation date, our disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting identified in our Annual Report on Form 10-K for the year ended December 31, 2017, as described below.

Notwithstanding the conclusion that our disclosure controls and procedures were not effective as of the end of the period covered by this report, we believe that our consolidated financial statements and other information contained in this quarterly report present fairly, in all material respects, our business, financial condition and results of operations for the interim periods presented.

## Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

A material weakness in our internal controls existed as of December 31, 2017 due to insufficient accounting resources and personnel to ensure proper application of U.S. GAAP and effectively design and execute process level controls around certain complex or non-recurring transactions. Although the control weakness did not result in any material misstatement of our consolidated financial statements, it could lead to a material misstatement of account balances or

disclosures. Accordingly, management has concluded that this control weakness constitutes a material weakness.

#### Management's Plan for Remediation

We completed the implementation of a remediation plan to address the material weakness previously identified in our Annual Report on Form 10-K for the year ended December 31, 2017. As part of this plan, we have implemented a new enterprise reporting software to provide additional system controls to free up accounting resources, hired additional accounting personnel in certain of our foreign operations to strengthen our accounting resources in these locations and further free up corporate accounting resources, and hired additional employees to address complex accounting matters primarily related to the expanding geographic scope of our business operations, primarily our digital operations. We are now testing and evaluating the remediation plan as implemented.

We believe that these changes will strengthen our internal control over financial reporting and remediate the material weakness we identified in our Annual Report on Form 10-K for the year ended December 31, 2017. However, these changes have not been operating long enough to evaluate fully their operating effectiveness and are subject to continued management review supported by confirmation and testing, as well as Audit Committee oversight. As we continue to evaluate and test the remediation plan outlined above, we may also identify additional measures to address the material weakness or modify certain of the remediation procedures described above. We also may implement additional changes to our internal control over financial reporting as may be appropriate in the course of remediating the material weakness. Management, with the oversight of the Audit Committee, will continue to take steps to remedy the material weakness as expeditiously as possible to reinforce the overall design and capability of our control environment.

#### Inherent Limitations on Effectiveness of Controls

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

#### Changes in Internal Control

In addition to the changes noted above to complete the implementation of our remediation plan with respect to the previously-identified material weakness, management's most recent assessment of internal control over financial reporting as of December 31, 2017, did not include the internal controls related to our acquisition of Headway in April 2017, as permitted by applicable rules and regulations. Management will include Headway as a part of management's next assessment of internal control over financial reporting as of December 31, 2018.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We currently and from time to time are involved in litigation incidental to the conduct of our business, but we are not currently a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on us or our business.

ITEM 1A. RISK FACTORS

No material change.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

On July 13, 2017, our Board of Directors approved a share repurchase program of up to \$15.0 million of our outstanding common stock. On April 11, 2018, our Board of Directors approved the repurchase of up to an additional \$15.0 million of our outstanding common stock, for a total repurchase authorization of up to \$30.0 million. Under the share repurchase program we are authorized to purchase shares from time to time through open market purchases or negotiated purchases, subject to market conditions and other factors.

We did not repurchase any shares of Class A common stock during the three-month period ended September 30, 2018. As of September 30, 2018, we repurchased a total of approximately 2.5 million shares of our Class A common stock for aggregate purchase price of approximately \$13.0 million, or an average price per share of \$5.08, since the beginning of share repurchase program. All such repurchased shares were retired as of September 30, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None



ITEM 6. EXHIBITS

- 10.1\* Form of Restricted Stock Unit Award under the 2004 Equity Incentive Plan (directors)
- 31.1\* Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
- 31.2\* Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
- 32\* Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\* XBRL Instance Document.
- 101.SCH\* XBRL Taxonomy Extension Schema Document.
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase.

\* Filed herewith.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTRAVISION COMMUNICATIONS CORPORATION

By: /s/ Christopher T. Young  
Christopher T. Young

Executive Vice President, Treasurer

and Chief Financial Officer

Date: November 8, 2018