

PAXSON COMMUNICATIONS CORP

Form 10-Q

August 13, 2003

**Table of Contents**

---

---

**FORM 10-Q**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

(MARK ONE)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED June 30, 2003  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number 1-13452

**PAXSON COMMUNICATIONS CORPORATION**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

59-3212788  
(IRS Employer Identification No.)

601 Clearwater Park Road  
West Palm Beach, Florida  
(Address of principal executive offices)

33401  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (561) 659-4122

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 31, 2003:

Class of Stock	Number of Shares
Common stock-Class A, \$0.001 par value per share	59,454,470
Common stock-Class B, \$0.001 par value per share	8,311,639



**TABLE OF CONTENTS**

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Item 4. Controls and Procedures

PART II OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders.

ITEM 6. Exhibits and Reports on Form 8-K.

SIGNATURES

1998 STOCK INCENTIVE PLAN, AS AMENDED

CERTIFICATION OF C.E.O.

CERTIFICATION OF C.F.O.

SECTION 906 CERTIFICATION OF C.E.O.

SECTION 906 CERTIFICATION OF C.F.O.

---

**Table of Contents**

**PAXSON COMMUNICATIONS CORPORATION**

**INDEX**

	<b>Page</b>
<b>Part I Financial Information</b>	
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 30, 2003 (unaudited) and December 31, 2002	3
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2003 and 2002 (unaudited)	4
Consolidated Statement of Stockholders' Deficit for the Six Months Ended June 30, 2003 (unaudited)	5
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2003 and 2002 (unaudited)	6
Notes to Unaudited Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 4. Controls and Procedures	27
<b>Part II Other Information</b>	
Item 4. Submission of Matters to a Vote of Security Holders	28
Item 6. Exhibits and Reports on Form 8-K	28
Signatures	31

**Table of Contents****Item 1. Financial Statements****PAXSON COMMUNICATIONS CORPORATION****CONSOLIDATED BALANCE SHEETS**

(in thousands except share data)

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 124,376	\$ 25,765
Short-term investments		17,073
Accounts receivable, net of allowance for doubtful accounts of \$1,028 and \$2,100, respectively	19,993	28,810
Program rights	32,372	33,998
Amounts due from Crown Media	10,949	11,239
Prepaid expenses and other current assets	5,614	5,011
	<hr/>	<hr/>
Total current assets	193,304	121,896
Property and equipment, net	122,389	127,061
Intangible assets, net	876,645	877,204
Program rights, net of current portion	28,823	35,972
Amounts due from Crown Media, net of current portion	13,159	18,769
Investments in broadcast properties	6,925	8,777
Assets held for sale	13,731	33,582
Other assets, net	23,254	27,748
	<hr/>	<hr/>
Total assets	\$ 1,278,230	\$ 1,251,009
	<hr/>	<hr/>
<b>Liabilities, Mandatorily Redeemable Preferred Stock and Stockholders' Deficit</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 33,608	\$ 34,720
Accrued interest	14,387	14,621
Obligations for program rights	17,679	21,475
Obligations to CBS	18,977	15,664
Obligations for cable distribution rights	6,276	5,246
Deferred revenue from cable and satellite distribution rights	9,020	7,839
Current portion of bank financing	3,406	3,144
	<hr/>	<hr/>
Total current liabilities	103,353	102,709
Obligations for program rights, net of current portion	4,693	6,800
Obligations to CBS, net of current portion	21,657	30,025
Obligations for cable distribution rights, net of current portion	474	733
Deferred revenue from cable and satellite distribution rights, net of current portion	8,241	9,210
Deferred income taxes	141,223	136,286
Senior subordinated notes and bank financing, net of current portion	916,425	896,957
Other long-term liabilities	21,924	23,653
	<hr/>	<hr/>
Total liabilities	1,217,990	1,206,373
	<hr/>	<hr/>

Edgar Filing: PAXSON COMMUNICATIONS CORP - Form 10-Q

Mandatorily redeemable preferred stock	1,040,331	993,101
	<u>                    </u>	<u>                    </u>
<b>Commitments and contingencies</b>		
<b>Stockholders' deficit:</b>		
Class A common stock, \$0.001 par value; one vote per share; 215,000,000 shares authorized, 59,446,970 and 56,568,827 shares issued and outstanding	59	57
Class B common stock, \$0.001 par value; ten votes per share; 35,000,000 shares authorized and 8,311,639 shares issued and outstanding	8	8
Common stock warrants and call option	66,663	68,384
Stock subscription notes receivable, net		(747)
Additional paid-in capital	521,633	513,109
Deferred stock option compensation	(2,537)	(2,460)
Accumulated deficit	(1,564,130)	(1,523,670)
Accumulated other comprehensive loss	(1,787)	(3,146)
	<u>                    </u>	<u>                    </u>
<b>Total stockholders' deficit</b>	<b>(980,091)</b>	<b>(948,465)</b>
	<u>                    </u>	<u>                    </u>
<b>Total liabilities, mandatorily redeemable preferred stock, and stockholders' deficit</b>	<b>\$ 1,278,230</b>	<b>\$ 1,251,009</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents****PAXSON COMMUNICATIONS CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands except share and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
	(Unaudited)		(Unaudited)	
<b>REVENUES:</b>				
Gross revenues	\$ 76,872	\$ 78,611	\$ 159,550	\$ 159,392
Less: agency commissions	(11,012)	(10,279)	(23,088)	(21,985)
Net revenues	65,860	68,332	136,462	137,407
<b>EXPENSES:</b>				
Programming and broadcast operations (excluding stock-based compensation of \$149, \$144, \$953 and \$289, respectively)	13,072	12,209	25,674	25,167
Program rights amortization	11,475	19,446	24,497	38,415
Selling, general and administrative (excluding stock-based compensation of \$948, \$398, \$7,558 and \$1,586, respectively)	26,786	34,198	53,889	63,817
Business interruption insurance proceeds		(1,007)		(1,007)
Time brokerage and affiliation fees	1,101	967	2,202	1,902
Stock-based compensation	1,097	542	8,511	1,875
Adjustment of programming to net realizable value		2,900	1,066	2,900
Restructuring charges (credits)	32		11	(402)
Depreciation and amortization	7,340	14,228	21,910	26,866
Total operating expenses	60,903	83,483	137,760	159,533
Gain on sale of broadcast assets	28,560	700	55,349	700
Operating income (loss)	33,517	(14,451)	54,051	(21,426)
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(22,568)	(21,374)	(44,693)	(41,033)
Interest income	795	378	1,673	874
Other expenses net	(142)	679	(165)	108
Loss on extinguishment of debt				(17,552)
Gain on modification of program rights obligations	604	204	1,207	437
Income (loss) before income taxes	12,206	(34,564)	12,073	(78,592)
Income tax provision	(5,251)	(3,501)	(5,303)	(129,404)
Net income (loss)	6,955	(38,065)	6,770	(207,996)
Dividends and accretion on redeemable preferred stock	(23,968)	(28,667)	(47,230)	(58,198)
Net loss attributable to common stockholders	\$ (17,013)	\$ (66,732)	\$ (40,460)	\$ (266,194)
Basic and diluted loss per common share	\$ (0.25)	\$ (1.03)	\$ (0.60)	\$ (4.11)



Edgar Filing: PAXSON COMMUNICATIONS CORP - Form 10-Q

Weighted average shares outstanding	<u>67,658,154</u>	<u>64,875,141</u>	<u>67,231,239</u>	<u>64,817,149</u>
-------------------------------------	-------------------	-------------------	-------------------	-------------------

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents****PAXSON COMMUNICATIONS CORPORATION****CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT**

For the Six Months Ended June 30, 2003 (Unaudited)  
(in thousands)

	Common Stock		Common Stock Warrants and Call Option	Stock Subscription Notes Receivable, Net	Addi-tional Paid-In Capital	Deferred Stock Option Compen-sation	Accumu-Lated Other Compre-hensive Loss	Total Stock-holders' Deficit	
	Class A	Class B							
Balance, December 31, 2002	\$ 57	\$ 8	\$ 68,384	\$ (747)	\$ 513,109	\$ (2,460)	\$ (1,523,670)	\$ (3,146)	\$ (948,465)
Stock-based compensation						8,467			8,467
Deferred stock option compensation					8,544	(8,544)			
Stock options exercised	2				594				596
Expiration of common stock warrants			(1,721)		1,721				
Payment of employee withholding taxes on exercise of common stock options					(2,335)				(2,335)
Repayment of stock subscription notes receivable				747					747
Other comprehensive income							1,359		1,359
Dividends on redeemable and convertible preferred stock							(46,385)		(46,385)
Accretion on redeemable and convertible preferred stock							(845)		(845)
Net income							6,770		6,770
Balance, June 30, 2003	\$ 59	\$ 8	\$ 66,663	\$	\$ 521,633	\$ (2,537)	\$ (1,564,130)	\$ (1,787)	\$ (980,091)

*The accompanying notes are an integral part of the consolidated financial statements.*