

Ascent Media CORP
Form 10-Q
August 13, 2009

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2009**
- 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 001-34176

ASCENT MEDIA CORPORATION
(Exact name of Registrant as specified in its charter)

State of Delaware
*(State or other jurisdiction of
incorporation or organization)*

26-2735737
*(I.R.S. Employer
Identification No.)*

12300 Liberty Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(Zip Code)

Registrant's telephone number, including area code:
(720) 875-5622

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

The number of outstanding shares of Ascent Media Corporation's common stock as of July 31, 2009 was:

Series A common stock 13,421,669 shares; and

Series B common stock 659,156 shares.

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	June 30, 2009	December 31, 2008
	Amounts in thousands (Unaudited)	
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 308,913	341,517
Trade receivables, net	103,184	114,154
Prepaid expenses	11,064	12,223
Deferred income tax assets, net	9,979	10,826
Income taxes receivable	19,707	9,122
Other current assets	2,134	2,776
Total current assets	454,981	490,618
Investments in marketable securities	32,173	
Property and equipment, net	215,731	223,928
Deferred income tax assets, net	20,001	22,545
Other assets, net	13,157	8,213
Total assets	\$ 736,043	745,304
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 21,285	22,633
Accrued payroll and related liabilities	22,940	22,258
Other accrued liabilities	27,471	31,172
Deferred revenue	13,793	15,139
Total current liabilities	85,489	91,202
Other liabilities	31,237	28,792
Total liabilities	116,726	119,994
Commitments and contingencies (note 9)		
Stockholders Equity:		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; no shares issued		
Series A common stock, \$.01 par value. Authorized 45,000,000 shares; issued and outstanding 13,421,146 shares at June 30, 2009	134	134
Series B common stock, \$.01 par value. Authorized 5,000,000 shares; issued and outstanding 659,679 shares at June 30, 2009	7	7

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Series C common stock, \$.01 par value. Authorized 45,000,000 shares; no shares issued

Additional paid-in capital	1,459,928	1,459,078
Accumulated deficit	(839,608)	(825,956)
Accumulated other comprehensive loss	(1,144)	(7,953)
Total stockholders' equity	619,317	625,310
Total liabilities and stockholders' equity	\$ 736,043	745,304

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ASCENT MEDIA CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	Amounts in thousands, except per share amounts			
	(Unaudited)			
Net revenue	\$ 118,677	163,421	237,944	326,456
Operating expenses:				
Cost of services	85,312	121,243	169,898	244,045
Selling, general, and administrative, including stock-based and long-term incentive compensation (note 6)	28,017	28,999	57,392	57,634
Restructuring and other charges	1,088	156	1,486	1,263
Depreciation and amortization	14,984	15,415	29,466	30,682
	129,401	165,813	258,242	333,624
Operating loss	(10,724)	(2,392)	(20,298)	(7,168)
Other income, net	155	643	439	2,192
Loss from continuing operations before income taxes	(10,569)	(1,749)	(19,859)	(4,976)
Income tax benefit (expense) from continuing operations	3,365	(1,467)	6,207	(4,539)
Net loss from continuing operations	(7,204)	(3,216)	(13,652)	(9,515)
Discontinued operations (note 3):				
Earnings from discontinued operations		3,416		6,379
Income tax expense		(1,743)		(2,922)
Earnings from discontinued operations, net of income tax		1,673		3,457
Net loss	(7,204)	(1,543)	(13,652)	(6,058)
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	6,722	80	5,426	567
Unrealized holding gains arising during the period, net of income tax	1,317		1,317	
Minimum pension liability adjustment	33		66	
Other comprehensive earnings	8,072	80	6,809	567
Comprehensive earnings (loss)	\$ 868	(1,463)	(6,843)	(5,491)
Basic earnings (loss) per share (note 7)				

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Continuing operations	\$	(0.51)	(0.23)	(0.97)	(0.68)
Discontinued operations			0.12		0.25
Net loss	\$	(0.51)	(0.11)	(0.97)	(0.43)
Diluted earnings (loss) per share (note 7)					
Continuing operations	\$	(0.51)	(0.23)	(0.97)	(0.68)
Discontinued operations			0.12		0.25
Net loss	\$	(0.51)	(0.11)	(0.97)	(0.43)

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ASCENT MEDIA CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

	Six Months Ended June 30,	
	2009	2008
	Amounts in thousands (Unaudited)	
Cash flows from operating activities:		
Net loss	\$ (13,652)	(6,058)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Earnings from discontinued operations, net of income tax		(3,457)
Depreciation and amortization	29,466	30,682
Stock based compensation	1,262	
Deferred income tax expense	2,500	98
Other non-cash activity, net	1,332	(221)
Changes in assets and liabilities:		
Trade receivables	11,346	(32,195)
Prepaid expenses and other current assets	(8,484)	(357)
Payables and other liabilities	(6,061)	19,283
Operating activities from discontinued operations, net		8,018
Net cash provided by operating activities	17,709	15,793
Cash flows from investing activities:		
Capital expenditures	(16,405)	(14,048)
Net (purchases) sales of marketable securities	(29,965)	23,545
Cash paid for acquisitions (note 4)	(2,702)	
Cash proceeds from sale of operating assets	618	1,783
Equity investments	(971)	
Investing activities from discontinued operations, net		(3,648)
Net cash provided by (used in) investing activities	(49,425)	7,632
Cash flows from financing activities:		
Net cash transfers from Discovery Holding Company (DHC)		148
Payment of capital lease obligations	(888)	(340)
Net cash used in financing activities	(888)	(192)
Net increase (decrease) in cash and cash equivalents	(32,604)	23,233
Cash and cash equivalents at beginning of period	341,517	201,633
Cash and cash equivalents at end of period	\$ 308,913	224,866

See accompanying notes to condensed consolidated financial statements.

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ASCENT MEDIA CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(1) Basis of Presentation

On September 17, 2008, Discovery Holding Company (DHC) completed the spin off of 100% of the capital stock of Ascent Media Corporation (Ascent Media or the Company) on a pro rata basis to the holders of DHC Series A and Series B common stock (the Ascent Media Spin Off). For periods prior to the Ascent Media Spin Off, the accompanying condensed consolidated financial statements of Ascent Media represent a combination of the historical financial information of (1) Ascent Media Group, LLC (AMG), then a wholly-owned subsidiary of DHC, (2) Ascent Media CANS, LLC (AccentHealth), a wholly-owned subsidiary of DHC until its sale on September 4, 2008 and (3) cash and investment assets of DHC. For periods following the Ascent Media Spin Off, the accompanying condensed consolidated financial statements of Ascent Media represent Ascent Media and its consolidated subsidiaries. The Ascent Media Spin Off has been accounted for at historical cost due to the pro rata nature of the distribution.

The Company has two reportable segments: the Content Services group and the Creative Services group. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies.

The accompanying interim condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the Ascent Media Annual Report on Form 10-K for the year ended December 31, 2008.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses for each reporting period. The significant estimates made in preparation of the Company's condensed consolidated financial statements primarily relate to long-lived assets, deferred tax assets, and the amount of the allowance for doubtful accounts. Actual results could differ from the estimates upon which the carrying values were based. Ascent Media has performed an evaluation of subsequent events through August 13, 2009, which is the date the financial statements were issued.

(2) Investments in Marketable Securities

In the second quarter of 2009, Ascent Media purchased marketable securities consisting of diversified corporate bond funds for cash in the amount of \$29,965,000. These investments have all been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standard No. 115 Accounting for Certain Investments in Debt and Equity Securities . For the three and six months ended June 30, 2009, these investments had unrealized gains of \$1,317,000 (net of income taxes of \$891,000) which were recorded into accumulated other comprehensive income on the consolidated balance sheet and in other comprehensive income on the consolidated statements of operations and comprehensive earnings (loss).

(3) Discontinued Operations

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In 2008, Ascent Media completed the sales of its interests in AccentHealth, Ascent Media Systems & Technology Services, LLC in Palm Bay, Florida (Palm Bay) and Visiontext Limited (Visiontext) which were treated as discontinued operations in accordance with Statement of Financial Accounting Standard No. 144 *Accounting for the Impairment and Disposal of Long-lived Assets* .

Table of Contents**ASCENT MEDIA CORPORATION AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table presents the results of operations of the discontinued operations that are included in earnings from discontinued operations, net of income tax:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	Amounts in thousands	
Revenue	\$ 10,887	\$ 21,695
Earnings before income taxes	\$ 3,416	\$ 6,379

(4) Supplemental Cash Flow Information (amounts in thousands)

	Six Months Ended June 30, 2009
Cash paid for acquisitions:	
Fair value of assets acquired	\$ 6,683
Net liabilities assumed	(819)
Net assets acquired	5,864
Estimated fair value of contingent consideration for acquisitions	(3,162)
Cash paid for acquisitions	\$ 2,702

(5) Restructuring Charges

During the three and six months ended June 30, 2009, Ascent Media recorded restructuring charges of \$1,088,000 and \$1,486,000, respectively, related to severance and facility costs in conjunction with ongoing restructuring and cost mitigation measures undertaken across both of the reportable segments. During the three and six months ended June 30, 2008, the Company recorded restructuring charges of \$156,000 and \$1,263,000, respectively, related to severance and facility costs in conjunction with the closing of its Creative Services operations in Mexico.

The following table provides the activity and balances of the restructuring reserve (all amounts are in thousands).

	December 31, 2007	Additions	Deductions(a)	June 30, 2008
Severance	\$ 1,357	639	(1,	