

SALEM MEDIA GROUP, INC. /DE/

Form 10-Q

November 08, 2018

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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 SEPTEMBER 30, 2018**

**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 000-26497**

**SALEM MEDIA GROUP, INC.**

**(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

**DELAWARE**  
**(STATE OR OTHER JURISDICTION OF**  
**INCORPORATION OR ORGANIZATION)**

**4880 SANTA ROSA ROAD**

**CAMARILLO, CALIFORNIA**  
**(ADDRESS OF PRINCIPAL**

**EXECUTIVE OFFICES)**  
**REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (805) 987-0400**

**77-0121400**  
**(I.R.S. EMPLOYER**  
**IDENTIFICATION NUMBER)**

**93012**  
**(ZIP CODE)**

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 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 definition of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  
 Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

**Class A**  
**Common Stock, \$0.01 par value per share**

**Outstanding at November 2, 2018**  
**20,632,416 shares**

**Class B**

**Outstanding at November 2, 2018**

**Common Stock, \$0.01 par value per share**

**5,553,696 shares**

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**CERTAIN DEFINITIONS**

Unless the context requires otherwise, all references in this report to Salem or the company, including references to Salem by we us our and its refer to Salem Media Group, Inc. and our subsidiaries.

**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Salem Media Group, Inc. ( Salem or the company, including references to Salem by we, us and our ) makes forward-looking statements from time to time in both written reports (including this report) and oral statements, within the meaning of federal and state securities laws. Disclosures that use words such as the company believes, anticipates, estimates, expects, intends, will, may, intends, could, would, should, seeks, predicts, or plans are intended to identify forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995.

You should not place undue reliance on these forward-looking statements, which reflect our expectations based upon data available to the company as of the date of this report. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in Salem s reports on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission. Except as required by law, the company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections and other forward-looking statements fall under the safe harbors of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ).

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**PART I FINANCIAL INFORMATION**

**SALEM MEDIA GROUP, INC.**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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**Table of Contents****SALEM MEDIA GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except share and per share data)*

	December 31, 2017 (Note 1)	September 30, 2018 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 17
Trade accounts receivable (net of allowances of \$11,019 in 2017 and \$10,764 in 2018)	32,545	35,058
Unbilled revenue	2,298	2,149
Other receivables (net of allowances of \$227 in 2017 and \$163 in 2018)	820	898
Inventories (net of reserves of \$1,657 in 2017 and \$796 in 2018)	730	891
Prepaid expenses	6,824	7,376
Assets held for sale	3,500	1,375
Total current assets	46,720	47,764
Land held for sale	1,000	
Notes receivable (net of allowance of \$759 in 2017 and \$748 in 2018)	53	217
Property and equipment (net of accumulated depreciation of \$164,720 in 2017 and \$167,934 in 2018)	99,480	96,712
Broadcast licenses	380,914	379,182
Goodwill	26,424	26,789
Other indefinite-lived intangible assets	313	313
Amortizable intangible assets (net of accumulated amortization of \$47,179 in 2017 and \$51,545 in 2018)	13,104	12,899
Deferred financing costs	550	397
Deferred income taxes	1,070	1,070
Other assets	3,191	3,590
Total assets	\$ 572,819	\$ 568,933

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 1,584	\$ 4,583
Accrued expenses	9,281	10,877
Accrued compensation and related expenses	7,643	9,556
Accrued interest	1,445	5,521
Contract liabilities	12,763	12,348
Deferred rent expense	152	142

Income taxes payable	172	<b>241</b>
Current portion of long-term debt and capital lease obligations	9,109	<b>10,228</b>
Total current liabilities	42,149	<b>53,496</b>
Long-term debt and capital lease obligations, less current portion	249,579	<b>240,182</b>
Deferred income taxes	34,151	<b>33,850</b>
Deferred rent expense, long term	13,644	<b>13,339</b>
Contract liabilities, long-term	1,951	<b>1,553</b>
Other long-term liabilities	64	<b>62</b>
Total liabilities	341,538	<b>342,482</b>
Commitments and contingencies (Note 18)		
Stockholders' Equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,932,451 and 22,950,066 issued and 20,614,801 and 20,632,416 outstanding at December 31, 2017 and September 30, 2018, respectively	227	<b>227</b>
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2017 and September 30, 2018, respectively	56	<b>56</b>
Additional paid-in capital	244,634	<b>245,040</b>
Accumulated earnings	20,370	<b>15,134</b>
Treasury stock, at cost (2,317,650 shares at December 31, 2017 and September 30, 2018)	(34,006)	<b>(34,006)</b>
Total stockholders' equity	231,281	<b>226,451</b>
Total liabilities and stockholders' equity	\$ 572,819	<b>\$ 568,933</b>

*See accompanying notes*



Table of Contents**SALEM MEDIA GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Dollars in thousands, except share and per share data)***(Unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>
Net broadcast revenue	\$ 48,424	\$ <b>48,812</b>	\$ 145,479	\$ <b>147,425</b>
Net digital media revenue	10,446	<b>10,397</b>	31,998	<b>31,051</b>
Net publishing revenue	6,563	<b>6,319</b>	19,048	<b>17,119</b>
Total net revenue	65,433	<b>65,528</b>	196,525	<b>195,595</b>
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including \$534 and \$564 for the three months ended September 30, 2017 and 2018, respectively, and \$1,648 and \$1,699 for the nine months ended September 30, 2017 and 2018, respectively, paid to related parties)	37,040	<b>37,158</b>	108,807	<b>110,151</b>
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,169	<b>8,021</b>	25,241	<b>24,792</b>
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,686	<b>6,210</b>	18,705	<b>17,319</b>
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including \$98 and \$41 for the three months ended September 30, 2017 and 2018, respectively, and \$237 and \$198 for the nine months ended September 30, 2017 and 2018, respectively, paid to related parties)	4,233	<b>3,987</b>	13,183	<b>11,938</b>
Depreciation	3,082	<b>3,032</b>	9,171	<b>9,076</b>
Amortization	1,135	<b>1,604</b>	3,420	<b>4,558</b>
Change in the estimated fair value of contingent earn-out consideration	(12)		(54)	<b>72</b>
Impairment of indefinite-lived long-term assets other than goodwill			19	
Net (gain) loss on the disposition of assets	95	<b>(759)</b>	(410)	<b>4,400</b>
Total operating expenses	60,428	<b>59,253</b>	178,082	<b>182,306</b>

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Operating income	5,005	<b>6,275</b>	18,443	<b>13,289</b>
Other income (expense):				
Interest income	1	<b>2</b>	3	<b>4</b>
Interest expense	(4,802)	<b>(4,507)</b>	(12,156)	<b>(13,779)</b>
Change in the fair value of interest rate swap			357	
Gain (loss) on early retirement of long-term debt			(2,775)	<b>234</b>
Net miscellaneous income and (expenses)	(80)	<b>1</b>	(80)	<b>(12)</b>
Net income (loss) before income taxes	124	<b>1,771</b>	3,792	<b>(264)</b>
Provision for (benefit from) income taxes	170	<b>564</b>	1,506	<b>(132)</b>
Net income (loss)	\$ (46)	\$ <b>1,207</b>	\$ 2,286	\$ <b>(132)</b>
Basic earnings (loss) per share data:				
Basic earnings (loss) per share	\$	\$ <b>0.05</b>	\$ 0.09	\$ <b>(0.01)</b>
Diluted earnings (loss) per share data:				
Diluted earnings (loss) per share	\$	\$ <b>0.05</b>	\$ 0.09	\$ <b>(0.01)</b>
Distributions per share	\$ 0.07	\$ <b>0.07</b>	\$ 0.20	\$ <b>0.20</b>
Basic weighted average shares outstanding	26,144,796	<b>26,183,910</b>	26,036,333	<b>26,177,565</b>
Diluted weighted average shares outstanding	26,144,796	<b>26,312,194</b>	26,454,923	<b>26,177,565</b>

*See accompanying notes*

Table of Contents**SALEM MEDIA GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Dollars in thousands)**

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 2,286	\$ (132)
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	1,693	363
Depreciation and amortization	12,591	13,634
Amortization of deferred financing costs	645	855
Accretion of financing items	74	
Accretion of acquisition-related deferred payments and contingent consideration	32	24
Provision for bad debts	1,548	1,498
Deferred income taxes	1,409	(301)
Change in the fair value of interest rate swap	(357)	
Change in the estimated fair value of contingent earn-out consideration	(54)	72
Impairment of indefinite-lived long-term assets other than goodwill	19	
(Gain) loss on early retirement of long-term debt	2,775	(234)
(Gain) loss on the disposition of assets	(410)	4,400
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	(463)	(3,829)
Inventories	(139)	(161)
Prepaid expenses and other current assets	(1,001)	(560)
Accounts payable and accrued expenses	5,152	7,224
Deferred rent expense	(3)	(304)
Contract liabilities	(577)	(2,380)
Other liabilities	(3)	(40)
Income taxes payable	(49)	69
Net cash provided by operating activities	25,168	20,198
<b>INVESTING ACTIVITIES</b>		
Cash paid for capital expenditures net of tenant improvement allowances	(6,800)	(6,513)
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(50)	(77)
Escrow deposits paid r		