

SALEM MEDIA GROUP, INC. /DE/  
Form 10-Q  
August 09, 2018

**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  
<sup>x</sup> 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 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**

**77-0121400**

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

**4880 SANTA ROSA ROAD**

**CAMARILLO, CALIFORNIA**

**93012**

(ADDRESS OF PRINCIPAL

(ZIP CODE)

EXECUTIVE OFFICES)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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  Accelerated filer   Emerging Growth Company

Non-accelerated filer  Smaller Reporting Company

(Do not check if a Smaller Reporting 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	Outstanding at August 3, 2018
Common Stock, \$0.01 par value per share	20,627,916 shares

Class B	Outstanding at August 3, 2018
Common Stock, \$0.01 par value per share	5,553,696 shares

SALEM MEDIA GROUP, INC.  
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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” and similar 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”).

**PART I – FINANCIAL INFORMATION**

**SALEM MEDIA GROUP, INC.**

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

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## SALEM MEDIA GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

*(Dollars in thousands, except share and per share data)*

	December 31, 2017 (Note 1)	<b>June 30, 2018</b>  <b>(Unaudited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 9
Trade accounts receivable (net of allowances of \$11,019 in 2017 and \$10,187 in 2018)	32,545	32,577
Unbilled revenue	2,298	3,106
Other receivables (net of allowances of \$227 in 2017 and \$143 in 2018)	820	727
Inventories (net of reserves of \$1,657 in 2017 and \$695 in 2018)	730	953
Prepaid expenses	6,824	7,207
Assets held for sale	3,500	8,025
Total current assets	46,720	52,604
Land held for sale	1,000	—
Notes receivable (net of allowance of \$759 in 2017 and \$507 in 2018)	53	35
Property and equipment (net of accumulated depreciation of \$164,720 in 2017 and \$166,599 in 2018)	99,480	96,423
Broadcast licenses	380,914	373,962
Goodwill	26,424	25,803
Other indefinite-lived intangible assets	313	313
Amortizable intangible assets (net of accumulated amortization of \$47,179 in 2017 and \$49,942 in 2018)	13,104	10,180
Deferred financing costs	550	418
Deferred income taxes	1,070	1,070
Other assets	3,191	3,768
Total assets	\$ 572,819	\$ 564,576
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,584	\$ 4,228
Accrued expenses	9,281	12,050
Accrued compensation and related expenses	7,643	7,905
Accrued interest	1,445	1,416
Contract liabilities	12,763	11,400
Deferred rent expense	152	133
Income taxes payable	172	192
Current portion of long-term debt and capital lease obligations	9,109	12,020
Total current liabilities	42,149	49,344

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Long-term debt and capital lease obligations, less current portion	249,579	240,260
Deferred income taxes	34,151	33,339
Deferred rent expense, long term	13,644	13,486
Contract liabilities, long-term	1,951	1,363
Other long-term liabilities	64	51
Total liabilities	341,538	337,843
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,932,451 and 22,941,201 issued and 20,614,801 and 20,623,551 outstanding at December 31, 2017 and June 30, 2018, respectively	227	227
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2017 and June 30, 2018, respectively	56	56
Additional paid-in capital	244,634	244,827
Accumulated earnings	20,370	15,629
Treasury stock, at cost (2,317,650 shares at December 31, 2017 and June 30, 2018)	(34,006	) (34,006 )
Total stockholders' equity	231,281	226,733
Total liabilities and stockholders' equity	\$ 572,819	\$ 564,576

*See accompanying notes*



## SALEM MEDIA GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)

*(Unaudited)*

	Three Months Ended		Six Months Ended	
	June 30, 2017	2018	June 30, 2017	2018
Net broadcast revenue	\$49,251	\$50,563	\$97,055	\$98,613
Net digital media revenue	10,866	10,260	21,552	20,654
Net publishing revenue	5,995	5,449	12,485	10,800
Total net revenue	66,112	66,272	131,092	130,067
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including \$547 and \$574 for the three months ended June 30, 2017 and 2018, respectively, and \$1,114 and \$1,135 for the six months ended June 30, 2017 and 2018, respectively, paid to related parties)	35,931	37,243	71,767	72,993
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,370	8,397	17,072	16,771
Publishing operating expenses, exclusive of depreciation and amortization shown below	5,668	5,522	12,019	11,109
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including \$47 and \$94 for the three months ended June 30, 2017 and 2018, respectively, and \$139 and \$157 for the six months ended June 30, 2017 and 2018, respectively, paid to related parties)	3,825	4,030	8,950	7,951
Depreciation	3,109	3,035	6,089	6,044
Amortization	1,143	1,476	2,285	2,954
Change in the estimated fair value of contingent earn-out consideration	(43 )	72	(42 )	72
Impairment of indefinite-lived long-term assets other than goodwill	—	—	19	—
Net (gain) loss on the disposition of assets	(510 )	5,154	(505 )	5,159
Total operating expenses	57,493	64,929	117,654	123,053
Operating income	8,619	1,343	13,438	7,014
Other income (expense):				
Interest income	1	—	2	2
Interest expense	(3,924 )	(4,754 )	(7,354 )	(9,272 )
Change in the fair value of interest rate swap	—	—	357	—

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Gain (loss) on early retirement of long-term debt	(2,734	)	234	(2,775	)	234	
Net miscellaneous income and (expenses)	—		(88	)	—	(13	)
Net income (loss) before income taxes	1,962		(3,265	)	3,668	(2,035	)
Provision for (benefit from) income taxes	690		(1,098	)	1,336	(696	)
Net income (loss)	\$1,272		\$(2,167	)	\$2,332	\$(1,339	)
Basic earnings (loss) per share data:							
Basic earnings (loss) per share	\$0.05		\$(0.08	)	\$0.09	\$(0.05	)
Diluted earnings (loss) per share data:							
Diluted earnings (loss) per share	\$0.05		\$(0.08	)	\$0.09	\$(0.05	)
Distributions per share	\$0.07		\$0.07		\$0.13	\$0.13	
Basic weighted average shares outstanding	26,062,403		26,177,247		25,982,102	26,174,393	
Diluted weighted average shares outstanding	26,593,366		26,177,247		26,442,146	26,174,393	

*See accompanying notes*

## SALEM MEDIA GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	2017	2018
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$2,332	\$(1,339 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	1,425	172
Depreciation and amortization	8,374	8,998
Amortization of deferred financing costs	357	587
Accretion of financing items	74	—
Accretion of acquisition-related deferred payments and contingent consideration	24	18
Provision for bad debts	796	796
Deferred income taxes	1,272	(812 )
Change in the fair value of interest rate swap	(357 )	—
Change in the estimated fair value of contingent earn-out consideration	(42 )	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	(505 )	5,159
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	2,669	(1,099 )
Inventories	(197 )	(223 )
Prepaid expenses and other current assets	(804 )	(383 )
Accounts payable and accrued expenses	(1,105 )	488
Deferred rent expense	56	(166 )
Contract liabilities	(405 )	(1,970 )
Other liabilities	(15 )	(13 )
Income taxes payable	(164 )	20
Net cash provided by operating activities	16,579	10,071
<b>INVESTING ACTIVITIES</b>		
Cash paid for capital expenditures net of tenant improvement allowances	(4,768 )	(4,680 )
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(52 )	(7 )
Escrow deposits paid related to acquisitions	(42 )	(185 )
Escrow deposits received related to radio station sale	—	2,045
Purchases of broadcast assets and radio stations	(130 )	(1,100 )
Purchases of digital media businesses and assets	(310 )	(70 )
Proceeds from sale of assets	600	1,791

Other	(289 )	(399 )
Net cash used in investing activities	(4,991 )	(2,605 )
<b>FINANCING ACTIVITIES</b>		
Payments under Term Loan B	(263,000)	—
Payments to repurchase 6.75% Senior Secured Notes	—	(9,550 )
Proceeds from borrowings under Revolver and ABL Facility	34,107	69,277
Payments on Revolver and ABL Facility	(24,583 )	(66,374)
Payment of interest rate swap	(783 )	—
Proceeds from bond offering	255,000	—
Refund (payment) of debt issuance costs	(6,368 )	21
Payments of acquisition-related contingent earn-out consideration	(14 )	(15 )
Payments of deferred installments due from acquisition activity	(225 )	—
Proceeds from the exercise of stock options	455	21
Payments of capital lease obligations	(62 )	(59 )
Payment of cash distribution on common stock	(3,388 )	(3,402 )
Book overdraft	(2,838 )	2,621
Net cash used in financing activities	(11,699 )	(7,460 )
Net increase in cash and cash equivalents	(111 )	6
Cash and cash equivalents at beginning of year	130	3
Cash and cash equivalents at end of period	\$19	\$9

*See accompanying notes*

**SALEM MEDIA GROUP, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

**(Dollars in thousands)**

(Unaudited)

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Cash paid for interest, net of capitalized interest	\$4,849	\$8,650
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Cash paid for income taxes	\$211	\$95
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Other supplemental disclosures of cash flow information:

Barter revenue	\$2,565	\$3,631
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Barter expense	\$2,348	\$2,755
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Non-cash investing