

SALEM MEDIA GROUP, INC. /DE/  
Form 10-Q  
May 10, 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 MARCH 31, 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 EXECUTIVE OFFICES) (ZIP CODE)

**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 x 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 x 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 " x 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 May 4, 2018
Common Stock, \$0.01 par value per share	20,622,926 shares

Class B	Outstanding at May 4, 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)****SALEM MEDIA GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS***(Dollars in thousands, except share and per share data)*

	<b>December 31, 2017 (Note 1)</b>	<b>March 31, 2018 (Unaudited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 6
Trade accounts receivable (net of allowances of \$11,019 in 2017 and \$9,866 in 2018)	32,545	30,058
Unbilled revenue	2,298	3,724
Other receivables (net of allowances of \$227 in 2017 and 2018)	820	819
Inventories (net of reserves of \$1,657 in 2017 and \$1,599 in 2018)	730	808
Prepaid expenses	6,824	6,893
Assets held for sale	3,500	4,017
Total current assets	46,720	46,325
Land held for sale	1,000	1,000
Notes receivable (net of allowance of \$759 in 2017 and \$598 in 2018)	53	8
Property and equipment (net of accumulated depreciation of \$164,720 in 2017 and \$167,306 in 2018)	99,480	98,653
Broadcast licenses	380,914	380,693
Goodwill	26,424	26,424
Other indefinite-lived intangible assets	313	313
Amortizable intangible assets (net of accumulated amortization of \$47,179 in 2017 and \$48,657 in 2018)	13,104	11,626
Deferred financing costs	550	463
Deferred income taxes	1,070	1,070
Other assets	3,191	3,597

Total assets	\$ 572,819	\$ 570,172
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,584	\$ 1,677
Accrued expenses	9,281	10,616
Accrued compensation and related expenses	7,643	9,597
Accrued interest	1,445	5,604
Contract liabilities	12,763	12,165
Deferred rent expense	152	140
Income taxes payable	172	287
Current portion of long-term debt and capital lease obligations	9,109	105
Total current liabilities	42,149	40,191
Long-term debt and capital lease obligations, less current portion	249,579	249,776
Deferred income taxes	34,151	34,533
Deferred rent expense, long term	13,644	13,508
Contract liabilities, long-term	1,951	1,627
Other long-term liabilities	64	64
Total liabilities	341,538	339,699
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,932,451 and 22,940,576 issued and 20,614,801 and 20,622,926 outstanding at December 31, 2017 and March 31, 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 March 31, 2018, respectively	56	56
Additional paid-in capital	244,634	244,699
Accumulated earnings	20,370	19,497
Treasury stock, at cost (2,317,650 shares at December 31, 2017 and March 31, 2018)	(34,006	) (34,006 )
Total stockholders' equity	231,281	230,473
Total liabilities and stockholders' equity	\$ 572,819	\$ 570,172

*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 March 31,	
	2017	2018
Net broadcast revenue	\$47,804	\$48,050
Net digital media revenue	10,686	10,394
Net publishing revenue	6,490	5,351
Total net revenue	64,980	63,795
Operating expenses:		
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including \$424 and \$436 for the three months ended March 31, 2017 and 2018, respectively, paid to related parties)	35,836	35,750
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,702	8,374
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,351	5,587
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including \$92 and \$63 for the three months ended March 31, 2017 and 2018, respectively, paid to related parties)	5,125	3,921
Depreciation	2,980	3,009
Amortization	1,142	1,478
Change in the estimated fair value of contingent earn-out consideration	1	—
Impairment of indefinite-lived long-term assets other than goodwill	19	—
Loss on the sale or disposal of assets	5	5
Total operating expenses	60,161	58,124
Operating income	4,819	5,671
Other income (expense):		
Interest income	1	2
Interest expense	(3,430)	(4,518)
Change in the fair value of interest rate swap	357	—
Loss on early retirement of long-term debt	(41)	—
Net miscellaneous income and expenses	—	75
Net income before income taxes	1,706	1,230
Provision for income taxes	646	402
Net income	\$1,060	\$828
Basic earnings per share data:		
Basic earnings per share	\$0.04	\$0.03
Diluted earnings per share data:		

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Diluted earnings per share	\$0.04	\$0.03
Distributions per share	\$0.07	\$0.06
Basic weighted average shares outstanding	25,901,801	26,171,539
Diluted weighted average shares outstanding	26,290,926	26,304,891

*See accompanying notes*

## SALEM MEDIA GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2017	2018
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,060	\$ 828
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	1,381	46
Depreciation and amortization	4,122	4,487
Amortization of deferred financing costs	149	270
Accretion of financing items	48	—
Accretion of acquisition-related deferred payments and contingent consideration	12	16
Provision for bad debts	388	146
Deferred income taxes	624	382
Change in the fair value of interest rate swap	(357 )	—
Change in the estimated fair value of contingent earn-out consideration	1	—
Impairment of indefinite-lived long-term assets other than goodwill	19	—
Loss on early retirement of long-term debt	41	—
Loss on the sale or disposal of assets	5	5
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	2,804	1,176
Inventories	(171 )	(78 )
Prepaid expenses and other current assets	143	(69 )
Accounts payable and accrued expenses	(1,303 )	6,629
Deferred rent expense	26	(142 )
Contract liabilities	13	(938 )
Other liabilities	(2 )	—
Income taxes payable	34	115
Net cash provided by operating activities	9,037	12,873
<b>INVESTING ACTIVITIES</b>		
Cash paid for capital expenditures net of tenant improvement allowances	(2,586 )	(2,472 )
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(48 )	(4 )
Escrow deposits paid related to acquisitions	(42 )	(240 )
Escrow deposits received related to radio station sale	—	500
Purchases of broadcast assets and radio stations	(98 )	—
Purchases of digital media businesses and assets	(245 )	—

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Proceeds from sale of assets	—	1
Other	(111 )	(170 )
Net cash used in investing activities	(3,130 )	(2,385 )
<b>FINANCING ACTIVITIES</b>		
Payments under Term Loan B	(5,000 )	—
Proceeds from borrowings under Revolver and ABL Facility	6,266	10,334
Payments on Revolver and ABL Facility	(5,514 )	(19,334 )
Refund of debt issuance costs	—	41
Payments of acquisition-related contingent earn-out consideration	(9 )	—
Payments of deferred installments due from acquisition activity	(200 )	—
Proceeds from the exercise of stock options	58	19
Payments of capital lease obligations	(33 )	(31 )
Payment of cash distribution on common stock	(1,691 )	(1,701 )
Book overdraft	169	187
Net cash used in financing activities	(5,954 )	(10,485 )
Net increase in cash and cash equivalents	(47 )	3
Cash and cash equivalents at beginning of year	130	3
Cash and cash equivalents at end of period	\$ 83	\$ 6

*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	\$3,244	\$50
Cash received for income taxes	\$(30 )	\$(95 )

Other supplemental disclosures of cash flow information:

Barter revenue	\$1,329	\$1,737
Barter expense	\$1,294	\$1,266

Non-cash investing and financing activities:

Capital expenditures reimbursable under tenant improvement allowances	\$48	\$4
Non-cash capital expenditures for property & equipment acquired under trade agreements	\$—	\$9

*See accompanying notes*

**SALEM MEDIA GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Condensed Consolidated Financial Statements of Salem Media Group, Inc. (“Salem” “we,” “us,” “our” or the “company”) include the company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Information with respect to the three months ended March 31, 2018 and 2017 is unaudited. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the company. The unaudited interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Salem filed on Form 10-K for the year ended December 31, 2017. Our results are subject to seasonal fluctuations. Therefore, the results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The balance sheet at December 31, 2017 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

**Description of Business**

Salem is a domestic multimedia company specializing in Christian and conservative content. Our media properties include radio broadcasting, digital media, and publishing entities. We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which are discussed in Note 19 – Segment Data. Our foundational business is radio broadcasting, which includes the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network® (“SRN”), SRN News Network (“SNN”), Today’s Christian Music (“TCM”), Singing News Network and Salem Media Representatives™ (“SMR”). SRN, SNN, TCM and Singing News Network are networks that develop, produce and syndicate a broad range of programming specifically targeted to Christian and

family-themed talk stations, music stations and general News Talk stations throughout the United States, including Salem-owned and operated stations. SMR, a national advertising sales firm with offices in ten U.S. cities, specializes in placing national advertising on religious and other format commercial radio stations. Each of our radio stations has a website specifically designed for that station from which our audience can access our entire library of digital content and online publications.

Our digital media based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Salem Web Network™ (“SWN”) websites include Christian content websites; BibleStudyTools.com™, Crosswalk.com®, GodVine.com™, iBelieve.com, GodTube.com™, OnePlace.com™, Christianity.com™, GodUpdates.com, CrossCards.com™, ChristianHeadlines.com, LightSource.com™, AllCreated.com, ChristianRadio.com™, CCMmagazine.com™, SingingNews.com™ and SouthernGospel.com™ and our conservative opinion websites; collectively known as Townhall Media, include Townhall.com™, HotAir.com™, Twitchy.com, RedState.com, BearingArms.com, HumanEvents.com, and ConservativeRadio.com. We also publish digital newsletters through Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

Our church e-commerce websites, including SermonSearch.com, ChurchStaffing.com™, WorshipHouseMedia.com, SermonSpice.com™, WorshipHouseKids.com, Preaching.com, ChristianJobs.com™ and Youthworker.com, offer a variety of digital resources including videos, song tracks, sermon archives and job listings to pastors and Church leaders. E-commerce also includes wellness products through Newport Natural Health, which is a seller of nutritional supplements.

Our web content is accessible through all of our radio station websites that feature content of interest to local audiences throughout the United States.

Our publishing operating segment includes three businesses: (1) Regnery Publishing, a traditional book publisher that has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, David Limbaugh, Ed Klein, Mark Steyn and Dinesh D’Souza; (2) Salem Author Services, a self-publishing service for authors through Xulon Press, Mill City Press and Bookprinting.com; and (3) *Singing News*® magazine, previously Salem Publishing™ which produces and distributes a print magazine.

## **Variable Interest Entities**

We may enter into agreements or investments with other entities that could qualify as variable interest entities (“VIEs”) in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*. A VIE is consolidated in the financial statements if we are deemed to be the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE, either explicitly or implicitly. A VIE is an entity for which the primary beneficiary’s interest in the entity can change with variations in factors other than the amount of investment in the entity. We perform our evaluation for VIE’s upon entry into the

agreement or investment. We re-evaluate the VIE when or if events occur that could change the status of the VIE.

We may enter into lease arrangements with entities controlled by our principal stockholders or other related parties. We believe that the requirements of FASB ASC Topic 810 do not apply to these entities because the lease arrangements do not contain explicit guarantees of the residual value of the real estate, do not contain purchase options or similar provisions and the leases are at terms that do not vary materially from leases that would have been available with unaffiliated parties. Additionally, we do not have an equity interest in the entities controlled by our principal stockholders or other related parties and we do not guarantee debt of the entities controlled by our principal stockholders or other related parties.

We also enter into Local Marketing Agreements (“LMAs”) or Time Brokerage Agreements (“TBAs”) contemporaneously with entering into an Asset Purchase Agreement (“APA”) to acquire or sell a radio station. Typically, both LMAs and TBAs are contractual agreements under which the station owner/licensee makes airtime available to a programmer/licensee in exchange for a fee and reimbursement of certain expenses. LMAs and TBAs are subject to compliance with the antitrust laws and the communications laws, including the requirement that the licensee must maintain independent control over the station and, in particular, its personnel, programming, and finances. The FCC has held that such agreements do not violate the communications laws as long as the licensee of the station receiving programming from another station maintains ultimate responsibility for, and control over, station operations and otherwise ensures compliance with the communications laws.

The requirements of FASB ASC Topic 810 may apply to entities under LMAs or TBAs, depending on the facts and circumstances related to each transaction. As of March 31, 2018, we did not have implicit or explicit arrangements that required consolidation under the guidance in FASB ASC Topic 810.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant areas for which management uses estimates include:

- revenue recognition,
- asset impairments, including goodwill, broadcasting licenses, other indefinite-lived intangible assets, and assets held for sale;
- probabilities associated with the potential for contingent earn-out consideration;
- fair value measurements;

-contingency reserves;