

SALEM COMMUNICATIONS CORP /DE/
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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 COMMUNICATIONS CORPORATION
(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 No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a Smaller Reporting Company) Smaller Reporting Company

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 1, 2014
Common Stock, \$0.01 par value per share	19,698,236 shares
Class B	Outstanding at August 1, 2014
Common Stock, \$0.01 par value per share	5,553,696 shares

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SALEM COMMUNICATIONS CORPORATION

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FORWARD-LOOKING STATEMENTS

From time to time, in both written reports (such as this report) and oral statements, Salem Communications Corporation (Salem or the company, including references to Salem by we, us and our) makes forward-looking 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 or plans and similar expressions are intended forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company's current expectations and are based upon data available to the company at the time the statements are made. 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. Forward-looking statements made in this report speak as of the date hereof. 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 COMMUNICATIONS CORPORATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2013 (Note 1)	June 30, 2014 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 65	\$ 232
Trade accounts receivable (net of allowance for doubtful accounts of \$10,809 in 2013 and \$12,950 in 2014)	37,627	35,462
Other receivables	720	2,989
Inventories (net of reserves of \$2,747 in 2014)		740
Prepaid expenses	4,049	6,101
Deferred income taxes	6,876	6,876
Assets held for sale	1,700	1,700
Assets of discontinued operations	8	
Total current assets	51,045	54,100
Notes receivable (net of allowance of \$548 in 2013 and \$1,018 in 2014)	1,866	405
Fair value of interest rate swap	3,177	708
Property, plant and equipment (net of accumulated depreciation of \$145,215 in 2013 and \$150,164 in 2014)	98,928	101,468
Broadcast licenses	381,836	385,548
Goodwill	22,374	24,727
Other indefinite-lived intangible assets	868	868
Amortizable intangible assets (net of accumulated amortization of \$27,933 in 2013 and \$31,070 in 2014)	8,793	15,398
Deferred financing costs	4,130	3,800
Other assets	2,096	1,977
Total assets	\$ 575,113	\$ 588,999
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 3,960	\$ 4,065
Accrued expenses	7,888	11,783
Accrued compensation and related expenses	6,913	9,699
Accrued interest	37	404
Deferred revenue	9,721	12,580
Income tax payable	142	104
Current portion of long-term debt and capital lease obligations	3,121	1,541

Total current liabilities	31,782	40,176
Long-term debt and capital lease obligations, less current portion	287,672	287,716
Deferred income taxes	43,457	44,105
Deferred revenue	9,965	10,552
Other liabilities	452	3,945
Total liabilities	373,328	386,494
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 21,803,303 and 22,006,386 issued and 19,485,653 and 19,688,736 outstanding at December 31, 2013 and June 30, 2014, respectively	218	220
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2013 and June 30, 2014, respectively	56	56
Additional paid-in capital	237,579	239,561
Retained earnings (accumulated deficit)	(2,062)	(3,326)
Treasury stock, at cost (2,317,650 shares at December 31, 2013 and June 30, 2014)	(34,006)	(34,006)
Total stockholders' equity	201,785	202,505
Total liabilities and stockholders' equity	\$ 575,113	\$ 588,999

See accompanying notes

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SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Net broadcast revenue	\$ 47,025	\$ 47,855	\$ 90,272	\$ 93,431
Net Internet revenue	9,906	14,390	19,622	27,300
Net publishing revenue	3,205	6,392	5,870	10,239
Total net revenue	60,136	68,637	115,764	130,970
Operating expenses:				
Broadcast operating expenses exclusive of depreciation and amortization shown below (including \$359 and \$364 for the three months ended June 30, 2013 and 2014, respectively, and \$711 and \$723 for the six months ended June 30, 2013 and 2014, respectively, paid to related parties)	30,844	33,910	60,411	65,099
Internet operating expenses exclusive of depreciation and amortization shown below	6,887	10,063	13,728	19,880
Publishing operating expenses exclusive of depreciation and amortization shown below	3,452	6,439	6,475	10,858
Corporate expenses exclusive of depreciation and amortization shown below (including \$25 and \$5 for the three months ended June 30, 2013 and 2014, respectively, and \$160 and \$176 for the six months ended June 30, 2013 and 2014, respectively, paid to related parties)	5,092	5,458	10,888	12,288
Depreciation	3,102	3,167	6,224	6,296
Amortization	688	1,529	1,381	3,137
Change in the estimated fair value of contingent earn-out consideration		242		369
Impairment of indefinite-lived long-term assets other than goodwill	345		345	
Impairment of goodwill	438		438	
Loss on disposal of assets	1	338	5	221
Total operating expenses	50,849	61,146	99,895	118,148

Net operating income from continuing operations	9,287	7,491	15,869	12,822
Other income (expense):				
Interest income	15	26	36	41
Interest expense including \$0 and \$154, respectively, for the three and six months ended June 30, 2013, paid to related parties.	(3,719)	(4,068)	(9,442)	(7,847)
Change in fair value of interest rate swap	4,007	(1,373)	3,578	(2,469)
Loss on early retirement of long-term debt	(55)		(27,776)	(8)
Net miscellaneous income and expenses	5	14	11	80
Net income (loss) from continuing operations before income taxes	9,540	2,090	(17,724)	2,619
Provision for (benefit from) income taxes	4,335	827	(4,347)	925
Net income (loss) from continuing operations	5,205	1,263	(13,377)	1,694
Loss from discontinued operations	(4)		(15)	
Net income (loss)	\$ 5,201	\$ 1,263	\$ (13,392)	\$ 1,694
Basic earnings per share data:				
Earnings (loss) per share from continuing operations	\$ 0.20	\$ 0.05	\$ (0.54)	\$ 0.07
Earnings (loss) per share from discontinued operations				
Basic earnings (loss) per share	\$ 0.20	\$ 0.05	\$ (0.54)	\$ 0.07
Diluted earnings per share data:				
Earnings (loss) per share from continuing operations	\$ 0.20	\$ 0.05	\$ (0.54)	\$ 0.07
Earnings (loss) per share from discontinued operations				
Diluted earnings (loss) per share	\$ 0.20	\$ 0.05	\$ (0.54)	\$ 0.07
Distributions per share	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.12
Basic weighted average shares outstanding	24,737,131	25,172,696	24,684,781	25,118,839
Diluted weighted average shares outstanding	25,624,530	25,950,600	24,684,781	25,916,205

See accompanying notes

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SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2013	2014
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	\$(13,377)	\$ 1,694
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Non-cash stock-based compensation	1,171	932
Tax benefit related to stock options exercised	113	77
Depreciation and amortization	7,605	9,433
Amortization of bank loan fees	511	344
Accretion of discount on Term Loan B	100	94
Accretion of acquisition-related deferred payments and contingent consideration		540
Provision for bad debts	1,521	1,510
Deferred income taxes	(4,578)	648
Impairment of indefinite-lived long-term assets other than goodwill	345	
Impairment of goodwill	438	
Change in the fair value of interest rate swap	(3,578)	2,469
Change in the estimated fair value of contingent earn-out consideration		369
Loss on early retirement of long-term debt	27,776	8
Loss on the sale or disposal of assets	5	221
Changes in operating assets and liabilities:		
Accounts receivable	(278)	4,024
Prepaid expenses and other current assets	(793)	(407)
Accounts payable and accrued expenses	(3,878)	3,512
Deferred revenue	(1,045)	(3,733)
Other liabilities	(9)	(767)
Income taxes payable	(137)	(38)
Net cash provided by operating activities	11,912	20,930
INVESTING ACTIVITIES		
Capital expenditures	(5,232)	(6,117)
Cash escrow deposits (paid) released related to acquisitions	370	