

SALEM COMMUNICATIONS CORP /DE/
Form 10-Q
November 08, 2013

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, 2013

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
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

4880 SANTA ROSA ROAD

93012

CAMARILLO, CALIFORNIA

(ZIP CODE)

(ADDRESS OF PRINCIPAL 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, 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
Common Stock, \$0.01 par value per share

Outstanding at November 1, 2013
19,362,902 shares

Class B
Common Stock, \$0.01 par value per share

Outstanding at November 1, 2013
5,553,696 shares

SALEM COMMUNICATIONS CORPORATION

INDEX

	PAGE NO.
COVER PAGE	
INDEX	
<u>FORWARD LOOKING STATEMENTS</u>	2
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements.</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	43
Item 4. <u>Controls and Procedures.</u>	44
<u>PART II - OTHER INFORMATION</u>	44
Item 1. <u>Legal Proceedings.</u>	44
Item 1A. <u>Risk Factors.</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	44
Item 3. <u>Defaults Upon Senior Securities.</u>	44
Item 4. <u>Mine Safety Disclosures.</u>	44
Item 5. <u>Other Information.</u>	44
Item 6. <u>Exhibits.</u>	44
<u>SIGNATURES</u>	45
<u>EXHIBIT INDEX</u>	46

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).

PART I FINANCIAL INFORMATION

SALEM COMMUNICATIONS CORPORATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2012 (Note 1)	September 30, 2013 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 380	\$ 1,426
Trade accounts receivable (less allowance for doubtful accounts of \$8,926 in 2012 and \$10,437 in 2013)	35,009	34,507
Other receivables	609	1,910
Prepaid expenses	3,277	4,040
Deferred income taxes	6,248	6,248
Assets held for sale	1,964	1,700
Assets of discontinued operations	8	8
Total current assets	47,495	49,839
Property, plant and equipment (net of accumulated depreciation of \$135,823 in 2012 and \$143,408 in 2013)		
	99,467	98,759
Broadcast licenses	373,720	381,836
Goodwill	22,383	22,002
Other indefinite-lived intangible assets	1,873	1,528
Amortizable intangible assets (net of accumulated amortization of \$25,121 in 2012 and \$27,196 in 2013)	8,753	8,136
Fair value of interest rate swap		2,545
Deferred financing costs	4,002	4,291
Notes receivable (net of allowance of \$702 in 2012 and \$562 in 2013)	1,662	209
Other assets	2,007	1,944
Total assets	\$ 561,362	\$ 571,089
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 4,440	\$ 3,105
Accrued expenses	6,627	7,168
Accrued compensation and related expenses	8,668	7,368
Accrued interest	1,110	1
Deferred revenue	9,531	9,482
Income tax payable	175	100
Terminated Subordinated Debt due to Related Parties	15,000	
Current portion of long-term debt and capital lease obligations	5,108	3,118
Total current liabilities	50,659	30,342

Long-term debt and capital lease obligations, less current portion	248,872	290,844
Deferred income taxes	47,593	41,778
Deferred revenue	8,140	9,955
Other liabilities	29	20
Total liabilities	355,293	372,939
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 21,312,510 and 21,675,725 issued and 18,994,860 and 19,358,075 outstanding at December 31, 2012 and September 30, 2013, respectively	213	217
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2012 and September 30, 2013, respectively	56	56
Additional paid-in capital	233,974	236,594
Retained earnings (accumulated deficit)	5,832	(4,711)
Treasury stock, at cost (2,317,650 shares at December 31, 2012 and September 30, 2013)	(34,006)	(34,006)
Total stockholders' equity	206,069	198,150
Total liabilities and stockholders' equity	\$ 561,362	\$ 571,089

See accompanying notes

SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Net broadcast revenue	\$ 45,895	\$ 46,015	\$ 136,224	\$ 136,287
Net Internet revenue	7,800	9,390	23,269	29,012
Net publishing revenue	3,024	3,071	9,136	8,941
 Total revenue	 56,719	 58,476	 168,629	 174,240
Operating expenses:				
Broadcast operating expenses exclusive of depreciation and amortization shown below (including \$341 and \$348 for the three months ended September 30, 2012 and 2013, respectively, and \$1,015 and \$1,038 for the nine months ended September 30, 2012 and 2013, respectively, paid to related parties)	30,628	30,847	90,289	91,258
Internet operating expenses exclusive of depreciation and amortization shown below	5,825	6,644	17,858	20,372
Publishing operating expenses exclusive of depreciation and amortization shown below	2,980	3,301	8,951	9,776
Corporate expenses exclusive of depreciation and amortization shown below (including \$35 and \$79 for the three months ended September 30, 2012 and 2013, and \$235 and \$239 for the nine months ended September 30, 2012 and 2013, respectively, paid to related parties)	4,643	4,951	14,314	15,839
Depreciation	3,083	3,089	9,150	9,313
Amortization	494	695	1,625	2,076
Impairment of indefinite-lived long-term assets other than goodwill				345
Impairment of goodwill				438
Impairment of long-lived assets			5,608	
(Gain) loss on the sale or disposal of assets	587	(25)	563	(20)
 Total operating expenses	 48,240	 49,502	 148,358	 149,397
 Operating income from continuing operations	 8,479	 8,974	 20,271	 24,843

Other income (expense):

Interest income	24	16	83	52
Interest expense including \$124 and \$0 for the three months ended September 30, 2012 and 2013, and \$238 and \$154 for the nine months ended September 30, 2012 and 2013, respectively, paid to related parties	(6,127)	(3,770)	(18,787)	(13,212)
Change in the fair value of interest rate swap		(1,033)		2,545
Loss on early retirement of long-term debt		(16)	(893)	(27,792)
Net miscellaneous income and (expenses)	60	4	71	15

Income (loss) from continuing operations before income taxes	2,436	4,175	745	(13,549)
Benefit from income taxes	(971)	(1,159)	(1,768)	(5,506)

Income (loss) from continuing operations	3,407	5,334	2,513	(8,043)
Income (loss) from discontinued operations	(39)	(11)	(94)	(26)

Net income (loss)	\$ 3,368	\$ 5,323	\$ 2,419	\$ (8,069)
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Basic earnings per share data:

Earnings (loss) per share from continuing operations	\$ 0.13	\$ 0.21	\$ 0.10	\$ (0.32)
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Earnings (loss) per share from discontinued operations				
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Basic earnings (loss) per share	\$ 0.13	\$ 0.21	\$ 0.10	\$ (0.32)
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Diluted earnings per share data:

Earnings (loss) per share from continuing operations	\$ 0.13	\$ 0.21	\$ 0.10	\$ (0.32)
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Earnings (loss) per share from discontinued operations				
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Diluted earnings (loss) per share	\$ 0.13	\$ 0.21	\$ 0.10	\$ (0.32)
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Distributions per share	\$ 0.03	\$	\$ 0.10	\$ 0.10
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Basic weighted average shares outstanding	24,663,027	25,126,858	24,528,091	24,832,140
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Diluted weighted average shares outstanding	25,358,052	25,921,391	24,893,832	24,832,140
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See accompanying notes

SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2013
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	\$ 2,513	\$ (8,043)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Non-cash stock-based compensation	995	1,529
Tax benefit related to stock options exercised		117
Depreciation and amortization	10,775	11,389
Amortization of bond issue costs and bank loan fees	970	682
Amortization and accretion of financing items	134	148
Provision for bad debts	1,860	2,490
Deferred income taxes	(2,041)	(5,815)
Impairment of indefinite-lived long-term assets other than goodwill		345
Impairment of goodwill		438
Impairment of long-lived assets	5,608	
Change in the fair value of interest rate swaps		(2,545)
Loss on early retirement of long-term debt	893	27,792
(Gain) loss on the sale or disposal of assets	563	(20)
Changes in operating assets and liabilities:		
Accounts receivable	(1,579)	1,717
Prepaid expenses and other current assets	(509)	(860)
Accounts payable and accrued expenses	3,968	(3,756)
Deferred revenue	(1,752)	(4,148)
Other liabilities		(9)
Income taxes payable	(37)	(75)
Net cash provided by operating activities	22,361	21,376
INVESTING ACTIVITIES		
Capital expenditures	(6,407)	(7,792)
Deposits (release) of cash in escrow related to acquisitions		

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We intend to take the position that the notes will be treated as contingent payment debt instruments for U.S. federal income tax purposes, subject to taxation under the noncontingent bond method. No assurance can be given that the Internal Revenue Service or any court will agree with this characterization and tax treatment.

Under this characterization and tax treatment of the notes, a U.S. Holder will be required to report original issue discount (OID) or interest income based on a comparable yield and a projected payment schedule with respect to a note without regard to cash, if any, received on the notes.

The following table is based upon a hypothetical projected payment schedule (including a hypothetical Redemption Amount) and a hypothetical comparable yield equal to 3.1733% per annum (compounded semi-annually). The hypothetical comparable yield is our current estimate of the comparable yield based upon market conditions as of the date of this term sheet. It has been determined by us for purposes of illustrating the application of the Code and the Treasury regulations to the notes as if the notes had been issued on August 10, 2015 and were scheduled to mature on August 26, 2022. This tax accrual table is based upon a hypothetical projected payment schedule per \$10.0000 principal amount of the notes, which would consist of a single payment of \$12.4830 at maturity. The following table is for illustrative purposes only, and we make no representations or predictions as to what the actual Redemption Amount will be. The actual projected payment schedule will be completed on the pricing date, and included in the final term sheet.

Accrual Period	Interest Deemed to Accrue	Total Interest Deemed to Have
	on the	Accrued on the Notes as of
	Notes During Accrual	End of
	Period per Unit	Accrual Period per Unit
8/10/2015 to 12/31/2015	\$0.1243	\$0.1243
1/1/2016 to 12/31/2016	\$0.3238	\$0.4481
1/1/2017 to 12/31/2017	\$0.3342	\$0.7823
1/1/2018 to 12/31/2018	\$0.3449	\$1.1272
1/1/2019 to 12/31/2019	\$0.3559	\$1.4831
1/1/2020 to 12/31/2020	\$0.3673	\$1.8504
1/1/2021 to 12/31/2021	\$0.3790	\$2.2294
1/1/2022 to 8/26/2022	\$0.2536	\$2.4830

Hypothetical Projected Redemption Amount = \$12.4830 per unit.

§ Upon a sale, exchange, or retirement of a note prior to maturity, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement and the holder's tax basis in the notes. A U.S. Holder generally will treat any gain as ordinary interest income, and any loss as ordinary up to the amount of previously accrued OID and then as capital loss. At maturity, (i) if the actual Redemption Amount exceeds the projected Redemption Amount, a U.S. Holder must include such excess as interest income, or (ii) if the projected Redemption Amount exceeds the actual Redemption Amount, a U.S. Holder will generally treat such excess first as an offset to previously accrued

OID for the taxable year, then as an ordinary loss to the extent of all prior OID inclusions, and thereafter as a capital loss.

You should consult your own tax advisor concerning the U.S. federal income tax consequences to you of acquiring, owning, and disposing of the notes, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws. You should review carefully the discussion under the section entitled U.S. Federal Income Tax Summary beginning on page PS-26 of product supplement EQUITY INDICES MITTS-1.

Where You Can Find More Information

We have filed a registration statement (including a product supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market Index Target-Term Securities®

TS-11

Market Index Target-Term Securities®

Linked to the Dow Jones Industrial AverageSM, due August , 2022

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the Market-Linked Investments) into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Market Downside Protection Market-Linked Investment or guarantee any performance.

Market Downside Protection Market-Linked Investments combine some of the capital preservation features of traditional bonds with the growth potential of equities and other asset classes. They offer full or partial market downside protection at maturity, while offering market exposure that may provide better returns than comparable fixed income securities. It is important to note that the market downside protection feature provides investors with protection only at maturity, subject to issuer credit risk. In addition, in exchange for full or partial protection, you forfeit dividends and full exposure to the linked asset s upside. In some circumstances, this could result in a lower return than with a direct investment in the asset.

Market Index Target-Term Securities® and MITPS are our registered service marks.