

SALEM COMMUNICATIONS CORP /DE/  
Form 10-Q  
May 10, 2006

**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 MARCH 31, 2006**

**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**  
**CAMARILLO, CALIFORNIA**

**93012**  
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]

Accelerated filer [X]

Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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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 1, 2006
Common Stock, \$0.01 par value per share	18,803,824 shares

Class B	Outstanding at May 1, 2006
Common Stock, \$0.01 par value per share	5,553,696 shares

**SALEM COMMUNICATIONS CORPORATION  
INDEX**

	PAGE NO.
COVER PAGE	1
INDEX	3
PART I - FINANCIAL INFORMATION	4
Item 1. Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	34
PART II - OTHER INFORMATION	35
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	36
Item 4. Submission of Matters to a Vote of Security Holders	36
Item 5. Other Information	36
Item 6. Exhibits	36
SIGNATURES	39
EXHIBIT INDEX	40

## 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, expects, intends, will, may or plans and similar expressions are intended to identify 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 the Securities and Exchange Commission. Forward-looking statements made in this report speak as of the date hereof. 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 or 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. FINANCIAL STATEMENTS (UNAUDITED)**

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(IN THOUSANDS, EXCEPT SHARE DATA)**

	December 31, 2005 (Note 1)	March 31, 2006 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,979	\$ 695
Accounts receivable (less allowance for doubtful accounts of \$7,215 in 2005 and \$7,436 in 2006)	30,953	29,747
Other receivables	1,579	698
Prepaid expenses	2,468	2,424
Deferred income taxes	4,614	4,872
Assets of discontinued operations	2,207	758
Total current assets	45,800	39,194
Property, plant and equipment, net	117,873	123,951
Broadcast licenses	451,713	471,444
Goodwill	16,803	18,117
Other indefinite-lived intangible assets		2,728
Amortizable intangible assets (net of accumulated amortization of \$7,726 in 2005 and \$8,276 in 2006)	3,244	5,970
Bond issue costs	2,742	2,592
Bank loan fees	3,709	3,473
Fair value of interest rate swap	743	2,255
Other assets	3,303	2,668
Total assets	\$ 645,930	\$ 672,392
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 448	\$ 462
Accrued expenses	5,606	6,110
Accrued compensation and related expenses	6,461	6,498
Income taxes payable		41
Accrued interest	5,429	5,663
Deferred revenue	1,903	2,947
Current portion of long-term debt and capital lease obligations	811	810
Total current liabilities	20,658	22,531
Long-term debt and capital lease obligations, less current portion	326,685	358,915
Deferred income taxes	40,810	43,502
Deferred revenue	7,304	7,132

Other liabilities	1,355	<b>1,258</b>
Total liabilities	396,812	<b>433,338</b>
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 20,410,992 issued and 19,771,199 outstanding at December 31, 2005 and 20,412,992 issued and 18,803,824 outstanding at March 31, 2006	204	<b>204</b>
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; issued and outstanding 5,553,696 shares	56	<b>56</b>
Additional paid-in capital	217,036	<b>218,370</b>
Retained earnings	43,043	<b>45,758</b>
Treasury stock	(11,539)	<b>(26,688)</b>
Accumulated other comprehensive income	318	<b>1,354</b>
Total stockholders' equity	249,118	<b>239,054</b>
Total liabilities and stockholders' equity	\$ 645,930	<b>\$ 672,392</b>

See accompanying notes



**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**  
**(UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2006</b>
Net broadcasting revenue	\$ 47,522	\$ 49,311
Other media revenue	2,428	3,252
Total revenue	49,950	52,563
Operating expenses:		
Broadcasting operating expenses, exclusive of depreciation and amortization shown below (including \$273 and \$277 for the quarter ended March 31, 2005 and 2006, respectively paid to related parties)	30,189	32,292
Other media operating expenses, exclusive of depreciation and amortization shown below	2,377	3,432
Corporate expenses, exclusive of depreciation and amortization shown below (including \$62 and \$99 for the quarters ended March 31, 2005 and 2006, respectively, paid to related parties)	5,047	6,440
Depreciation and amortization (including \$216 and \$404 for the quarters ended March 31, 2005 and 2006, respectively, for other media businesses)	3,302	3,356
Gain on disposal of assets	(40)	(3,529)
Total operating expenses	40,875	41,991
Operating income	9,075	10,572
Other income (expense):		
Interest income	23	46
Interest expense	(5,112)	(6,588)
Other expense, net	(68)	(172)
Income from continuing operations before income taxes	3,918	3,858
Provision for income taxes	1,460	1,546
Net income from continuing operations	2,458	2,312
Income (loss) from discontinued operations, net of tax	(66)	

		<b>403</b>
Net income	\$ 2,392	\$ <b>2,715</b>
Other comprehensive income, net of tax		<b>1,036</b>
Comprehensive income	\$ 2,392	\$ <b>3,751</b>
Basic earnings (loss) per share data:		
Earnings per share from continuing operations	\$ 0.09	\$ <b>0.09</b>
Income (loss) per share from discontinued operations		<b>0.02</b>
Net earnings per share	0.09	<b>0.11</b>
Diluted earnings (loss) per share data:		
Earnings per share from continuing operations	\$ 0.09	\$ <b>0.09</b>
Income (loss) per share from discontinued operations		<b>0.02</b>
Net earnings per share	0.09	<b>0.11</b>
Basic weighted average shares outstanding	25,963,607	<b>24,686,517</b>
Diluted weighted average shares outstanding	26,022,654	<b>24,696,334</b>

See accompanying notes

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2005	2006
<b>OPERATING ACTIVITIES</b>		
Net income from continuing operations	\$ 2,458	\$ 2,312
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Tax benefit related to stock options exercised	5	
Non-cash stock-based compensation		1,309
Depreciation and amortization	3,302	3,356
Amortization of bond issue costs and bank loan fees	363	386
Amortization and accretion of financing items	(306)	(126)
Provision for bad debts	622	662
Deferred income taxes	1,232	1,743
Gain on disposal of assets	(40)	(3,529)
Changes in operating assets and liabilities:		
Accounts receivable	500	1,506
Prepaid expenses and other current assets	1,130	60
Accounts payable and accrued expenses	1,100	805
Deferred revenue	2,356	299
Other liabilities	127	(124)
Income taxes payable	116	41
Net cash provided by continuing operating activities	12,965	8,700
Net cash used in discontinued operations	(12)	(263)
Net cash provided by operating activities	12,953	8,437
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(3,900)	(5,680)
Deposits on radio station acquisitions	(150)	
Purchases of radio station assets	(38,433)	(17,830)
Purchase of Internet and magazine businesses	(3,411)	(6,296)
Proceeds from sale of property, plant and equipment	111	4
Other	824	635
Net cash used in investing activities	(44,959)	(29,167)

**FINANCING ACTIVITIES**

Proceeds from issuance of long-term debt and notes payable	24,500	<b>32,578</b>
Payments of long-term debt and notes payable	(1,375)	<b>(1)</b>
Proceeds from exercise of stock options	25	<b>24</b>
Tax benefit related to stock options exercised		<b>1</b>
Payments on capital lease obligations	(6)	<b>(7)</b>
Repurchases of Class A common stock		<b>(15,149)</b>
Proceeds from interest rate swap termination	3,730	
Net cash provided by financing activities	26,874	<b>17,446</b>
Net decrease in cash and cash equivalents	(5,132)	<b>(3,284)</b>
Cash and cash equivalents at beginning of year	10,994	<b>3,979</b>
Cash and cash equivalents at end of period	\$ 5,862	\$ <b>695</b>

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

Interest	\$ 5,289	\$ <b>1,860</b>
Income taxes	\$ 49	\$ <b>162</b>

See accompanying notes

**SALEM COMMUNICATIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements of Salem Communications Corporation ( Salem or the Company ) include the Company and its wholly-owned subsidiaries. The Company, excluding its subsidiaries is herein referred to as Parent. All intercompany balances and transactions have been eliminated.

Information with respect to the three months ended March 31, 2006 and 2005 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 results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2005.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

**NOTE 2. RECLASSIFICATIONS**

Certain items shown in the 2005 financial statements have been reclassified to conform to the current period presentation. These reclassifications include the accounting for WTSJ-AM, WBOB-AM and WBTK-AM as discontinued operations as discussed in Note 3. The accompanying Consolidated Balance Sheet reflects the net assets of WTSJ-AM, WBOB-AM, and WBTK-AM as Assets of Discontinued Operations as of December 31, 2005. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations. Accordingly, the accompanying Consolidated Statement of Operations reflects WTSJ-AM, WBOB-AM and WBTK-AM as discontinued operations for the three months ended March 31, 2005. The assets of WTSJ-AM and WBOB-AM were sold on February 10, 2006, and the results of operations are presented as discontinued operations for the three months ended March 31, 2006. The results of operations of WBTK-AM are presented as discontinued operations for the three months ended March 31, 2006.

**NOTE 3. ACQUISITIONS AND OTHER SIGNIFICANT TRANSACTIONS**

During the three months ended March 31, 2006, the Company completed the following transactions:

Acquisition Date	Station(s)	Market Served	Acquisition Cost <i>(Dollars in thousands)</i>	Format Changed
January 23, 2006		Orlando, FL	\$ 10,000	No

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	WTLN-AM and WHIM-AM			
February 3, 2006	WORL-AM	Orlando, FL	3,998	Yes
February 10, 2006	WLQV-AM	Detroit, MI	8,813	No
			\$ 22,811	

The purchase price has been allocated to the assets acquired as follows:

Asset	Amount (Dollars in thousands)
Property and equipment	\$ 3,301
Amortizable intangible assets	406
Goodwill	328
Broadcast licenses	18,776
	\$ 22,811

The accompanying Condensed Consolidated Balance Sheet includes the acquired assets and liabilities of each acquired entity as of their respective date of acquisition. With the exception of WTLN-AM and WHIM-AM, the results of operations are included the accompanying statement of operations as of the date of acquisition. The operating results for each of WTLN-AM and WHIM-AM were included in the accompanying Condensed Consolidated Statement of Operations as of October 1, 2005, the date on which the Company began operating each station under a local marketing agreement ( LMA ) with the seller pending approval of the acquisition by the Federal Communication Commission ( FCC ).

On February 10, 2006, the Company exchanged selected assets of radio stations WTSJ-AM, Cincinnati, Ohio, and WBOB-AM, Cincinnati, Ohio and \$6.7 million in cash for selected assets of radio station WLQV-AM, Detroit, Michigan. This transaction closed on February 10, 2006. The accompanying Consolidated Statement of Operations for the three months ended March 31, 2006 reflects WTSJ-AM and WBOB-AM as discontinued operations through the date of the sale. All prior periods, including the three months ended March 31, 2005, have been revised to reflect the operating results of these stations as discontinued operations to conform to the current period presentation. The exchange was accounted for under Statement of Financial Accounting Standards ( SFAS ) No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, which was adopted as of January 1, 2006, and resulted in a gain on the exchange of \$0.4 million, net of taxes.

In 2005, the Company had a plan in place to sell radio station WBTK-AM, Richmond, Virginia, and entered into an agreement on February 10, 2006. The accompanying Consolidated Statement of Operations as of March 31, 2006 reflects WBTK-AM as a discontinued operation. All prior periods, including the three months ended March 31, 2005, have been revised to reflect the operating results of these stations as discontinued operations to conform to the current period presentation. The Company expects this transaction to close in the second quarter of 2006.

On February 3, 2006, the company exchanged selected assets of radio station KNIT-AM, Dallas, Texas, for selected assets of WORL-AM, Orlando, Florida. The exchange was accounted for under SFAS No. 153, which was adopted as of January 1, 2006, and resulted in a gain on the exchange of \$3.5 million.

#### **Other Completed Transactions:**

On January 1, 2006, the Company acquired The Singing News, a Christian music publication, and its related operations for \$4.4 million, which includes \$0.2 million of goodwill.

On February 13, 2006, the Company acquired the Internet website CrossDaily.com and its related operations for \$2.3 million, which includes \$0.6 million of goodwill.





The purchase price has been allocated as follows:

Asset	Amount (Dollars in thousands)
Property and equipment	\$ 328
Amortizable intangible assets	2,867
Goodwill	727
Mastheads	2,728
	\$ 6,650

#### Other Pending Transactions:

On January 4, 2005, the Company entered into an agreement to sell selected assets of radio station WCCD-AM, Cleveland, Ohio for approximately \$2.1 million. The buyer began to operate the station under an LMA effective February 9, 2005. The accompanying Consolidated Statement of Operations excludes the financial results of WCCD-AM as of the LMA date. The Company anticipates this transaction will close in the second quarter of 2006.

On July 28, 2005, the Company entered into an agreement to exchange selected assets of radio stations KLMG-FM, Sacramento, California, and KBAA-FM, Grass Valley, California, for selected assets of radio station KKFS-FM, Sacramento, California and additional consideration to be received of \$0.5 million. Effective July 28, 2005, the Company began to operate KKFS-FM and discontinued operating KLMG-FM and KBAA-FM under LMA s. The accompanying Consolidated Statement of Operations reflects this transaction as of the LMA date. The Company anticipates this exchange transaction will close in the second quarter of 2006.

#### NOTE 4. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS No. 123R supercedes the Company s previous accounting methodology using the intrinsic value method under Accounting Principles Board ( APB ) No. 25, Accounting for Stock Issued to Employees.

The Company adopted SFAS No. 123R using the modified prospective transition method. Under this transition method, compensation expense recognized during the three months ended March 31, 2006 includes (a) compensation expense for all share-based awards granted prior to, but not yet vested, as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. In accordance with the modified prospective transition method, the Company s Condensed Consolidated Financial Statements for prior periods have not been restated to reflect the impact of SFAS No. 123R. SFAS No. 123R also requires a classification change in the statement of cash flows, whereby the income tax benefits from stock option exercises are reported as a financing cash flow rather than an operating cash flow as previously reported.

On November 10, 2005, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position No. FAS 123R-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company has elected to adopt the alternative transition method provided in the FASB staff position for calculating the tax effects of share-based compensation according to SFAS No. 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ( APIC Pool ) related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC Pool and

Consolidated Statement of Cash Flows of the tax effects of employee and director share-based awards that are outstanding upon adoption of SFAS No. 123R.

*Stock Options*

The Company has one stock option plan, The Amended and Restated 1999 Stock Incentive Plan (the Plan), which allows the Company to grant stock options to employees, directors, officers and advisors of the Company. A maximum of 3,100,000 shares are authorized under the Plan. The Company generally awards options for a fixed number of shares at an option price equal to the market price at the date of grant with a four or five year vesting period. Options have a maximum term of five years from the vesting date. As of January 1, 2006, the date the Company adopted SFAS No. 123R, there were 1,924,269 outstanding stock options, of which 1,024,385 were vested.

During the three months ended March 31, 2006, 289,950 options were granted to Company employees that vest pro-ratably over the next four years.

A summary of option activity under the Plan as of March 31, 2006, and changes during the period then ended, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	1,924,269	\$ 23.82		
Granted	289,950	13.51		\$ 434,925
Exercised	(2,000)	11.81		
Forfeited or expired	(19,675)	22.39		
Outstanding at March 31, 2006	2,192,544	\$ 22.48	5.25 years	
Exercisable at March 31, 2006	1,010,060	\$ 24.78	3.22 years	

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model, which is consistent with our valuation techniques previously utilized for options in footnote disclosures required under SFAS No.123, Accounting for Stock-Based Compensation, and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. For the three months ended March 31, 2006, the Company recognized total stock-based compensation expense of \$1.3 million, comprised of approximately \$0.2 million of stock-based compensation in broadcast operating expense, \$1.1 million of stock-based compensation in corporate operating expenses and \$6,700 in other media expense, as set forth in the accompanying Condensed Consolidated Statement of Operations.

In applying the Black-Scholes option-pricing model, the Company uses historical data among other factors to estimate the expected price volatility, the expected option life and the expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following assumptions were used to estimate the fair value of options granted during the three months ended March 31, 2006 using the Black-Scholes option-pricing model:

## Three Months Ended

March 31, 2006

Expected volatility	48.3%
Expected dividends	0.0%
Expected term (in years)	5 - 8

Risk-free interest rate	4.73%
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Prior to January 1, 2006, the Company accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB No. 25 and related interpretations. Under this method, compensation expense was recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. The following table provides the pro forma net income and pro forma earnings per share disclosures for stock-based awards vested during the year as if the fair value method defined in SFAS No. 123, as amended, had been applied:

	<b>Three Months Ended March 31, 2005</b>
Net income, as reported	\$ 2,392
Add: Stock-based compensation, as reported	
Deduct: Total stock-based compensation determined under fair value based method for all awards, net of tax	(1,112)
Pro forma net income	\$ 1,280
Earnings per share:	
Basic earnings per share - as reported	\$ 0.09
Basic earnings per share - pro forma	\$ 0.05
Diluted earnings per share - as reported	\$ 0.09
Diluted earnings per share - pro forma	\$ 0.05

**NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)**

During the three months ended March 31, 2006, the Company recognized other comprehensive income of approximately \$1.0 million, net of tax of \$0.7 million, related to the change in fair value of its three interest rate swap agreements. There were no interest rate swap agreements outstanding as of March 31, 2005.

**NOTE 6. EQUITY TRANSACTIONS**

During the three months ended March 31, 2006, the Company made repurchases of 979,375 shares of its Class A common stock for \$15.1 million. The Company's Board of Directors authorized a \$25.0 million share repurchase program in May 2005. In February 2006, the Board of Directors increased Salem's existing share repurchase program to permit the repurchase of up to an additional \$25.0 million of shares of Salem's Class A common stock.

As discussed in Note 4, the Company adopted SFAS No. 123R as of January 1, 2006. As a result, \$1.3 million of stock-based compensation expense has been recorded to additional paid-in capital for the three months ended March 31, 2006.

**NOTE 7. NOTES PAYABLE AND LONG TERM DEBT**

Long-term debt consisted of the following:

	December 31, 2005	March 31, 2006
	<i>(Dollars in thousands)</i>	
Term loans under credit facility	\$ 123,875	\$ 123,875
Revolving line of credit under credit facility	6,600	37,600
Swingline credit facility		1,578

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9% Senior Subordinated Notes due 2011 (1)	96,664	<b>96,538</b>
7¾% Senior Subordinated Notes due 2010	100,000	<b>100,000</b>
Fair value of interest swap	215	
Capital leases and other loans	142	<b>134</b>
	327,496	<b>359,725</b>
Less current portion	811	<b>810</b>
	\$ 326,685	\$ <b>358,915</b>

(1) Includes \$2,633 and \$2,507 as of December 31, 2005 and March 31, 2006, respectively, of fair value adjustments related to terminated interest rate swaps. The principal amount outstanding was \$94,031 as of December 31, 2005 and March 31, 2006.

### Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at March 31, 2006 for each of the next five years and thereafter are as follows:

	Amount (Dollars in thousands)
	\$
2007	810
2008	2,354
2009	38,376
2010	221,647
2011	94,031
	357,218
Fair value of interest rate swap	2,507
	\$
	359,725

### NOTE 8. AMORTIZABLE INTANGIBLE ASSETS

The following tables provide details, by major category, of the significant classes of amortizable intangible assets:

	Cost	<b>As of March 31, 2006</b>		Net
		Accumulated Amortization		
		<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 5,496	\$ (4,448)	\$	<b>1,048</b>
Favorable and assigned leases	1,582	(1,080)		<b>502</b>
Other amortizable intangible assets	7,169	(2,749)		<b>4,420</b>
	\$ 14,247	\$ (8,277)	\$	<b>5,970</b>

	Cost	<b>As of December 31, 2005</b>		Net
		Accumulated Amortization		
		<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 5,419	\$ (4,062)	\$	1,357

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Favorable and assigned leases	1,581	(1,059)	522
Other amortizable intangible assets	3,970	(2,605)	1,365
	\$ 10,970	\$ (7,726)	\$ 3,244



Based on the amortizable intangible assets as of March 31, 2006, we estimate amortization expense for the next five years to be as follows:

<b>Year Ending December 31,</b>	<b>Amortization Expense</b>	
	<i>(Dollars in thousands)</i>	
2006 (Apr. 1 Dec. 31)	\$	1,614
2007		1,581
2008		1,143
2009		468
2010		341
Thereafter		823
Total	\$	5,970

#### **NOTE 9. BASIC AND DILUTED NET EARNINGS PER SHARE**

Basic net earnings per share has been computed using the weighted average number of Class A and Class B shares of common stock outstanding during the period. Diluted net earnings per share is computed using the weighted average number of shares of Class A and Class B common stock outstanding during the period plus the dilutive effects of stock options.

Options to purchase 1,536,694 and 2,192,544 shares of Class A common stock were outstanding at March 31, 2005 and 2006, respectively. Diluted weighted average shares outstanding excludes outstanding stock options whose exercise price is in excess of the average price of the Company's stock price. Those options are excluded due to their antidilutive effect.

#### **NOTE 10. DERIVATIVE INSTRUMENTS**

The Company is exposed to fluctuations in interest rates. Salem actively monitors these fluctuations and uses derivative instruments from time to time to manage the related risk. In accordance with our risk management strategy, Salem uses derivative instruments only for the purpose of managing risk associated with an asset, liability, committed transaction, or probable forecasted transaction that is identified by management. The Company's use of derivative instruments may result in short-term gains or losses and may increase volatility in Salem's earnings.

Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, the accounting for changes in the fair value of a derivative instrument at each new measurement date is dependent upon its intended use. The change in the fair value of a derivative instrument designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability or a firm commitment, referred to as a fair value hedge, is recognized as gain or loss in earnings in the period of the change together with an offsetting gain or loss for the change in fair value of the hedged item attributable to the risk being hedged. The differential paid or received on the interest rate swap is recognized in earnings as an adjustment to interest expense.

During 2004 and through February 18, 2005, the Company had an interest rate swap agreement with a notional principal amount of \$66.0 million. This agreement related to its \$94.4 million 9% Notes. This agreement was scheduled to expire in 2011 when the 9% Notes will mature, and effectively swapped the 9.0% fixed interest rate on \$66.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 3.09%. On February 18, 2005, the Company sold its entire interest in this swap and received a payment of approximately \$3.7 million, which will be amortized as a reduction of interest expense over the remaining life of the 9% Notes. Interest expense for the three months ended March 31, 2006 was reduced by \$0.1 million related to the amortization of the buyout premium received. Because this fair value hedge was effective (that is, the change in the fair value of the hedge instrument was

designed to be equal to the change in the fair value of the item being hedged), there was no income statement effect relative to the change in the fair value of the swap agreement. Interest expense for the three months ended March 31, 2005, was reduced by \$0.3 million as a result of the difference between the 9.0% fixed interest rate on the 9% hedged debt and the floating interest rate under the swap agreement, which was 5.88% from January 1, 2005 through February 18, 2005.

On April 8, 2005, the Company entered into a forward-looking interest rate swap arrangement for the notional principal amount of \$30.0 million whereby it will pay a fixed interest rate of 4.99% as compared to LIBOR on a future bank credit facility borrowing. As of March 31, 2006, the Company recorded an asset for the fair value of the interest swap of approximately \$0.4 million. This amount, net of income tax benefits of approximately \$0.2 million, is reflected in other comprehensive income, as the Company designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap is July 1, 2006 and the expiration date is July 1, 2012.

On April 26, 2005, the Company entered into a second forward-looking interest rate swap arrangement for the notional principal amount of \$30.0 million whereby it will pay a fixed interest rate of 4.70% as compared to LIBOR on a future bank credit facility borrowing. As of March 31, 2006, the Company recorded an asset for the fair value of the interest swap of approximately \$0.8 million. This amount, net of income taxes of approximately \$0.2 million, is reflected in other comprehensive income, as the Company designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap is July 1, 2006 and the expiration date is July 1, 2012.

On May 5, 2005, the Company entered into a third forward-looking interest rate swap arrangement for the notional principal amount of \$30.0 million whereby it will pay a fixed interest rate of 4.53% as compared to LIBOR on a future bank credit facility borrowing. As of March 31, 2006, the Company recorded an asset for the fair value of the interest swap of approximately \$1.1 million. This amount, net of income taxes of approximately \$0.2 million, is reflected in other comprehensive income, as we designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap is July 1, 2006 and the expiration date is July 1, 2012.

#### **NOTE 11. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries, incident to its business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims including the purported class action described below. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. Also, the Company maintains insurance which may provide coverage for such matters. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. The Company believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

On March 9, 2005, Pipefitters, Locals 522 and 633 Pension Trust Fund filed a Class Action Complaint for Violation of the Federal Securities Laws in the Superior Court of California for the County of Ventura against us, our directors, certain of our officers and certain underwriters of the company's April 2004 public offering of Class A common stock, on behalf of a putative class of all persons who purchased the company's equity securities pursuant to or traceable to that offering. The complaint alleges that offering documents contained misstatements and omissions regarding the company's fixed assets and internal controls. The complaint asserts claims under Sections 11, 12 and 15 of the Securities Act of 1933, and seeks rescission or damages, interest, attorney's fees and costs, as well as equitable and injunctive relief. The parties entered into a Stipulation of Settlement dated as of February 7, 2006, which provides for a full settlement of these claims in exchange for payment of \$1.85 million to be paid by the company and its insurance carrier. The settlement is subject to certain conditions set forth in the stipulation, including final court approval following notice to the class members. The Court granted Plaintiff's unopposed motion and application for preliminary approval of the settlement on March 27, 2006 and set a schedule for providing notice to the class members. The hearing on final approval of the settlement is set for June 19, 2006. During 2005, the Company recognized expenses of \$0.7 million related to this settlement.

#### **NOTE 12. SEGMENT DATA**

SFAS No. 131, Disclosures About Segments of An Enterprise and Related Information, requires companies to provide certain information about their operating segments. The Company has one reportable operating segment - radio broadcasting. The remaining non-reportable segments consist of Salem Web Network™ and Salem Publishing, which do

not meet the reportable segment quantitative thresholds and accordingly are aggregated below as other media. The radio broadcasting segment also operates various radio networks.

Management uses operating income before depreciation, amortization and gain (loss) on disposal of assets as its measure of profitability for purposes of assessing performance and allocating resources.

**NOTE 12. SEGMENT DATA (CONTINUED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2005	2006
	<i>(Dollars in thousands)</i>	
Net revenue		
Radio broadcasting	\$ 47,522	\$ 49,311
Other media	2,428	3,252
Consolidated net revenue	\$ 49,950	\$ 52,563
Operating expenses before depreciation, amortization and gain on disposal of assets		
Radio broadcasting	\$ 30,189	\$ 32,292
Other media	2,377	3,432
Corporate	5,047	6,440
Consolidated operating expenses before depreciation, amortization and gain on disposal of assets	\$ 37,613	\$ 42,164
Operating income from continuing operations before depreciation, amortization and gain on disposal of assets		
Radio broadcasting	\$ 17,333	\$ 17,019
Other media	51	(180)
Corporate	(5,047)	(6,440)
Consolidated operating income from continuing operations before depreciation, amortization and gain on disposal of assets	\$ 12,337	\$ 10,399
Depreciation		
Radio broadcasting	\$ 2,652	\$ 2,471
Other media	79	87
Corporate	206	248
Consolidated depreciation expense	\$ 2,937	\$ 2,806
Amortization		
Radio broadcasting	\$ 224	\$ 228
Other media	137	317
Corporate	4	5
Consolidated amortization expense	\$ 365	\$ 550

Operating income from continuing operations before  
gain on disposal of assets

Radio broadcasting	\$	14,457	\$	<b>14,320</b>
Other media		(165)		<b>(584)</b>
Corporate		(5,257)		<b>(6,693)</b>
Consolidated operating income from continuing operations before gain on disposal of assets	\$	9,035	\$	<b>7,043</b>
Total property, plant and equipment, net				
Radio broadcasting	\$	113,130	\$	<b>118,488</b>
Other media		1,572		<b>2,139</b>
Corporate		3,171		<b>3,324</b>
Consolidated property, plant and equipment, net	\$	117,873	\$	<b>123,951</b>

**NOTE 12. SEGMENT DATA (CONTINUED)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	2005	2006
Goodwill		
Radio broadcasting	\$ 4,703	\$ 5,124
Other media	12,100	12,993
Corporate		
Consolidated goodwill	\$ 16,803	\$ 18,117

***Reconciliation of operating income from continuing operations before depreciation, amortization and gain (loss) on disposal of assets to income from continuing operations before income taxes***

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2005	2006
	<i>(Dollars in thousands)</i>	
Operating income from continuing operations before depreciation, amortization and gain (loss) on disposal of assets	\$ 12,337	\$ 10,399
Depreciation expense	(2,937)	(2,806)
Amortization expense	(365)	(550)
Interest income	23	46
Gain on disposal of assets	40	3,529
Interest expense	(5,112)	(6,588)
Other expense, net	(68)	(172)
Income from continuing operations before income taxes	\$ 3,918	\$ 3,858

**NOTE 13. CONSOLIDATING FINANCIAL STATEMENTS**

The following is the consolidating information of Salem Communications Corporation for purposes of presenting the financial position and operating results of Salem Communications Holding Corporation ( HoldCo ) as the issuer of the 9% Notes and the 7¾% Notes and its guarantor subsidiaries on a consolidated basis and the financial position and operating results of the other guarantors, which are consolidated within the Company. Separate financial information of HoldCo on an unconsolidated basis is not presented because HoldCo has substantially no assets, operations or cash other than its investments in subsidiaries. Each guarantor has given its full and unconditional guarantee, on a joint and several basis, of indebtedness under the 9% Notes and the 7¾% Notes. HoldCo and Salem Communications Acquisition Corporation ( AcquisitionCo ) are 100% owned by Salem and HoldCo owns 100% of all of its subsidiaries. All subsidiaries of HoldCo are guarantors. OnePlace, LLC and CCM Communications, Inc., are aggregated and collectively referred to as Other Media. The net assets of HoldCo are subject to certain restrictions which, among other things, require HoldCo to maintain certain financial covenant ratios, and restrict HoldCo and its subsidiaries from transferring funds in the form of dividends, loans or advances without the consent of the holders of the 9% Notes and the 7¾% Notes. The restricted net assets of HoldCo as of March 31, 2006, amounted to \$151.3 million. Included in intercompany receivables of HoldCo presented in the consolidating balance sheet below is \$40.8 million of amounts due from Salem and AcquisitionCo as of March 31, 2006.





**NOTE 13. CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)**

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

	As of March 31, 2006					
	Guarantors		Other		Issuer and	
	Parent	AcquisitionCo	Media	HoldCo	Guarantor	Salem
					Subsidiaries	Consolidated
					Adjustments	
Current assets:						
Cash and cash equivalents	\$	\$	\$	\$	\$	\$ 695
		22	1,910	(1,237)		
Accounts receivable, net		1,538	1,554	26,720	(65)	29,747
Other receivables			3	1,524	(829)	698
Prepaid expenses		48	117	2,259		2,424
Discontinued Operations		758				758
Deferred income taxes		(109)	(136)	5,070	47	4,872
Total current assets		2,257	3,448	34,336	(847)	39,194
Investment in subsidiaries	237,818				(237,818)	
Property, plant and equipment, net		4,449	1,880	117,622		123,951
Broadcast licenses		94,473		376,971		471,444
Goodwill		8	11,062	7,047		18,117
Other indefinite-lived intangible assets			2,728			2,728
Amortizable intangible assets, net			4,300	1,670		5,970
Bond issue costs				2,592		2,592
Bank loan fees				3,473		3,473
FV of interest rate swap				2,255		2,255
Intercompany receivables	47,384	5,944		43,072	(96,400)	

Other assets			48	2,620		2,668
		\$	\$		\$	\$
Total assets	\$	107,131	23,466	\$	(335,065)	672,392
	285,202			591,658		

**NOTE 13. CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)**

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

As of March 31, 2006

	Guarantors			Other Media	HoldCo	Issuer and Guarantor Subsidiaries	Salem Consolidated
	Parent	AcquisitionCo				Adjustments	
Current liabilities:							
Accounts payable	\$ 577	\$ 13	\$ (1)	\$ (127)	\$	\$ 462	
Accrued expenses		313	568	5,298	(69)	6,110	
Accrued compensation and related expenses	1	144	493	5,860		6,498	
Accrued interest				5,663		5,663	
Income taxes payable		2	7	(451)	483	41	
Deferred revenue			2,569	378		2,947	
Current portion of long-term debt and capital lease obligations				810		810	
Total current liabilities	578	472	3,636	17,431	414	22,531	
Intercompany payables	46,736	15,490	30,948	275	(93,449)		
Long-term debt and capital lease obligations, less current portion		58		358,857		358,915	

Deferred income taxes	(1,166)	(3,293)	(3,316)	55,489	(4,212)	43,502
Deferred revenue			58	7,074		7,132
Other liabilities				1,258		1,258
Stockholders equity	239,054	94,404	(7,860)	151,274	(237,818)	239,054
Total liabilities and stockholders equity	\$ 285,202	\$ 107,131	\$ 23,466	\$ 591,658	\$ (335,065)	\$ 672,392

**NOTE 13. CONSOLIDATING FINANCIAL STATEMENTS (CONTINUED)**

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

Three Months Ended March 31, 2006

	Parent	Guarantors AcquisitionCo	Other Media	HoldCo	Issuer and Guarantor Subsidiaries Adjustments	Salem Consolidated
Net broadcasting revenue	\$	\$ 2,926	\$	\$ 47,000	\$ (615)	\$ 49,311
Other media revenue			3,508		(256)	3,252
Total revenue		2,926	3,508	47,000	(871)	52,563
Operating expenses:						
Broadcasting operating expenses		2,277		30,483	(468)	32,292
Other media operating expenses			3,961	(126)	(403)	3,432
Corporate expenses				6,440		6,440
Depreciation and amortization		143	289	2,924		3,356
Gain on disposal of assets				(3,529)		(3,529)
Total operating expenses		2,420	4,250	36,192	(871)	41,991
Operating income (loss)		506	(742)	10,808		10,572
Other income (expense):						
Equity in earnings of consolidated subsidiaries,	2,468				(2,468)	

net						
Interest income	1,620			1,799	(3,451)	46
Interest expense	(1,236)	(1,543)	(518)	(6,664)	3,451	(6,588)
Other expense, net				(172)		(172)
Income (loss) before income taxes	2,852	(1,037)	(1,260)	5,771	(2,468)	3,858
Provision (benefit) for income taxes	137	(373)	(416)	2,198		1,546
Net income (loss) before discontinued operations	2,715	(664)	(844)	3,573	(2,468)	2,312
Discontinued operations		(1)		404		403
Net income (loss)	2,715	(665)	(844)	3,977	(2,468)	2,715
Other comprehensive income	1,036			1,036	(1,036)	1,036
Comprehensive income (loss)	\$ 3,751	\$ (665)	\$ (844)	\$ 5,013	\$ (3,504)	\$ 3,751

**NOTE 14. SUBSEQUENT EVENTS**

On April 27, 2006, the Company entered an agreement to exchange selected assets of KHCM-AM, Honolulu, Hawaii plus \$1.0 million of cash for selected assets of KORL-AM, Honolulu, Hawaii. The Company expects the transaction to close in the third quarter of 2006.

On April 28, 2006, the Company acquired the Internet website, Townhall.com, and its related operations for \$5.0 million.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. Our consolidated financial statements are not directly comparable from period to period because of our acquisition and disposition of selected assets of radio stations and our acquisition of selected assets of other media businesses. See Note 3 to our condensed consolidated financial statements for additional information.

We believe that we are the largest commercial U.S. radio broadcasting company, measured by number of stations and audience coverage, providing programming targeted at audiences interested in Christian and family-themed radio programming. Our core business is the ownership and operation of radio stations in large metropolitan markets. Upon completion of all announced transactions, we will own a national portfolio of 104 radio stations in 40 markets, including 66 stations in 24 of the top 25 markets, which consists of 32 FM stations and 72 AM stations. We are one of only four commercial radio broadcasters with radio stations in all of the top 10 markets. We are the sixth largest operator measured by number of stations overall and the third largest operator measured by number of stations in the top 25 markets.

Our radio business is focused on the clustering of three strategic formats: Christian Teaching and Talk, Contemporary Christian Music and conservative News Talk. We also own and operate Salem Radio Network® ( SRN ), a national radio network that syndicates music, news and talk to approximately 2,000 affiliated radio stations, in addition to our owned and operated stations. Salem Radio Representatives® is a national radio advertising sales firm with offices in 13 U.S. cities. Additionally, Salem Web Network™ (“SWN”), a provider of online Christian content and streaming, and Salem Publishing™, a leading publisher of Christian magazines, are owned and operated by Salem.

Our principal business strategy is to expand and improve our national radio platform in order to deliver compelling content to audiences interested in Christian and family-themed and conservative values programming. Our national presence gives advertisers a station platform that is a unique and a powerful way to reach a Christian audience. We program 44 of our stations with our Christian Teaching and Talk format, which is talk programming with Christian and family themes. A key programming strategy on our Christian Teaching and Talk radio stations is to sell blocks of time to a variety of charitable organizations that create compelling radio programs. We also program 34 News Talk and 14 Contemporary Christian Music stations. SRN supports our strategy by allowing us to reach listeners in markets where we do not own or operate stations.

We maintain a website at <http://www.salem.cc>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed or furnished to the Securities and Exchange Commission ( SEC ). *Any information found on the company's website is not a part of, or incorporated by reference into, this or any other report of the company filed with, or furnished to, the SEC.*

### OVERVIEW

As a radio broadcasting company with a national radio network, we derive our revenue primarily from the sale of broadcast time and radio advertising on a national and local basis.

Historically, our principal sources of revenue have been:

-



the sale of block program time, both to national and local program producers,

- 

the sale of advertising time on our radio stations, both to national and local advertisers, and

- 

the sale of advertising time on our national radio network.

The rates we are able to charge for broadcast time and advertising time are dependent upon several factors, including:

- audience share,
- how well our stations perform for our clients,
- the size of the applicable market,
- the general economic conditions in the applicable market, and
- supply and demand on both a local and national level.

Our sources of revenue and product offerings also include other media businesses, including our Internet and magazine publishing businesses.

Our broadcasting revenue is affected primarily by the program rates our radio stations charge and by the advertising rates our radio stations and networks charge. The rates for block programming time are based upon our stations' ability to attract audiences that will support the program producers through contributions and purchases of their products. Advertising rates are based upon the demand for advertising time, which in turn is based on our stations' and networks' ability to produce results for their advertisers. Historically we have not subscribed to traditional audience measuring services. Instead, we have marketed ourselves to advertisers based upon the responsiveness of our audiences. In selected markets we subscribe to Arbitron, which develops quarterly reports to measure a radio station's audience share in the demographic groups targeted by advertisers. Each of our radio stations and our networks have a general pre-determined level of time that they make available for block programming and/or advertising, which may vary at different times of the day.

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds generally with quarterly fluctuations in the retail advertising industry. Quarterly revenue from the sale of block programming time does not tend to vary significantly, however, because program rates are generally set on a per program aired basis.

Our cash flow is affected by a transitional period experienced by radio stations when, due to the nature of the radio station, our plans for the market and other circumstances, we find it beneficial to change its format. This transitional period is when we develop a radio station's customer and listener base. During this period, a station may generate negative or insignificant cash flow.

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services (such as other media advertising, travel or lodging) in lieu of cash. In order to preserve the sale of our advertising time for cash, we generally enter into trade agreements only if the goods or services bartered to us will

be used in our business. We have minimized our use of trade agreements and have generally sold most of our advertising time for cash. In 2005, we sold 96% of our advertising time for cash. In addition, it is our general policy not to preempt advertising paid for in cash with advertising paid for in trade.

The primary operating expenses incurred in the ownership and operation of our radio stations include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotion expenses, and (iv) music license fees. In addition to these expenses, our network incurs programming costs and lease expenses for satellite communication facilities. We also incur and will continue to incur significant depreciation, amortization and interest expense as a result of completed and future acquisitions of radio stations and existing and future borrowings.

Salem Web Network<sup>TM</sup>, our Internet business, earns its revenue from sales of streaming services, sales of banner advertising and sponsorships on the Internet, and, to a lesser extent, sales of software and software support contracts. Salem Publishing<sup>TM</sup>, our publishing business, earns its revenue by selling advertising in, and subscriptions to, its publications. The revenue and related operating expenses of these businesses are reported as other media on our Condensed Consolidated Statements of Operations.

**SAME STATION DEFINITION**

In the discussion of our results of operations below, we compare our results between periods on an as reported basis (that is, the results of operations of all radio stations and network formats owned or operated at any time during either period) and on a same station basis. With regard to fiscal quarters, we include in our same station comparisons the results of operations of radio stations or radio station clusters and networks that we own or operate in the same format during the quarter, as well as the corresponding quarter of the prior year. Same station results for a full year are based on the sum of the same station results for the four quarters of that year.

**RESULTS OF OPERATIONS**

	<b>Three Months Ended</b>		
	<b>March 31,</b>		
	2005	2006	% Change
		\$	
Net broadcasting revenue	\$ 47,522	<b>49,311</b>	3.8%
Other media revenue	2,428	<b>3,252</b>	33.9%
Total revenue	49,950	<b>52,563</b>	5.2%
Operating expenses:			
Broadcasting operating expenses	30,189	<b>32,292</b>	7.0%
Other media operating expenses	2,377	<b>3,432</b>	44.4%
Corporate expenses	5,047	<b>6,440</b>	27.6%
Depreciation and amortization	3,302	<b>3,356</b>	1.6%
Gain on disposal of assets	(40)	<b>(3,529)</b>	8722.5%
Total operating expenses	40,875	<b>41,991</b>	2.7%
Operating income from continuing operations	9,075	<b>10,572</b>	16.5%
Other income (expense):			
Interest income	23	<b>46</b>	100%
Interest expense	(5,112)	<b>(6,588)</b>	28.9%
Other expense, net	(68)	<b>(172)</b>	152.9%
Income from continuing operations before income taxes	3,918	<b>3,858</b>	(1.5 %)
Provision for income taxes	1,460	<b>1,546</b>	5.9%
Net income from continuing operations	2,458	<b>2,312</b>	(5.9 %)
Income (loss) from discontinued operations, net of tax	(66)	<b>403</b>	(710.6 %)
Net income	\$ 2,392	\$ <b>2,715</b>	13.5%



The following table presents selected financial data for the periods indicated as a percentage of total revenue:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2005	2006
Net broadcasting revenue	95 %	<b>94 %</b>
Other media revenue	5 %	<b>6 %</b>
Total revenue	100 %	<b>100 %</b>
Operating expenses:		
Broadcasting operating expenses	61 %	<b>61 %</b>
Other media operating expenses	5 %	<b>7 %</b>
Corporate expenses	10 %	<b>12 %</b>
Depreciation and amortization	6 %	<b>6 %</b>
Gain on disposal of assets	%	<b>(6) %</b>
Total operating expenses	82 %	<b>80 %</b>
Operating income from continuing operations	18 %	<b>20 %</b>
Other income (expense):		
Interest income	%	%
Interest expense	(10) %	<b>(13) %</b>
Other expense, net	%	%
Income from continuing operations before income taxes	8 %	<b>7 %</b>
Provision for income taxes	3 %	<b>3 %</b>
Net income from continuing operations	5 %	<b>4 %</b>
Income(loss) from discontinued operations, net of tax	%	<b>1 %</b>
Net income	5 %	<b>5 %</b>

***Three months ended March 31, 2006 compared to three months ended March 31, 2005***

**NET BROADCASTING REVENUE.** Net broadcasting revenue increased \$1.8 million or 3.8% to \$49.3 million for the three months ended March 31, 2006 from \$47.5 million for the same quarter of the prior year. On a same station basis, net revenue improved \$0.3 million or 0.6% to \$46.9 million for the three months ended March 31, 2006 from \$46.6 million for the same quarter of the prior year. The growth in total net broadcasting revenue is primarily attributable to an increase in our News Talk format revenue of \$1.0 million and in our Christian Teaching and Talk format of \$0.7 million. Revenue from advertising as a percentage of our gross broadcasting revenue decreased to 51.1% for the three months ended March 31, 2006 from 53.2% for the same quarter of the prior year. Block programming revenue as a percentage of our gross broadcasting revenue increased to 35.8% for the three months ended March 31, 2006 from 33.1% for the same quarter of the prior year. This change in our revenue mix was primarily due to an increase in the number of our Christian Teaching and Talk radio stations.

**OTHER MEDIA REVENUE.** Other media revenue increased \$0.9 million or 33.9% to \$3.3 million for the three months ended March 31, 2006 from \$2.4 million for the same quarter of the prior year. This increase is primarily attributable to increased Internet display advertising of \$0.2 million and magazine advertising revenue of

\$0.2 million, as well as our acquisition of Churchstaffing.com in the fourth quarter of 2005.

*BROADCASTING OPERATING EXPENSES.* Broadcasting operating expenses increased \$2.1 million or 7.0% to \$32.3 million for the three months ended March 31, 2006 from \$30.2 million for the same quarter of the prior year. On a same station basis, broadcasting operating expenses increased \$0.2 million or 0.8% to \$29.4 million for the three months ended March 31, 2005 from \$29.2 million for the same quarter of the prior year. The increase in

total broadcasting operating expenses is primarily attributable to higher payroll and related costs of \$0.9 million, an increase in facility related expenses of \$0.3 million, and an increase in production and programming expenses of \$0.2 million, all due to radio stations recently acquired. Additionally, \$0.2 million of non-cash stock-based compensation expense associated with the implementation of Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-Based Payment on January 1, 2006 was recognized for the three months ended March 31, 2006.

*OTHER MEDIA OPERATING EXPENSES.* Other media operating expenses increased \$1.0 million or 44.4% to \$3.4 million for the three months ended March 31, 2006 from \$2.4 million for the same quarter of the prior year. The increase is attributable primarily to costs associated with our acquisition of Churchstaffing.com in the fourth quarter of 2005, our acquisition of CrossDaily.com in the first quarter of 2006 and our acquisition of the Singing News Magazine in the first quarter of 2006.

*CORPORATE EXPENSES.* Corporate expenses increased \$1.4 million or 27.6% to \$6.4 million for the three months ended March 31, 2006 from \$5.0 million for the same quarter of the prior year. The increase is primarily attributable to \$1.1 million of stock-based compensation expense associated with the implementation of SFAS No. 123R Share Based Payment on January 1, 2006 and higher overhead costs of \$0.3 million.

*DEPRECIATION AND AMORTIZATION.* Depreciation expense decreased \$0.1 million or 4.5% to \$2.8 million for the three months ended March 31, 2006 from \$2.9 million for the same quarter of the prior year. The decrease is due to fixed asset disposals partially offset by depreciation of assets acquired. Amortization expense increased \$0.2 million or 50.7% to \$0.6 million for the three months ended March 31, 2006 from \$0.4 million for the same quarter of the prior year. The increase is primarily attributable to the amortization of intangible assets acquired in the first quarter of 2006 with the acquisitions of the Singing News, Crossdaily.com, WLQV-AM, Detroit, Michigan, WTLN-AM, Orlando, Florida and WHIM-AM, Orlando, Florida.

*GAIN ON DISPOSAL OF ASSETS.* Gain on disposal of assets of \$3.5 million for the three months ended March 31, 2006 was due to the exchange of selected assets of KNIT-AM, Dallas, Texas for selected assets of WORL-AM, Orlando, Florida. The exchange was recognized according to the provisions of SFAS No.153. The gain on disposal of assets of \$40,000 for the same quarter of the prior year represents insurance proceeds received on claims for assets previously written off, net of those amounts reclassified to discontinued operations for WBTK-AM, Richmond, Virginia as described in Note 2 and Note 3.

*OTHER INCOME (EXPENSE).* Interest income of approximately \$46,000 and \$23,000 for the three months ended March 31, 2006 and 2005, respectively, was primarily from interest earned on excess cash. Interest expense increased \$1.5 million or 28.9% to \$6.6 million for the three months ended March 31, 2006 from \$5.1 million for the same quarter of the prior year. The increase is primarily due to increased borrowings on our bank credit facilities associated with acquisition and share repurchase activity and higher interest rates under our credit facilities. Other expense, net, was \$0.2 million for the three months ended March 31, 2006 and \$0.1 million for the same quarter of the prior year and was comprised primarily of bank commitment fees associated with our credit facilities.

*PROVISION FOR INCOME TAXES.* Provision for income taxes was \$1.5 million for the three months ended March 31, 2006 and for the same quarter of the prior year. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 40.1% for the three months ended March 31, 2006 and 37.3% for the same quarter of the prior year. For the quarters ended March 31, 2006 and 2005, the effective tax rate differs from the federal statutory income rate of 35.0% primarily due to the effect of state income taxes and certain expenses that are not deductible for tax purposes and changes in the valuation allowance from the use of certain state net operating loss carryforwards. The increase in the rate for 2006 as compared to 2005 is due to the impact of stock option compensation that is not deductible for tax purposes.

*INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX.* Income from discontinued operations was \$0.4 million for the three months ended March 31, 2006. This amount includes the operating losses of



WTSJ-AM, Cincinnati, Ohio and WBOB-AM, Cincinnati, Ohio through the date of exchange, a gain on the exchange of the assets of these stations, and the operating loss of WBTK-AM, Richmond, Virginia for the three months ended March 31, 2006. The \$66,000 loss recognized for the same quarter of the prior year represent the operating results of WTSJ-AM, Cincinnati, Ohio, WBOB-AM, Cincinnati, Ohio and WBTK-Richmond, Virginia for conformity to the current period presentation.

*NET INCOME.* We recognized net income of \$2.7 million for the three months ended March 31, 2006 as compared to net income of \$2.4 million for the same quarter of the prior year. The increase is primarily attributable to an increase in operating income of \$1.5 million and a gain on discontinued operations \$0.4 million offset by an increase in interest expense of \$1.5 million.

## NON-GAAP FINANCIAL MEASURES

The performance of a radio broadcasting company is customarily measured by the ability of its stations to generate station operating income. We define station operating income ( SOI ) as net broadcasting revenue less broadcasting operating expenses.

SOI is not a measure of performance calculated in accordance with GAAP; as a result, it should be viewed as a supplement to, and not a substitute for, our results of operations presented on the basis of GAAP. Management believes that SOI is a useful non-GAAP financial measure to investors, when considered in conjunction with operating income, the most directly comparable GAAP financial measure, because it is generally recognized by the radio broadcasting industry as a tool in measuring performance and in applying valuation methodologies for companies in the media, entertainment and communications industries. This measure is used by investors and analysts who report on the industry to provide comparisons between broadcasting groups. Additionally, our management uses SOI as one of the key measures of operating efficiency and profitability. SOI does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash flow activity and our income statement presents our historical performance prepared in accordance with GAAP. SOI as defined by and used by our company is not necessarily comparable to similarly titled measures employed by other companies.

### *Three months ended March 31, 2006 compared to the three months ended March 31, 2005*

*STATION OPERATING INCOME.* SOI decreased \$0.3 million or 1.8 % to \$17.0 million for the three months ended March 31, 2005 from \$17.3 million for the same quarter of the prior year. As a percentage of net broadcasting revenue, SOI was 34.5% for the quarter ended March 31, 2006 and 36.5% for the same quarter of the prior year. On a same station basis, SOI remained at \$17.4 million for the three months ended March 31, 2006 and for the same quarter of the prior year. As a percentage of same station net broadcasting revenue, same station SOI decreased to 37.2% for the three months ended March 31, 2006 from 37.3% for the same quarter of the prior year.

The following table provides a reconciliation of SOI (a non-GAAP financial measure) to operating income (as presented in our financial statements) for the quarters ended March 31, 2005 and 2006:

	<b>Three Months Ended March 31,</b>	
	2005	2006
	(Dollars in thousands)	
Station operating income	\$ 17,333	\$ 17,019
Plus other media revenue	2,428	3,252
Less other media operating expenses	(2,377)	(3,432)
Less depreciation and amortization	(3,302)	(3,356)
Plus gain on disposal of assets	40	3,529
Less corporate expenses	(5,047)	(6,440)
		\$ 10,572
Operating income	\$ 9,075	

**CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to allowance for doubtful accounts, acquisitions and

upgrades of radio station and network assets, goodwill and other intangible assets, income taxes, and long-term debt and debt covenant compliance. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following accounting policies and the related judgments and estimates are critical accounting policies which affect the preparation of our consolidated financial statements.

***Accounting for acquisitions and upgrades of radio station and network assets***

A majority of our radio station acquisitions are acquisitions of selected assets and not acquisitions of businesses. Such asset acquisitions have consisted primarily of the FCC licenses to broadcast in a particular market. We often do not acquire the existing format, or we change the format upon acquisition when we find it beneficial. As a result, a substantial portion of the purchase price for the assets of a radio station is allocated to the FCC license. It is our policy generally to retain third-party appraisers to value radio stations, networks or other media properties. The allocations assigned to acquired FCC licenses and other assets are subjective by their nature and require our careful consideration and judgment. We believe the allocations represent appropriate estimates of the fair value of the assets acquired. As part of the valuation and appraisal process, the third-party appraisers prepare reports which assign values to the various asset categories in our financial statements. Our management reviews these reports and determines the reasonableness of the assigned values used to record the acquisition of the radio station, network or other media properties at the close of the transaction.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC licenses. Our policy is to capitalize costs incurred up to the point where the project is complete, at which time we transfer the costs to the appropriate fixed asset and/or intangible asset categories. When a project's completion is contingent upon FCC or other regulatory approval, we assess the probable future benefit of the asset at the time that it is recorded and monitor it through the FCC or other regulatory approval process. In the event the required approval is not considered probable, we write-off the capitalized costs of the project.

***Allowance for doubtful accounts***

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. An analysis is performed by applying various percentages based on the age of the receivable and other subjective and historical analysis. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

***Intangible assets***

Under the Financial Accounting Standards Board's rules, SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, we no longer amortize goodwill and intangible assets deemed to have indefinite lives, but perform annual impairment tests in accordance with these statements. We believe our FCC licenses have indefinite lives and accordingly amortization expense is no longer recorded for our FCC licenses as well as our goodwill. Other intangible assets continue to be amortized over their useful lives.

We perform impairment tests on our FCC licenses and goodwill at least annually. The annual tests are performed during the fourth quarter of each year and include comparing the recorded values to the appraised values, calculations of discounted cash flows, operating income and other analyses. As of December 31, 2005, no impairment was recognized. The assessment of the fair values of these assets and the underlying businesses are estimates, which

require careful consideration and judgments by our management. If conditions in the markets in which our stations and other media businesses operate or if the operating results of our stations and other media businesses change or fail to develop as anticipated, our estimates of the fair values may change in the future and result in impairment charges.

***Valuation allowance (deferred taxes)***

For financial reporting purposes, the company has recorded a valuation allowance of \$4.6 million as of March 31, 2006, to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. Management regularly reviews our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on management's estimate of the benefit the company will receive from such carryforwards.

***Long-term debt and debt covenant compliance***

Our classification of borrowings under our credit facilities as long-term debt on our balance sheet is based on our assessment that, under the borrowing restrictions and covenants in our credit facilities and after considering our projected operating results and cash flows for the coming year, no principal payments, other than the scheduled principal reductions in our term loan facility, will be required pursuant to the credit agreement. These projections are estimates dependent upon a number of factors including developments in the markets in which we are operating in and economic and political factors, among other factors. Accordingly, these projections are inherently uncertain and our actual results could differ from these estimates. Should our actual results differ materially from these estimates, payments may become due under our credit facilities or it may become necessary to seek an amendment to our credit facilities. Based on our management's current assessment, we do not anticipate principal payments becoming due under our credit facilities, or a further amendment of our credit facilities becoming necessary. As of March 31, 2006, we were and remain in compliance with all of our debt covenants.

***Stock-Based Compensation***

Beginning in fiscal year 2006, the Company accounts for share-based compensation arrangements in accordance with the provisions of SFAS No. 123R, *Share-Based Payments*, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options at the date of grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. The Company's employee stock options, however, have characteristics significantly different from those of traded options. For example, employee stock options are generally subject to vesting restrictions and are generally not transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility, the expected life of an option and the number of awards ultimately expected to vest. Changes in subjective input assumptions can materially affect the fair value estimates of an option. Furthermore, the estimated fair value of an option does not necessarily represent the value that will ultimately be realized by an employee. The Company uses historical data to estimate the expected price volatility, the expected option life and the expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. If actual results are not consistent with the Company's assumptions and judgments used in estimating the key assumptions, the Company may be required to increase or decrease compensation expense or income tax expense, which could be material to its results of operations.

In accordance with SFAS No. 123R, the Company records compensation expense for stock awards based on the estimated fair value of the award on the date of grant. The estimated fair value is determined based on the closing price of the Company's common stock on the award date multiplied by the number of awards expected to vest. The number of awards expected to vest is based on the number of awards granted adjusted by estimated forfeiture rates. The total compensation cost is then recognized ratably over the vesting period. If actual forfeiture rates are not consistent with the Company's estimates, the Company may be required to increase or decrease compensation expenses in future periods.

**LIQUIDITY AND CAPITAL RESOURCES**

We have historically financed acquisitions through borrowings, including borrowings under credit facilities, and, to a lesser extent, from operating cash flow and selected asset dispositions. We expect to fund future acquisitions from cash on hand, proceeds from debt and equity offerings, borrowings under the credit facilities, operating cash flow and possibly through the sale of assets. We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, capital expenditures and debt service required by our credit facilities and our senior subordinated notes from operating cash flow, borrowings under our credit facilities and, if

necessary, proceeds from the sale of selected assets. We believe that cash on hand, cash flow from operations and borrowings under the credit facilities will be sufficient to permit us to meet our financial obligations, fund pending acquisitions and fund operations for at least the next twelve months.

*Cash.* Cash and cash equivalents were \$0.7 million on March 31, 2006. Working capital was \$16.7 million on March 31, 2006. During the quarter ended March 31, 2006, we made net borrowings of \$32.6 million under our credit facilities and used \$24.1 million to acquire selected assets of four radio stations, one Internet business and one magazine business.

Net cash provided by operating activities decreased to \$8.4 million for the three months ended March 31, 2006 compared to \$13.0 million for the same quarter of the prior year, primarily due to a decrease in net income from continuing operations of \$0.1 million, a gain of \$3.5 million on the disposal of assets in the quarter ended March 31, 2006 and a decrease in the change in deferred revenue of \$2.1 million.

Net cash used in investing activities decreased to \$29.2 million for the three months ended March 31, 2006 compared to \$45.0 million for the same quarter of the prior year. The decrease is primarily due to lower cash outlays for acquisitions in the first quarter of 2006 compared to 2005.

Net cash provided by financing activities was \$17.4 million for the three months ended March 31, 2006 compared to net cash provided by financing activities of \$26.9 million for the same quarter of the prior year. The change was primarily due to cash outflows of \$15.1 million during the first quarter of 2006 to repurchase our Class A common stock offset by increased borrowings of \$9.5 million for the three months ended March 31, 2006 compared to the same quarter of the prior year.

*Credit Facilities.* Our wholly-owned subsidiary, Salem Holding, is the borrower under our credit facilities. On July 7, 2005, the credit facilities were amended to, among other things, add a \$150.0 million delayed-draw term loan C facility ( term loan C facility ). The credit facilities, as amended, include a \$75.0 million senior secured reducing revolving credit facility ( revolving credit facility ), a \$75.0 million term loan B facility ( term loan B facility ) and a \$150.0 million term loan C facility. As of March 31, 2006, the borrowing capacity and aggregate commitments was \$75.0 million under our revolving credit facility, \$73.9 million under our term loan B facility and \$150.0 million under our term loan C facility. The amount we can borrow, however, is subject to certain restrictions as described below. As of March 31, 2006, we could borrow \$27.8 million under our credit facilities.

At March 31, 2006, \$73.9 million was outstanding under the term loan B facility, \$50.0 million was outstanding under the term loan C facility and \$37.6 million was outstanding under our revolving credit facility. The borrowing capacity under the revolving credit facility steps down in three 10% increments commencing June 30, 2007, and matures on March 25, 2009. The borrowing capacity under the term loan B facility steps down 0.5% each December 31 and June 30. The term loan B facility matures on the earlier of March 25, 2010, or the date that is six months prior to the maturity of any subordinated indebtedness of Salem or Salem Holding. The borrowing capacity under the term loan C facility steps down 0.5% each December 31 and June 30, commencing December 31, 2008. The term loan C facility matures on the earlier of June 30, 2012, or the date that is six months prior to the maturity of any subordinated indebtedness of Salem or Salem Holding. The credit facilities require us, under certain circumstances, to prepay borrowings under the credit facilities with excess cash flow and the net proceeds from the sale of assets, the issuance of equity interests and the issuance of subordinated notes. If we are required to make these prepayments, our borrowing capacity and the aggregate commitments under the facilities will be reduced, but such reduction shall not, in any event, reduce the borrowing capacity and aggregate commitments under the facilities below \$50.0 million.

Amounts outstanding under the credit facilities bear interest at a rate based on, at Salem Holding's option, the bank's prime rate or LIBOR, in each case plus a spread. For purposes of determining the interest rate under our revolving credit facility, the prime rate spread ranges from 0.00% to 1.00%, and the LIBOR spread ranges from 1.00% to 2.00%. For both the term loan B facility and the term loan C facility, the prime rate spread ranges from 0.25% to



0.75%, and the LIBOR spread ranges from 1.25% to 1.75%. In each case, the spread is based on the total leverage ratio on the date of determination. If an event of default occurs, the rate may increase by 2.0%. At March 31, 2006, the blended interest rate on amounts outstanding under the credit facilities was 6.01%.

The maximum amount that Salem Holding may borrow under our credit facilities is limited by a ratio of our consolidated existing total adjusted funded debt to pro forma twelve-month cash flow (the Total Leverage Ratio ).

Our credit facilities will allow us to adjust our total debt as used in such calculation by the lesser of (i) 50% of the aggregate purchase price of acquisitions of newly acquired radio stations that we reformat to a religious talk, News Talk or religious music format or (ii) \$45.0 million, and the cash flow from such stations will not be considered in the calculation of the ratio during the period in which such acquisition gives rise to an adjustment to total debt. The Total Leverage Ratio allowed under the credit facilities was 5.78 to 1 as of March 31, 2006. The ratio will decline periodically until December 31, 2006, at which point it will remain at 5.5 to 1 through March 2009. The Total Leverage Ratio under our credit facilities at March 31, 2006, on a pro forma basis, was 6.3 to 1.

Our credit facilities contain additional restrictive covenants customary for facilities of their size, type and purpose which, with specified exceptions, limits our ability to incur debt, have liens, enter into affiliate transactions, pay dividends, consolidate, merge or effect certain asset sales, make specified investments, acquisitions and loans and change the nature of our business. Our credit facilities also require us to satisfy specified financial covenants, which covenants require us on a consolidated basis to maintain specified financial ratios and comply with certain financial tests, including ratios for maximum leverage as described above, minimum interest coverage (not less than 1.5 to 1 through June 29, 2005 increasing in increments to 2.5 to 1 after June 30, 2008), minimum debt service coverage (a static ratio of not less than 1.25 to 1), a maximum consolidated senior leverage ratio (currently 4.5 to 1, which will decline periodically until December 31, 2008, at which point it will remain at 3.5 to 1 through March 2009), and minimum fixed charge coverage (a static ratio of not less than 1.1 to 1). Salem and all of its subsidiaries, except for Salem Holding, are guarantors of borrowings under the credit facilities. The credit facilities are secured by liens on all of our assets and our subsidiaries' assets and pledges of all of the capital stock of our subsidiaries.

As of March 31, 2006, we were and remain in compliance with all of the covenants under our terms of the credit facilities.

*Swingline Credit Facility.* On June 1, 2005, we entered into an agreement for a swingline credit facility (Swingline). As collateral for the Swingline, the company pledged its corporate office building. Amounts outstanding under the Swingline bear interest at a rate based on the bank's prime rate. As of March 31, 2006, \$1.6 million was outstanding under the Swingline.

As of March 31, 2006, we were and remain in compliance with all of the covenants under the terms of the Swingline.

*9% Notes.* In September 2001, Salem Holding issued \$150.0 million principal amount of 9% Notes. The indenture for the 9% Notes contains restrictive covenants that, among other things, limit the incurrence of debt by Salem Holding and its subsidiaries, the payment of dividends, the use of proceeds of specified asset sales and transactions with affiliates. During the second quarter of 2004, Salem completed the redemption of \$55.6 million of the 9% Notes, leaving \$94.4 million outstanding. After giving effect to the redemption, Salem Holding is required to pay \$8.5 million per year in interest on the outstanding 9% Notes. We and all of our subsidiaries (other than Salem Holding) are guarantors of the 9% Notes.

As of March 31, 2006, we were and remain in compliance with all of the covenants under the indenture for the 9% Notes.

*7¾% Notes.* In December 2002, Salem Holding issued \$100.0 million principal amount of 7¾% Notes. Salem Holding used the net proceeds to redeem the \$100.0 million 9½% Notes on January 22, 2003. The indenture for the 7¾% Notes contains restrictive covenants that, among other things, limit the incurrence of debt by Salem Holding and its subsidiaries, the payment of dividends, the use of proceeds of specified asset sales and transactions with affiliates. Salem Holding is required to pay \$7.8 million per year in interest on the 7¾% Notes. We and all of our subsidiaries (other than Salem Holding) are guarantors of the 7¾% Notes.

As of March 31, 2006, we were and remain in compliance with all of the covenants under the indenture for the 7<sup>3</sup>/<sub>4</sub>% Notes.

**Summary of long-term debt obligations**

Long-term debt consisted of the following at the balance sheet dates indicated:

	December 31, 2005		March 31, 2006
	<i>(Dollars in thousands)</i>		
Term loan under credit facility	\$ 123,875		\$ 123,875
Revolving line of credit under credit facility	6,600		37,600
Swingline credit facility	--		1,578
7¾% senior subordinated notes due 2010	100,000		100,000
9% senior subordinated notes due 2011 (1)	96,664		96,538
Fair market value of interest rate swap agreement	215		
Capital leases and other loans	142		134
	327,496		359,725
Less current portion	(811)		(810)
	\$ 326,685		\$ 358,915

(1) Includes \$3,408 and \$2,507 as of March 31, 2005 and 2006, respectively, of fair value adjustments related to a terminated interest rate swap.

**Off-balance sheet arrangements**

At March 31, 2006 and 2005, Salem did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Salem is not materially exposed to any financing, liquidity, market or credit risk that could arise if Salem had engaged in such relationships.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****DERIVATIVE INSTRUMENTS**

We are exposed to fluctuations in interest rates. We actively monitor these fluctuations and use derivative instruments from time to time to manage the related risk. In accordance with our risk management strategy, we use derivative instruments only for the purpose of managing risk associated with an asset, liability, committed transaction, or probable forecasted transaction that is identified by management. Our use of derivative instruments may result in short-term gains or losses and may increase volatility in Salem's earnings.

Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, the accounting for changes in the fair value of a derivative instrument at each new measurement date is dependent upon its intended use. The change in the fair value of a derivative instrument designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability or a firm commitment, referred to as a fair value hedge, is recognized as gain or loss in earnings in the period of the change together with an offsetting gain or loss for the change in fair value of the hedged item attributable to the risk being hedged. The differential paid or received on the interest rate swap is recognized in earnings as an adjustment to interest expense.

During 2004 and through February 18, 2005, we had an interest rate swap agreement with a notional principal amount of \$66.0 million. This agreement related to its \$94.4 million 9% Notes. This agreement was scheduled to expire in 2011 when the 9% Notes will mature, and effectively swapped the 9.0% fixed interest rate on \$66.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 3.09%. On February 18, 2005, we sold our entire interest in this swap and received a payment of approximately \$3.7 million, which will be amortized as a reduction of interest expense over the remaining life of the 9% Notes. Interest expense for the three months ended March 31, 2006, was reduced by \$0.1 million, related to the amortization of the buyout premium received. Because

this fair value hedge was effective (that is, the change in the fair value of the hedge instrument was designed to be equal to the change in the fair value of the item being hedged), there was no income statement effect relative to the change in the fair value of the swap agreement. Interest expense for the three months ended March 31, 2005 was reduced by \$0.3 million as a result of the difference between the 9.0% fixed interest rate on the 9% hedged debt and the floating interest rate under the swap agreement, which was 5.88% from January 1, 2005 through February 18, 2005.

On April 8, 2005, we entered into a forward-looking interest rate swap arrangement for the notional principal amount of \$30.0 million whereby we will pay a fixed interest rate of 4.99% as compared to LIBOR on a future bank credit facility borrowing. As of March 31, 2006, we recorded an asset for the fair value of the interest swap of approximately \$0.4 million. This amount, net of income tax benefits of approximately \$0.2 million, is reflected in other comprehensive income, as we designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap is July 1, 2006 and the expiration date is July 1, 2012.

On April 26, 2005, we entered into a second forward-looking interest rate swap arrangement for the notional principal amount of \$30.0 million we will pay a fixed interest rate of 4.70% as compared to LIBOR on a future bank credit facility borrowing. As of March 31, 2006, we recorded an asset for the fair value of the interest swap of approximately \$0.8 million. This amount, net of income taxes of approximately \$0.2 million, is reflected in other comprehensive income, as we designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap is July 1, 2006 and the expiration date is July 1, 2012.

On May 5, 2005, we entered into a third forward-looking interest rate swap arrangement for the notional principal amount of \$30.0 million whereby we will pay a fixed interest rate of 4.53% as compared to LIBOR on a future bank credit facility borrowing. As of March 31, 2006, we recorded an asset for the fair value of the interest swap of approximately \$1.1 million. This amount, net of income taxes of approximately \$0.2 million, is reflected in other comprehensive income, as we designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap is July 1, 2006 and the expiration date is July 1, 2012.

## **MARKET RISK**

In addition to the interest rate swap agreements discussed above under Derivative Instruments, borrowings under the credit facilities are subject to market risk exposure, specifically to changes in LIBOR and in the prime rate in the United States. As of March 31, 2006, we had borrowed \$163.1 million under the credit facilities. As of March 31, 2006, we could borrow up to an additional \$27.8 million under the credit facilities. Amounts outstanding under the credit facilities bear interest at a base rate, at our option, of the banks prime rate or LIBOR, plus a spread. For purposes of determining the interest rate under the revolving credit facilities, the prime rate spread ranges from 0.25% to 1.75%, and the LIBOR spread ranges from 1.5% to 3.0%. As of March 31, 2006, the blended interest rate on amounts outstanding under the credit facilities was 6.01%. At March 31, 2006, a hypothetical 100 basis point increase in the prime rate or LIBOR, as applicable, would result in additional interest expense of \$1.6 million on an annualized basis.

In addition to the variable rate debt disclosed above, we have fixed rate debt with a carrying value of \$194.0 million (relating to the outstanding 9% Notes and the 7¾% Notes) as of March 31, 2006, with an aggregate fair value of \$201.0 million. We are exposed to changes in the fair value of these financial instruments based on changes in the market rate of interest on this debt. The ultimate value of these notes will be determined by actual market prices, as all of these notes are tradable. We estimate that a hypothetical 100 basis point increase in market interest rates would result in a decrease in the aggregate fair value of the notes to approximately \$193.2 million and a hypothetical 100 basis point decrease in market interest rates would result in the increase of the fair value of the notes to approximately \$209.2 million.

## **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We and our subsidiaries, incident to our business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims including the purported class action described below. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. Also, we maintain insurance which may provide coverage for such matters. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. We believe, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our annual consolidated financial position, results of operations or cash flows.

On March 9, 2005, Pipefitters, Locals 522 and 633 Pension Trust Fund filed a Class Action Complaint for Violation of the Federal Securities Laws in the Superior Court of California for the County of Ventura against us, our directors, certain of our officers and certain underwriters of the company's April 2004 public offering of Class A common stock, on behalf of a putative class of all persons who purchased the company's equity securities pursuant to or traceable to that offering. The complaint alleges that offering documents contained misstatements and omissions regarding the company's fixed assets and internal controls. The complaint asserts claims under Sections 11, 12 and 15 of the Securities Act of 1933, and seeks rescission or damages, interest, attorney's fees and costs, as well as equitable and injunctive relief. The parties entered into a Stipulation of Settlement dated as of February 7, 2006, which provides for a full settlement of these claims in exchange for payment of \$1.85 million to be paid by the company and its insurance carrier. The settlement is subject to certain conditions set forth in the stipulation, including final court approval following notice to the class members. The Court granted Plaintiff's unopposed motion and application for preliminary approval of the settlement on March 27, 2006 and set a schedule for providing notice to the class members. The hearing on final approval of the settlement is set for June 19, 2006. During 2005, the Company recognized expenses of \$0.7 million related to this settlement.

### **ITEM 1A. RISK FACTORS**

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2005, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the Risk Factors). The Risk Factors are hereby incorporated in Part II, Item 1A of this Form 10Q. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company's stock.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended March 31, 2006, the Company made repurchases of 979,375 shares of its Class A common stock for \$15.1 million pursuant to a \$50.0 million share repurchase program. The Company's Board of Directors authorized a \$25.0 million share repurchase program in May 2005. In February 2006, the Board of Directors increased Salem's existing share repurchase program to permit the repurchase of up to an additional \$25.0 million of shares of Salem Communications Class A common stock. The amount we may repurchase may be limited by certain restrictions under our credit facilities. The following table provides information on our repurchases for the three months ended March 31, 2006:





**Repurchases of Class A Common Stock**

<b>Period</b>	<b>Total Number of of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs</b>
January 1 - January 31, 2006	544,592	\$ 16.55	544,592	\$ 29,447,407
February 1 - February 28, 2006	283,323	14.58	283,323	25,317,837
March 1 - March 31, 2006	151,460	13.24	151,460	23,311,930
	979,375		979,375	

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

Set forth below is a list of exhibits included as part of this Quarterly Report:

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
3.01	Amended and Restated Certificate of Incorporation of Salem Communications Corporation, a Delaware corporation. (1)
3.02	Bylaws of Salem Communications Corporation, a Delaware Corporation. (1)
3.03	Certificate of Incorporation of Salem Communications Holding Corporation (incorporated by reference to previously filed exhibit 2.01). (2)
3.04	Bylaws of Salem Communications Holding Corporation (incorporated by reference to previously filed exhibit 2.02). (2)
3.05	Certificate of Incorporation of Salem Communications Acquisition Corporation (incorporated by reference to previously filed exhibit 2.03). (2)

- 3.06 Bylaws of Salem Communications Acquisition Corporation (incorporated by reference to previously filed exhibit 2.04). (2)
- 3.07 Certificate of Incorporation of SCA License Corporation (incorporated by reference to previously filed exhibit 2.05). (2)
- 3.08 Bylaws of SCA License Corporation (incorporated by reference to previously filed exhibit 2.06). (2)
- 4.01 Indenture between Salem Communications Corporation, a California corporation, certain named guarantors and The Bank of New York, as Trustee, dated as of September 25, 1997, relating to the 9½% Series A and Series B Senior Subordinated Notes due 2007. (3)
- 4.02 Form of 9½% Senior Subordinated Note (filed as part of exhibit 4.01). (3)

- 4.03 Form of Note Guarantee (filed as part of exhibit 4.01). (3)
- 4.04 Specimen of Class A common stock certificate. (4)
- 4.05 Supplemental Indenture No.1, dated as of March 31, 1999, to the Indenture, dated as of September 25, 1997, by and among Salem Communications Corporation, a California corporation, Salem Communications Corporation, a Delaware corporation, The Bank of New York, as Trustee, and the Guarantors named therein. (4)
- 4.06 Supplemental Indenture No. 2, dated as of August 24, 2000, by and among Salem Communications Corporation, a Delaware corporation, Salem Communications Holding Corporation, a Delaware corporation, the guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to previously filed exhibit 4.11). (2)
- 4.07 Supplemental Indenture No. 3, dated as of March 9, 2001, by and among Salem Communications Corporation, a Delaware corporation, Salem Communications Holding Corporation, a Delaware corporation, the guarantors named therein and The Bank of New York, as Trustee. (5)
- 4.08 Supplemental Indenture No. 4, dated as of June 25, 2001, by and among Salem Communications Holding Corporation, a Delaware corporation, the guarantors named therein and The Bank of New York, as Trustee. (6)
- 4.09 Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, Suntrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto. (10)
- 4.10 Second Amended and Restated Parent Security Agreement dated as of June 15, 2001, by and among Salem Communications Corporation, a Delaware corporation, Salem Communications Holding Corporation, a Delaware corporation, and The Bank of New York, as Administrative Agent. (6)
- 4.11 Amendment #1, dated as of May 19, 2004, to the Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, Suntrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto. (11)
- 4.15 Indenture between Salem Communications Holding Corporation, a Delaware corporation, certain named guarantors and The Bank of New York, as Trustee, dated as of June 25, 2001, relating to the 9% Series A and Series B Senior Subordinated Notes due 2011. (6)
- 4.16 Form of 9% Senior Subordinated Notes (filed as part of exhibit 4.15). (6)
- 4.17 Form of Note Guarantee (filed as part of exhibit 4.15). (6)

- 4.18 Registration Rights Agreement dated as of June 25, 2001, by and among Salem Communications Holding Corporation, the guarantors and initial purchasers named therein. (6)
- 4.19 Indenture, dated as of December 23, 2002, relating to the 7¾% Senior Subordinated Notes due 2010 by and among Salem Holding, the Company and The Bank of New York, as trustee, with form of Note incorporated (incorporated by reference to previously filed exhibit 4.1). (7)
- 4.20 Form of 7¾% Senior Subordinated Notes (filed as part of exhibit 4.19). (7)
- 4.21 Form of Note Guarantee (filed as part of exhibit 4.19). (7)
- 4.22 Supplemental Indenture No. 1 to the 7¾% Senior Subordinated Notes, dated as of December 16, 2002, between Salem Communications Corporation and its guarantors, and Bank of New York. (8)
- 4.23 Supplemental Indenture No. 1 to the 9% Senior Subordinated Notes, dated as of December 23, 2002, between Salem Communications Corporation and its guarantors, and Bank of New York. (8)
- 4.24 Supplemental Indenture No. 2 to the 7¾% Senior Subordinated Notes, dated as of June 12, 2003, between Salem Communications Corporation and its guarantors, and Bank of New York. (9)

- 4.25 Supplemental Indenture No. 2 to the 9% Senior Subordinated Notes, dated as of June 12, 2003, between Salem Communications Corporation and its guarantors, and Bank of New York. (9)
- 4.26 Consent No. 2, dated as of July 23, 2003, under the Fourth Amended and Restated Credit Agreement between Salem Communications Corporation and its guarantors, and The Bank of New York. (9)
- 31.1 Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
- 31.2 Certification of David A.R. Evans Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
- 32.1 Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of David A.R. Evans Pursuant to 18 U.S.C. Section 1350.

- (1) Incorporated by reference to the exhibit of the same number, unless otherwise noted, of Salem's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 14, 1999.
- (2) Incorporated by reference to the exhibit of the same number, unless otherwise noted, to Salem's Current Report on Form 8-K; filed with the Securities and Exchange Commission on September 8, 2000.
- (3) Incorporated by reference to the exhibit of the same number, unless otherwise noted, of Salem's Registration Statement on Form S-4 (No. 333-41733), as amended, as declared effective by the Securities and Exchange Commission on February 9, 1998.
- (4) Incorporated by reference to the exhibit of the same number, unless otherwise noted, to the Company's Registration Statement on Form S-1 (No.333-76649) as amended, as declared effective by the Securities and Exchange Commission on June 30, 1999.
- (5) Incorporated by reference to the exhibit of the same number, unless otherwise noted, of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 16, 2001.
- (6) Incorporated by reference to the exhibit of the same number, unless otherwise noted, to Salem's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 14, 2001.
- (7) Incorporated by reference to the exhibit of the same number, unless otherwise noted, to Salem's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 23, 2002.
- (8) Incorporated by reference to the exhibit of the same number, unless otherwise noted of Salem's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2003.

- (9) Incorporated by reference to the exhibit of the same number, unless otherwise noted, to Salem's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 6, 2003.
- (10) Incorporated by reference to the exhibit of the same number, unless otherwise noted, to Salem's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2003.
- (11) Incorporated by reference to Appendix B to Salem's Proxy Statement on Schedule 17A, filed with the Securities and Exchange Commission on April 29, 2003.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, Salem Communications Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SALEM COMMUNICATIONS CORPORATION

May 10, 2006

By: /s/ EDWARD G. ATSINGER III  
Edward G. Atsinger III  
President and Chief Executive Officer  
(Principal Executive Officer)

May 10, 2006

By: /s/ DAVID A.R. EVANS  
David A.R. Evans  
Executive Vice President - Business Development and  
Chief Financial Officer  
(Principal Financial Officer)



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
31.2	Certification of David A.R. Evans Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of David A.R. Evans Pursuant to 18 U.S.C. Section 1350.

**EXHIBIT 31.1**

**Certification of Chief Executive Officer**

I, Edward G. Atsinger III, certify that:

1. I have reviewed this report on Form 10-Q of Salem Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2006

By: /s/ EDWARD G. ATSINGER III  
Edward G. Atsinger III  
Chief Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 302 has been provided to Salem Communications Corporation and will be retained by Salem Communications Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 31.2**

**Certification of Chief Financial Officer**

I, David A.R. Evans, certify that:

1. I have reviewed this report on Form 10-Q of Salem Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2006

By: /s/ DAVID A.R.  
EVANS

David A.R. Evans

Executive Vice President - Business Development and Chief Financial Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 302 has been provided to Salem Communications Corporation and will be retained by Salem Communications Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as President and Chief Executive Officer of Salem Communications Corporation (the Company), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

•

the Quarterly Report of the Company on Form 10-Q for the period ended March 31, 2006 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

•

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2006

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

President and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Salem Communications Corporation and will be retained by Salem Communications Corporation and furnished to the Securities and Exchange Commission or its staff upon request.



**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as Senior Vice President and Chief Financial Officer of Salem Communications Corporation (the Company), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

•

the Quarterly Report of the Company on Form 10-Q for the period ended March 31, 2006 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

•

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2006

By: /s/ DAVID A.R. EVANS

David A.R. Evans

Executive Vice President - Business Development and  
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Salem Communications Corporation and will be retained by Salem Communications Corporation and furnished to the Securities and Exchange Commission or its staff upon request.