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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED 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	**77-0121400**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
4880 SANTA ROSA ROAD	**93012**
CAMARILLO, CALIFORNIA	(ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]

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]

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
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FORWARD-LOOKING STATEMENTS

From time to time, in both written reports (such as this report) and oral statements, Salem Communications Corporation (Salem or the company, including references to Salem by we, us and our) makes forward-looking statements within the meaning of federal and state securities laws. Disclosures that use words such as the company believes, anticipates, 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)**
ASSETS		
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**
LIABILITIES AND STOCKHOLDERS EQUITY		
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	**1,258**
Total liabilities	396,812	**433,338**
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	**204**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; issued and outstanding 5,553,696 shares	56	**56**
Additional paid-in capital	217,036	**218,370**
Retained earnings	43,043	**45,758**
Treasury stock	(11,539)	**(26,688)**
Accumulated other comprehensive income	318	**1,354**
Total stockholders equity	249,118	**239,054**
Total liabilities and stockholders equity	$ 645,930	**$ 672,392**

See accompanying notes

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
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)	

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

See accompanying notes

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
OPERATING ACTIVITIES		
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**
INVESTING ACTIVITIES		
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		**32,578**
Payments of long-term debt and notes payable		(1,375)		**(1)**
Proceeds from exercise of stock options		25		**24**
Tax benefit related to stock options exercised				**1**
Payments on capital lease obligations		(6)		**(7)**
Repurchases of Class A common stock				**(15,149)**
Proceeds from interest rate swap termination		3,730		
Net cash provided by financing activities		26,874		**17,446**
Net decrease in cash and cash equivalents		(5,132)		**(3,284)**
Cash and cash equivalents at beginning of year		10,994		**3,979**
Cash and cash equivalents at end of period	$	5,862	**$**	**695**
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	5,289	**$**	**1,860**
Income taxes	$	49	**$**	**162**

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	Format Changed
				(Dollars in thousands)	
January 23, 2006		Orlando, FL	$	10,000	No

	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	

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

		Amount (Dollars in thousands)
Asset		
	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.

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The purchase price has been allocated as follows:

		Amount *(Dollars in thousands)*
Asset		
	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%

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:

	Three Months Ended March 31, 2005
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 (L0SS)

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
	(Dollars in thousands)	
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**

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

(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:

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

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

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:

Year Ending December 31,	Amortization Expense (Dollars in thousands)	
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)

	Three Months Ended March 31, 2005		Three Months Ended March 31, 2006	
	(Dollars in thousands)			
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	$	**14,320**
Other media		(165)		**(584)**
Corporate		(5,257)		**(6,693)**
Consolidated operating income from continuing operations before gain on disposal of assets	$	9,035	$	**7,043**
Total property, plant and equipment, net				
Radio broadcasting	$	113,130	$	**118,488**
Other media		1,572		**2,139**
Corporate		3,171		**3,324**
Consolidated property, plant and equipment, net	$	117,873	$	**123,951**

NOTE 12. SEGMENT DATA (CONTINUED)

		Three months ended March 31, 2005	Three months ended March 31, 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

	Three Months Ended March 31, 2005	Three Months Ended March 31, **2006**
	(Dollars in thousands)	
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. In