

SALEM COMMUNICATIONS CORP /DE/  
Form 10-Q  
May 09, 2011

**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 AND EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES AND 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  ]

No  ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes  ]

No  ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  ]

Accelerated filer

]

Non-accelerated filer  ]

Smaller Reporting Company

]

(Do not check if a Smaller Reporting Company)

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

Yes  ]

No  ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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

Outstanding at May 5, 2011  
18,723,655 shares

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

Outstanding at May 5, 2011  
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, estimates, expects, intends, will, may or plans and similar expressions are intended forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company's current expectations and are based upon data available to the company at the time the statements are made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in Salem's reports on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission. Forward-looking statements made in this report speak as of the date hereof. Except as required by law, the company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections 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. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

December 31, 2010  
(Note 1)

**March 31, 2011**  
**(Unaudited)**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 828	\$ 263
Restricted cash	100	100
Trade accounts receivable (less allowance for doubtful accounts of \$10,040 in 2010 and \$9,907 in 2011)	29,363	28,316
Other receivables	623	395
Prepaid expenses	3,320	4,261
Deferred income taxes	5,974	5,338
<b>Total current assets</b>	<b>40,208</b>	<b>38,673</b>

Property, plant and equipment (net of accumulated depreciation of \$117,212 in 2010 and \$118,617 in 2011)

115,867 **115,225**

Broadcast licenses

378,362 **369,361**

Goodwill

18,361 **20,343**

Other indefinite-lived intangible assets

1,961 **1,961**

Amortizable intangible assets (net of accumulated amortization of \$20,496 in 2010 and \$21,001 in 2011)

5,528 **8,671**

Bond issue costs

6,084 **5,869**

Bank loan fees

1,265 **1,146**

Notes receivable

2,327 **3,281**

Other assets

4,523 **3,930**

**Total assets**

**\$ 574,486 \$ 568,460**

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:

Accounts payable	\$ 961	\$ 2,674
Accrued expenses	7,425	5,036
Accrued compensation and related expenses	6,325	5,626
Accrued interest	1,264	7,668
Deferred revenue	6,513	7,628
Income tax payable	210	480
Current portion of long-term debt and capital lease obligations	111	114

**Total current liabilities**

**22,809 29,226**

Long-term debt and capital lease obligations, less current portion

304,416 **288,434**

Deferred income taxes

42,296 **43,521**

Deferred revenue

7,898 **7,704**

Other liabilities

663 **229**

**Total liabilities**

**378,082 369,114**

Commitments and contingencies (Note 14)

Stockholders' equity:

Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 21,000,193 and 21,041,305 issued and 18,682,543 and 18,723,655 outstanding at December 31, 2010 and March 31, 2011, respectively	209	<b>210</b>
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2010 and March 31, 2011	56	<b>56</b>
Additional paid-in capital	230,947	<b>231,301</b>
Retained earnings (loss)	(802)	<b>1,785</b>
Treasury stock, at cost (2,317,650 shares at December 31, 2010 and March 31, 2011)	(34,006)	<b>(34,006)</b>
Total stockholders' equity	196,404	<b>199,346</b>
Total liabilities and stockholders' equity	\$ 574,486	<b>\$ 568,460</b>

See accompanying notes



**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	2010	2011
Net broadcast revenue	\$ 41,408	\$ 42,730
Internet revenue	4,490	6,212
Publishing revenue	2,426	2,841
Total revenue	48,324	51,783
Operating expenses:		
Broadcast operating expenses exclusive of depreciation and amortization shown below (including \$312 and \$324 for the quarters ended March 31, 2010 and 2011, respectively, paid to related parties)	25,997	27,802
Internet operating expenses exclusive of depreciation and amortization shown below	3,868	5,361
Publishing operating expenses exclusive of depreciation and amortization shown below	2,523	2,880
Corporate expenses exclusive of depreciation and amortization shown below (including \$83 and \$156 for the quarters ended March 31, 2010 and 2011, respectively, paid to related parties)	4,269	4,551
Depreciation (including \$2,404, \$421, \$68 and \$264 related to broadcast, internet, publishing and corporate, respectively, for the quarter ended March 31, 2010 and including \$2,278, \$529, \$66 and \$310 related to broadcast, internet, publishing and corporate, respectively for the quarter ended March 31, 2011)	3,157	3,183
Amortization (including \$18, \$305, \$75 and \$1 related to broadcast, internet, publishing and corporate, respectively, for the quarter ended March 31, 2010 and including \$31, \$484, \$54 and \$0 related to broadcast, internet, publishing and corporate, respectively for the quarter ended March 31, 2011)	399	569
(Gain) loss on disposal of assets	13	(4,525)
Total operating expenses	40,226	39,821
Operating income	8,098	11,962
Other income (expense):		
Interest income	48	43
Interest expense	(7,692)	(7,235)
Other expense, net	(31)	(11)
Income before income taxes	423	4,759
Provision for income taxes	219	2,172
Net income	\$ 204	\$ 2,587

Basic earnings per share	\$	0.01	\$	<b>0.11</b>
Diluted earnings per share	\$	0.01	\$	<b>0.10</b>
Basic weighted average shares outstanding		23,724,192		<b>24,520,858</b>
Diluted weighted average shares outstanding		24,441,944		<b>24,759,253</b>
		See accompanying notes		

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Dollars in thousands)*

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 204	\$ 2,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	332	306
Excess tax benefit from stock options exercised	(43)	(30)
Depreciation and amortization	3,556	3,752
Amortization of bond issue costs and bank loan fees	389	425
Amortization and accretion of financing items	48	48
Provision for bad debts	33	698
Deferred income taxes	(40)	1,891
(Gain) loss on disposal of assets	13	(4,525)
Changes in operating assets and liabilities:		
Accounts receivable	2,747	1,816
Prepaid expenses and other current assets	(82)	(941)
Accounts payable and accrued expenses	7,376	4,123
Deferred revenue	110	(257)
Other liabilities	(76)	(74)
Income taxes payable	279	270
Net cash provided by operating activities	14,846	10,089
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,384)	(2,449)
Deposits on radio station acquisitions		55
Deposits on equipment		193
Purchases of broadcast assets and radio stations		(550)
Purchases of Internet businesses and assets	(2,000)	(6,000)
Proceeds from the disposal of assets	15	12,716
Other	(128)	(461)
Net cash provided by (used in) investing activities	(3,497)	3,504
<b>FINANCING ACTIVITIES</b>		