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FULLER H B CO  
Form SC 13G/A  
February 07, 2013

SCHEDULE 13G

(Rule 13d-102)

Information to be Included in Statements Filed Pursuant to Rule 13d-1(b), (c)  
and (d) and Amendments Thereto Filed Pursuant to Rule 13d-2.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Under the Securities Exchange Act of 1934  
(Amendment No. 3)\*

H.B. Fuller Company

-----  
(Name of Issuer)

Common Stock

-----  
(Title of Class of Securities)

359694106

-----  
(CUSIP Number)

December 31, 2012

-----  
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule  
is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\* The remainder of this cover page shall be filled out for a reporting person's  
initial filing on this form with respect to the subject class of securities,  
and for any subsequent amendment containing information which would alter the  
disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be  
deemed to be "filed" for the purpose of Section 18 of the Securities Exchange  
Act of 1934 ("Act") or otherwise subject to the liabilities of that section of  
the Act but shall be subject to all other provisions of the Act (however, see  
the Notes).

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CUSIP No. 359694106

13G

1 NAME OF REPORTING PERSON

Artisan Partners Holdings LP

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  
(see Instructions)

(a)

(b)

Not Applicable

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF  
SHARES

None

BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

6 SHARED VOTING POWER

2,916,233

7 SOLE DISPOSITIVE POWER

None

8 SHARED DISPOSITIVE POWER

3,082,133

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,082,133

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES  
(see Instructions)

Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.2%

12 TYPE OF REPORTING PERSON  
(see Instructions)

HC

CUSIP No. 359694106

13G

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1 NAME OF REPORTING PERSON

Artisan Investment Corporation

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  
(see Instructions)

(a)   
(b)

Not Applicable

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Wisconsin

5 SOLE VOTING POWER

NUMBER OF  
SHARES

None

BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

6 SHARED VOTING POWER

2,916,233

7 SOLE DISPOSITIVE POWER

None

8 SHARED DISPOSITIVE POWER

3,082,133

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3,082,133

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(see Instructions)

Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.2%

12 TYPE OF REPORTING PERSON  
(see Instructions)

HC

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CUSIP No. 359694106

13G

1 NAME OF REPORTING PERSON

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Artisan Partners Limited Partnership

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)   
(see Instructions) (b)

Not Applicable

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

None

6 SHARED VOTING POWER

2,916,233

7 SOLE DISPOSITIVE POWER

None

8 SHARED DISPOSITIVE POWER

3,082,133

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,082,133

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (see Instructions)

Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.2%

12 TYPE OF REPORTING PERSON (see Instructions)

IA

1 NAME OF REPORTING PERSON

Artisan Investments GP LLC

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2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  
(see Instructions) (a)   
(b)

Not Applicable

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER  
None  
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

6 SHARED VOTING POWER  
2,916,233

7 SOLE DISPOSITIVE POWER  
None

8 SHARED DISPOSITIVE POWER  
3,082,133

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
3,082,133

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES  
(see Instructions)   
Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)  
6.2%

12 TYPE OF REPORTING PERSON  
(see Instructions)  
HC

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CUSIP No. 359694106 13G

1 NAME OF REPORTING PERSON  
ZFIC, Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

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(see Instructions)

(a)

(b)

Not Applicable

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Wisconsin

5 SOLE VOTING POWER

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

None

6 SHARED VOTING POWER

2,916,233

7 SOLE DISPOSITIVE POWER

None

8 SHARED DISPOSITIVE POWER

3,082,133

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,082,133

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES  
(see Instructions)

Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.2%

12 TYPE OF REPORTING PERSON  
(see Instructions)

HC

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CUSIP No. 359694106

13G

1 NAME OF REPORTING PERSON

Andrew A. Ziegler

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  
(see Instructions)

(a)

(b)

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Not Applicable

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.A.

5 SOLE VOTING POWER

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

None

6 SHARED VOTING POWER

2,916,233

7 SOLE DISPOSITIVE POWER

None

8 SHARED DISPOSITIVE POWER

3,082,133

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,082,133

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES  
(see Instructions)

Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.2%

12 TYPE OF REPORTING PERSON  
(see Instructions)

IN

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CUSIP No. 359694106

13G

1 NAME OF REPORTING PERSON

Carlene M. Ziegler

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  
(see Instructions)

(a)

(b)

Not Applicable

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3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.A.

5 SOLE VOTING POWER

NUMBER OF  
SHARES

None

BENEFICIALLY  
OWNED BY

6 SHARED VOTING POWER

EACH  
REPORTING  
PERSON  
WITH

2,916,233

7 SOLE DISPOSITIVE POWER

None

8 SHARED DISPOSITIVE POWER

3,082,133

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,082,133

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES  
(see Instructions)

Not Applicable

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.2%

12 TYPE OF REPORTING PERSON  
(see Instructions)

IN

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CUSIP No. 359694106

13G

1 NAME OF REPORTING PERSON

Artisan Partners Funds, Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP  
(see Instructions)

(a)

(b)

Not Applicable

3 SEC USE ONLY



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-----  
4 CITIZENSHIP OR PLACE OF ORGANIZATION

Wisconsin  
-----

5 SOLE VOTING POWER

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

None

-----

6 SHARED VOTING POWER

2,001,233

-----

7 SOLE DISPOSITIVE POWER

None

-----

8 SHARED DISPOSITIVE POWER

2,001,233  
-----

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,001,233  
-----

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (see Instructions)

Not Applicable  
-----

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

4.0%  
-----

12 TYPE OF REPORTING PERSON (see Instructions)

IC  
-----

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Item 1(a) Name of Issuer:

H.B. Fuller Company

Item 1(b) Address of Issuer's Principal Executive Offices:

1200 Willow Lake Boulevard, St. Paul, MN 55110

Item 2(a) Name of Person Filing:

Artisan Partners Holdings LP ("Artisan Holdings")  
Artisan Investment Corporation, the general partner of  
Artisan Holdings ("Artisan Corp.")  
Artisan Partners Limited Partnership ("Artisan Partners")  
Artisan Investments GP LLC, the general partner of  
Artisan Partners ("Artisan Investments")

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ZFIC, Inc., the sole stockholder of Artisan Corp. ("ZFIC")  
Andrew A. Ziegler  
Carlene M. Ziegler  
Artisan Partners Funds, Inc. ("Artisan Funds")

Item 2(b) Address of Principal Business Office:

Artisan Holdings, Artisan Corp., Artisan Partners, Artisan  
Investments, ZFIC,  
Mr. Ziegler, Ms. Ziegler and Artisan Funds are all located at:  
  
875 East Wisconsin Avenue, Suite 800  
Milwaukee, WI 53202

Item 2(c) Citizenship:

Artisan Holdings is a Delaware limited partnership  
Artisan Corp. is a Wisconsin corporation  
Artisan Partners is a Delaware limited partnership  
Artisan Investments is a Delaware limited liability company  
ZFIC is a Wisconsin corporation  
Mr. Ziegler and Ms. Ziegler are U.S. citizens  
Artisan Funds is a Wisconsin corporation

Item 2(d) Title of Class of Securities:

Common Stock

Item 2(e) CUSIP Number:

359694106

Item 3 Type of Person:

(d) Artisan Funds is an Investment Company under section 8 of the  
Investment Company Act.

(e) Artisan Partners is an investment adviser registered under  
section 203 of the Investment Advisers Act of 1940; Artisan  
Holdings is the sole limited partner of Artisan Partners; Artisan  
Investments is the general partner of Artisan Partners; Artisan  
Corp is the general partner of Artisan Holdings; ZFIC is the sole  
stockholder of Artisan Corp.; Mr. Ziegler and Ms. Ziegler are the  
principal stockholders of ZFIC.

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Item 4 Ownership (at December 31, 2012):

(a) Amount owned "beneficially" within the meaning of rule 13d-3:

3,082,133

(b) Percent of class:

6.2% (based on 49,944,727 shares outstanding as of  
January 11, 2013)

(c) Number of shares as to which such person has:

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- (i) sole power to vote or to direct the vote:  
None
- (ii) shared power to vote or to direct the vote:  
2,916,233
- (iii) sole power to dispose or to direct the disposition of:  
None
- (iv) shared power to dispose or to direct the disposition of:  
3,082,133

Item 5 Ownership of Five Percent or Less of a Class:

Not Applicable

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

The shares reported herein have been acquired on behalf of discretionary clients of Artisan Partners; as reported herein, Artisan Partners holds 3,082,133 shares, including 2,001,233 shares on behalf of Artisan Funds. Persons other than Artisan Partners are entitled to receive all dividends from, and proceeds from the sale of, those shares.

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person:

Not Applicable

Item 8 Identification and Classification of Members of the Group:

Not Applicable

Item 9 Notice of Dissolution of Group:

Not Applicable

Item 10 Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

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Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and

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correct.

Date: February 7, 2013

ARTISAN INVESTMENT CORPORATION,  
for itself and as the general partner of  
ARTISAN PARTNERS HOLDINGS LP

By: Gregory K. Ramirez\*  
-----

ARTISAN INVESTMENTS GP LLC,  
for itself and as the general partner of  
ARTISAN PARTNERS LIMITED PARTNERSHIP

By: Gregory K. Ramirez\*  
-----

ZFIC, INC.

By: Gregory K. Ramirez\*  
-----

ANDREW A. ZIEGLER

Andrew A. Ziegler\*  
-----

CARLENE M. ZIEGLER

Carlene M. Ziegler\*  
-----

ARTISAN PARTNERS FUNDS, INC.

By: Gregory K. Ramirez\*  
-----

\*By: /s/ Gregory K. Ramirez  
-----

Gregory K. Ramirez  
Senior Vice President - Chief  
Accounting Officer & Assistant  
Treasurer of Artisan Investment  
Corporation  
Vice President of Artisan  
Investments GP LLC  
Attorney-in-Fact for ZFIC, Inc.  
Attorney-in-Fact for Andrew A.  
Ziegler  
Attorney-in-Fact for Carlene M.  
Ziegler  
Chief Financial Officer, Vice  
President and Treasurer of  
Artisan Partners Funds, Inc.

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Exhibit Index

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- Exhibit 1 Joint Filing Agreement dated February 7, 2013 by and among Artisan Partners Holdings LP, Artisan Investment Corporation, Artisan Partners Limited Partnership, Artisan Investments GP LLC, ZFIC, Inc., Andrew A. Ziegler, Carlene M. Ziegler and Artisan Partners Funds, Inc.
- Exhibit 2 Power of Attorney of ZFIC, Inc., dated August 31, 2012
- Exhibit 3 Power of Attorney of Andrew A. Ziegler dated August 31, 2012
- Exhibit 4 Power of Attorney of Carlene M. Ziegler dated August 31, 2012

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EXHIBIT 1

JOINT FILING AGREEMENT

The undersigned hereby agree to the joint filing of the Schedule 13G to which this Agreement is attached.

Dated: February 7, 2013

ARTISAN INVESTMENT CORPORATION,  
for itself and as the general partner of  
ARTISAN PARTNERS HOLDINGS LP

By: Gregory K. Ramirez\*

ARTISAN INVESTMENTS GP LLC,  
for itself and as the general partner of  
ARTISAN PARTNERS LIMITED PARTNERSHIP

By: Gregory K. Ramirez\*

ZFIC, INC.

By: Gregory K. Ramirez\*

ANDREW A. ZIEGLER

Andrew A. Ziegler\*

CARLENE M. ZIEGLER

Carlene M. Ziegler\*

ARTISAN PARTNERS FUNDS, INC.

By: Gregory K. Ramirez\*

\*By: /s/ Gregory K. Ramirez

Gregory K. Ramirez

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Senior Vice President - Chief  
Accounting Officer & Assistant  
Treasurer of Artisan Investment  
Corporation  
Vice President of Artisan  
Investments GP LLC  
Attorney-in-Fact for ZFIC, Inc.  
Attorney-in-Fact for Andrew A.  
Ziegler  
Attorney-in-Fact for Carlene M.  
Ziegler  
Chief Financial Officer, Vice  
President and Treasurer of  
Artisan Partners Funds, Inc.

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EXHIBIT 2

POWER OF ATTORNEY

The undersigned, ZFIC, Inc., hereby appoints Charles J. Daley, Jr., Sarah A. Johnson, Gregory K. Ramirez and Rebecca Himmelspach, and each of them individually, its true and lawful attorney-in-fact and agent, with full power to execute and file with the United States Securities and Exchange Commission and any stock exchange or similar authority, for and on its behalf in any and all capacities, any and all reports required to be filed pursuant to Section 13 of the Securities Exchange Act of 1934 and the rules thereunder, including but not limited to reports on Schedule 13D or 13G, any and all amendments to such reports, with all exhibits, and any other forms or documents as may be necessary in connection with the filing of such reports with the United States Securities and Exchange Commission and any stock exchange or similar authority, granting unto said attorney full power and authority to do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete, as fully as the undersigned might or could do in person.

This Power of Attorney shall remain in full force and effect until revoked by the undersigned in a signed writing delivered to the foregoing attorneys-in-fact and agents.

IN WITNESS WHEREOF the undersigned has caused this Power of Attorney to be executed this 31st day of August, 2012.

ZFIC, INC.

By: /s/ Andrew A. Ziegler

-----  
Andrew A. Ziegler  
Vice President

STATE OF WISCONSIN )  
                          ) SS.  
COUNTY OF MILWAUKEE)

I, Lisa Moran, a Notary Public in and for the County of Milwaukee, State of Wisconsin, DO HEREBY CERTIFY that Andrew A. Ziegler, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed and delivered the said instrument as his own free and voluntary act, for the uses and purposes therein set forth.







Net cash provided by (used in) investing activities

3,543 **(4,081)**

**FINANCING ACTIVITIES**

Payments of costs related to bank credit facilities

(50) **(8)**

Payments of bond issue costs

(41)

Proceeds from borrowings under bank credit facilities

13,100 **31,774**

Payments under bank credit facilities

(29,100) **(26,464)**

Payments under lines of credit due to related parties

**(9,000)**

Proceeds from exercise of stock options

19 **11**

Excess tax benefit from stock options exercised

30

Payments on capital lease obligations

(32) **(30)**

Payment of cash dividend on common stock

**(850)**

Book overdraft

1,916 **(1,428)**

Net cash used in financing activities

(14,158) **(5,995)**

**CASH FLOWS FROM DISCONTINUED OPERATIONS**

Operating cash flows

(86) **4**

Investing cash flows

(39)

Net cash inflows (outflows) from discontinued operations

(125) **4**

Net decrease in cash and cash equivalents

(565) **245**

Cash and cash equivalents at beginning of year

828 **67**

Cash and cash equivalents at end of period

\$263 **\$312**

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

Interest, including \$113 paid to related parties for the three months ending March 31, 2012

\$354 **\$410**

Income taxes

\$13 **\$8**

**Non-cash investing and financing activities:**

Trade revenue

\$1,252 **\$1,047**

Trade expense

\$974 **\$1,114**

Note receivable acquired in exchange for radio station

\$1,000 **\$**

Assets acquired under capital leases

\$5 \$

See accompanying notes

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**SALEM COMMUNICATIONS CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying consolidated financial statements of Salem Communications Corporation ( Salem, we or the company ) include the company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Information with respect to the three months ended March 31, 2011 and 2012 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 8 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, 2011.

The balance sheet at December 31, 2011 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

**Description of Business**

Salem is a domestic multi-media company with integrated business operations covering radio broadcasting, publishing and the Internet. Our programming is intended for audiences interested in Christian and conservative opinion content and complementary programming. Our primary business is the ownership and operation of radio stations in large metropolitan markets. Upon the close of all announced transactions, we will own and/or operate 96 radio stations across the United States. We also own and operate Salem Radio Network® ( SRN ), SRN News Network ( SNN ), Salem Music Network ( SMN ), Solid Gospel Network ( SGN ), Salem Media Representatives ( SMR ) and Vista Media Representatives ( VMR ). SRN, SNN, SMN and SGN are radio networks that produce and distribute programming, such as talk, news and music segments to radio stations throughout the United States, including Salem owned and operated stations. SMR and VMR sell commercial airtime to national advertisers on radio stations and networks that we own, as well as on independent radio station affiliates.

We also operate Salem Web Network ( SWN ), our Internet businesses that provide Christian and conservative-themed content, audio and video streaming, and other resources on the web. SWN 's Internet portals include OnePlace.com, Christianity.com, Crosswalk.com, BibleStudyTools.com, GodTube.com, Townhall.com®, HotAir.com, WorshipHouse Media.com and Jesus.org. SWN 's content is accessible through our radio station websites that feature content of interest to local listeners throughout the United States. SWN operates these Salem radio station websites as well as Salem Consumer Products, a website offering books, DVD 's and editorial content developed by many of our on-air personalities that are available for purchase. The revenues generated from this segment are reported as Internet revenue on our Condensed Consolidated Statements of Operations.

We also operate Salem Publishing , that produces and distributes Christian and conservative opinion print magazines. Salem Publishing includes Xulon Press , a print-on-demand self-publishing service for Christian authors. The revenues generated from this segment are reported as publishing revenue on our Condensed Consolidated Statements of Operations.

**Variable Interest Entities**

We account for entities qualifying as variable interest entities ( VIEs ) in accordance with ASC Topic 810, *Consolidation* ( ASC 810 ) which requires VIE 's to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the variable interest entity. A VIE is an entity for which the primary beneficiary 's interest in the entity can change with changes in factors other than the amount of investment in the entity.

We may enter into Local Marketing Agreements ( LMA 's ) contemporaneously with entering an Asset Purchase Agreement ( APA ) to acquire or sell a radio station. We may also enter into Time Brokerage Agreements ( TBA 's ). Typically, both LMA 's and TBA 's are contractual agreements under which the station owner / licensee makes air-time available to a programmer / licensee in exchange for a fee and reimbursement of certain

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expenses. LMA s and TBA s are subject to compliance with the antitrust laws and the Communications Laws, including the requirement that the licensee must maintain independent control over the station and, in particular, its personnel, programming, and finances. The FCC has held that such agreements do not violate the Communications Laws as long as the licensee of the station receiving programming from another station maintains ultimate responsibility for, and control over, station operations and otherwise ensures compliance with the Communications Laws.

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## **Table of Contents**

The requirements of ASC 810 may apply to entities under LMA s or TBA s, depending on the facts and circumstances related to each transaction. We did not consolidate any LMA s or TBA s under the guidance in ASC 810 as of March 31, 2012.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas for which management uses estimates include, but are not limited to: (1) asset impairments, including broadcasting licenses and goodwill; (2) income tax valuation allowances; (3) uncertain tax positions; (4) allowance for doubtful accounts; (5) self-insurance reserves; (6) fair value of equity awards; (7) estimated lives for tangible and intangible assets; (8) fair value measurements; and (9) contingency reserves. These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

### **NOTE 2. RECLASSIFICATIONS**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications include the accounting for discontinued operations as described in more detail in Note 4 to our condensed consolidated financial statements and the separation as of March 2011 of our non-broadcast segment into two operating segments, Internet and Publishing. We believe that this segment information is useful to readers of our financial statements. Additionally, due to growth within our Internet operations, including the acquisition of WorshipHouse Media in March 2011, our Internet segment qualified for disclosure as a reportable segment. All prior periods presented have been updated to reflect these reclassifications.

### **NOTE 3. IMPAIRMENT OF GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS**

We account for goodwill and other indefinite-lived intangible assets in accordance with the Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) Topic 350 Intangibles Goodwill and Other. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. There were no indications of impairment present during the period ending March 31, 2012. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 6%.

### **NOTE 4. SIGNIFICANT TRANSACTIONS**

On March 16, 2012, we completed the sale of radio station WBZS-AM in Pawtucket, Rhode Island for \$0.8 million in cash. The sale resulted in a pre-tax gain of \$0.2 million. The accompanying Condensed Consolidated Statements of Operations reflect the operating results of this entity through the date of the sale.

On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. The initial quarterly cash dividend of \$0.9 million or \$0.035 per share was paid on March 30, 2012 to all common stockholders of record as of March 23, 2012. We anticipate paying quarterly dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay total annual dividends of approximately \$3.4 million.

On January 13, 2012, we completed the acquisition of KTNO-AM, Dallas, Texas for \$2.2 million. We began programming the station pursuant to a TBA with the current owner on November 1, 2011. The accompanying Condensed Consolidated Statements of Operations reflect the operating results of this entity as of the TBA date. The accompanying Consolidated Balance Sheets reflect the net assets of this entity as of the closing date



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A summary of our business acquisitions and asset purchases for the three months ended March 31, 2012, none of which were material to our condensed consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Cost (Dollars in thousands)
January 13, 2012	KTNO-AM, Dallas, Texas	\$ 2,150
		\$ 2,150

Under the acquisition method of accounting as specified in FASB ASC Topic 805, the total acquisition consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. We obtained an independent third-party appraisal of the estimated fair value of the acquired net assets as of the acquisition date for the transactions noted. Property, plant and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Intangible assets are also recorded at their estimated fair value and amortized using the straight-line method over their estimated useful lives. The total acquisition consideration was allocated to the net assets acquired as follows:

Asset	Net Broadcast Assets Acquired (Dollars in thousands)
Property and equipment	\$ 1,242
Broadcast licenses	902
Goodwill	6
	\$ 2,150

**Discontinued Operations:**

Based on operating results that did not meet our expectations, we ceased operating Samaritan Fundraising in December 2011. As of December 31, 2011, all employees of this entity were terminated. As a result of our decision to close operations, there will be no material cash flows associated with this entity and we have no ongoing or further involvement in the operations of this entity. The Condensed Consolidated Balance Sheets and Statements of Operations for all prior periods presented were reclassified to reflect the operating results and net assets of this entity as a discontinued operation. As of March 31, 2012, assets of discontinued operations consist of net receivables due to us from sales occurring prior to ceasing operations.

The following table sets forth the components of income (loss) from discontinued operations:

	Three Months Ended March 31,	
	2011	2012
	(Dollars in thousands)	
Net revenues	\$ 620	\$ (2)
Operating expenses	(576)	(68)
Operating income (loss)	\$ 44	\$ (70)
Provision for (benefit from) income taxes	16	(28)
Income (loss) from discontinued operations, net of tax	\$ 28	\$ (42)

**NOTE 5. STOCK OPTION PLAN**

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The company has one stock option plan. The Amended and Restated 1999 Stock Incentive Plan (the Plan ) 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. Options generally vest over a four year period and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated in certain corporate transactions of the company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options. We recognize non-cash stock-based compensation expense related to the estimated fair value of stock options granted in accordance with FASB ASC Topic 718 Compensation Stock Compensation.

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The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2012:

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
	<i>(Dollars in thousands)</i>	
Stock option compensation expense included in Corporate expenses	\$ 183	\$ 207
Restricted stock shares compensation expense included in Corporate expenses	4	
Stock option compensation expense included in Broadcast operating expenses	100	87
Stock option compensation expense included in Internet operating expenses	19	28
Stock option compensation expense included in Publishing operating expenses		5
<b>Total stock-based compensation expense, pre-tax</b>	<b>\$ 306</b>	<b>\$ 327</b>
Tax provision for stock-based compensation expense	(140)	(143)
<b>Total stock-based compensation expense, net of tax</b>	<b>\$ 166</b>	<b>\$ 184</b>

**Stock option and restricted stock grants**

The Plan allows the company to grant stock options and shares of restricted stock to employees, directors, officers and advisors of the company. The option exercise price is set at the closing price of the company's common stock on the date of grant, and the related number of shares granted is fixed at that point in time. The Plan also provides for grants of restricted stock. Eligible employees may receive stock options annually with the number of shares and type of instrument generally determined by the employee's salary grade and performance level. In addition, certain management and professional level employees typically receive a stock option grant upon commencement of employment. Non-employee directors of the company have been awarded restricted stock grants that vest one year from the date of issuance as well as stock options that vest immediately. The Plan does not allow key employees and directors (restricted persons) to exercise options during pre-defined blackout periods. Employees may participate in 10b5-1 Plans that allow them to exercise options according to predefined criteria.

We use the Black-Scholes option valuation model to estimate the grant date fair value of stock options. The expected volatility reflects the consideration of the historical volatility of our stock as determined by the closing price over a six to ten year term that is generally commensurate with the expected term of the option. The expected dividend reflects the quarterly dividend authorized and declared on March 7, 2012 of \$0.035 per share on Class A and Class B common stock. The expected term of the options are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted. We use historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the option valuation model.

The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model were as follows for the three months ended March 31, 2011 and 2012:

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
Expected volatility	100.5%	102.4%
Expected dividends	0%	5.07%
Expected term (in years)	7.6	8.2
Risk-free interest rate	3.08%	1.66%

Stock option information with respect to the company's stock-based compensation plans during the three months ended March 31, 2012 is as follows (Dollars in thousands, except weighted average exercise price and weighted average grant date fair value):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
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				Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<b>Outstanding at January 1, 2012</b>	<b>1,640,392</b>	<b>\$ 5.01</b>	<b>\$ 4.07</b>	<b>5.2 years</b>	<b>\$ 584</b>
<b>Granted</b>	<b>626,000</b>	<b>2.74</b>	<b>1.51</b>		<b>1,234</b>
<b>Exercised</b>	<b>(17,733)</b>	<b>0.61</b>	<b>0.44</b>		<b>57</b>
<b>Forfeited or expired</b>	<b>(22,712)</b>	<b>13.26</b>	<b>7.08</b>		<b>3</b>
<b>Outstanding at March 31, 2012</b>	<b>2,225,947</b>	<b>4.32</b>	<b>3.34</b>	<b>5.9 years</b>	<b>3,598</b>
<b>Exercisable at March 31, 2012</b>	<b>734,249</b>	<b>7.11</b>	<b>5.25</b>	<b>3.1 year</b>	<b>882</b>
<b>Expected to Vest</b>	<b>1,416,367</b>	<b>2.93</b>	<b>2.38</b>	<b>7.4 years</b>	<b>2,741</b>

The aggregate intrinsic value represents the difference between the company's closing stock price on March 30, 2012 of \$4.71 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the three months ended March 31, 2011 and 2012 was \$0.7 million and \$0.5 million, respectively.

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As of March 31, 2012, there was \$2.3 million of total unrecognized compensation cost related to non-vested awards of stock options and restricted shares. This cost is expected to be recognized over a weighted-average period of 2.5 years.

**NOTE 6. RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (ASU No. 2011-11). This ASU requires us to disclose both net and gross information about assets and liabilities that have been offset, if any, and the related arrangements. The disclosures under this new guidance are required to be provided retrospectively for all comparative periods presented. We are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of ASU No. 2011-11 is not expected to have a material impact on our financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment (ASU No. 2011-08), which is intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASC No. 2011-08 will not have a material impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04), which amends ASC Topic 820, Fair Value Measurement. ASU No. 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards. ASU No. 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU No. 2011-14 clarifies the FASB's intent about the application of existing fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. Adoption of ASU No. 2011-04 did not have a material impact on our financial position, results of operations or cash flows.

**NOTE 7. EQUITY TRANSACTIONS**

We account for stock-based compensation expense in accordance with FASB ASC Topic 718 Compensation-Stock Expense. As a result, \$0.3 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for each of the three months ended March 31, 2011 and 2012.

On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. The initial quarterly cash dividend of \$0.9 million or \$0.035 per share was paid on March 30, 2012 to all common stockholders of record as of March 23, 2012. We anticipate paying quarterly dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay total annual dividends of approximately \$3.4 million.

**NOTE 8. NOTES PAYABLE AND LONG-TERM DEBT****Senior Credit Facility**

On December 1, 2009, our parent company, Salem Communications Corporation, entered into a Revolver. We amended the Revolver on November 1, 2010 to increase the borrowing capacity from \$30 million to \$40 million. The amendment allows us to use borrowings under the Revolver, subject to the Available Amount as defined by the terms of the Credit Agreement, to redeem applicable portions of the 9% Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ratio is above 5.0 to 1.

On November 15, 2011, we completed the Second Amendment of our Revolver to among other things, (1) extend the maturity date from December 1, 2012 to December 1, 2014 (2) change the interest rate applicable to LIBOR or the Wells Fargo base rate plus a spread to be determined based on our leverage ratio, (3) allow us to borrow and repay unsecured indebtedness provided certain conditions are met and (4) include step-downs related to our leverage ratio covenant. We incurred \$0.5 million in fees to complete this amendment, which are being amortized over the remaining term of the agreement. The applicable interest rate relating to the amended credit agreement is LIBOR plus a spread of 3.0% per annum or the Base Rate plus a spread of 1.25% per annum, which is adjusted based on our leverage ratio. If an event of default occurs, the interest rate may increase by 2.0% per annum. Details of the change in our rate based on our leverage ratio are as follows:



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<b>Consolidated Leverage Ratio</b>	<b>Base</b>	<b>Eurodollar</b>	<b>Applicable</b>
	<b>Rate</b>	<b>Rate</b>	<b>Fee Rate</b>
		<b>Loans</b>	
Less than 3.25 to 1.00	0.75%	2.25%	0.40%
Greater than or equal to 3.25 to 1.00 but less than 4.50 to 1.00	0.75%	2.50%	0.50%
Greater than or equal to 4.50 to 1.00 but less than 6.00 to 1.00	1.25%	3.00%	0.60%
Greater than or equal to 6.00 to 1.00	2.25%	3.50%	0.75%

The Revolver includes a \$5 million subfacility for standby letters of credit and a subfacility for swingline loans of up to \$5 million, subject to the terms and conditions of the credit agreement relating to the Revolver. In addition to interest charges outlined above, we pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Revolver may be paid and then reborrowed at Salem's discretion without penalty or premium. At March 31, 2012, the blended interest rate on amounts outstanding under the Revolver was 3.38%. We believe that our borrowing capacity under the Revolver allows us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

With respect to financial covenants, the credit agreement includes a maximum leverage ratio of 6.25 to 1.0 and a minimum interest coverage ratio of 1.5 to 1. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. As of March 31, 2012, our leverage ratio was 5.02 to 1 and our interest coverage ratio was 2.05 to 1. We were in compliance with our debt covenants at March 31, 2012, and we remain in compliance.

Our parent company, Salem Communications Corporation, has no independent assets or operations, the subsidiary guarantees are full and unconditional and joint and several, and any subsidiaries of the parent company other than the subsidiary guarantors are minor.

**Senior Secured Second Lien Notes**

On December 1, 2009, we issued \$300.0 million principal amount of 9<sup>5</sup>/<sub>8</sub>% Notes at a discount for \$298.1 million resulting in an effective yield of 9.75%. Interest is due and payable on June 15 and December 15 of each year, commencing June 15, 2010 until maturity. We are not required to make principal payments on the 9<sup>5</sup>/<sub>8</sub>% Notes that are due in full in December 2016. The 9<sup>5</sup>/<sub>8</sub>% Notes are guaranteed by all of our existing domestic restricted subsidiaries. Upon issuance, we were required to pay \$28.9 million per year in interest on the then outstanding 9<sup>5</sup>/<sub>8</sub>% Notes. As of December 31, 2011 and March 31, 2012, accrued interest on the 9<sup>5</sup>/<sub>8</sub>% Notes was \$1.0 million and \$6.7 million, respectively. The discount is being amortized to interest expense over the term of the 9<sup>5</sup>/<sub>8</sub>% Notes based on the effective interest method. For each of the three months ended March 31, 2011 and 2012, approximately \$48,000 and \$45,000, respectively, of the discount has been recognized as interest expense.

On December 12, 2011, we redeemed \$12.5 million of our 9<sup>5</sup>/<sub>8</sub>% Notes for \$12.9 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.8 million pre-tax loss on the early retirement of debt, including approximately \$62,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9<sup>5</sup>/<sub>8</sub>% Notes.

On September 6, 2011, we repurchased \$5.0 million of our 9<sup>5</sup>/<sub>8</sub>% Notes for \$5.1 million, or at a price equal to 102<sup>7</sup>/<sub>8</sub>% of the face value. This transaction resulted in a \$0.3 million pre-tax loss on the early retirement of debt, including approximately \$26,000 of unamortized discount and \$0.1 million of bond issues costs associated with the 9<sup>5</sup>/<sub>8</sub>% Notes.

On June 1, 2011, we redeemed \$17.5 million of the 9<sup>5</sup>/<sub>8</sub>% Notes for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$1.1 million pre-tax loss on the early retirement of debt, including \$0.1 million of unamortized discount and \$0.5 million of bond issues costs associated with the 9<sup>5</sup>/<sub>8</sub>% Notes.

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Information regarding repurchases and redemptions of the 9<sup>5</sup>/<sub>8</sub>% Notes are as follows:

Date	Principal Redeemed	Premium Paid	Unamortized Discount	Bond Issue Costs
	<i>(Dollars in thousands)</i>			
June 1, 2010	\$ 17,500	\$ 525	\$ 105	\$ 417
December 1, 2010	12,500	375	70	334
June 1, 2011	17,500	525	93	472
September 6, 2011	5,000	144	26	135
December 12, 2011	12,500	375	62	337

The carrying value of the 9<sup>5</sup>/<sub>8</sub>% Notes was \$233.8 million and \$233.9 million at December 31, 2011 and March 31, 2012, respectively.

**Lines of Credit due to Related Parties**

On November 17, 2011, Salem entered into Affiliate Lines of Credit with Edward G. Atsinger III, Chief Executive Officer and director of Salem, and Stuart W. Epperson, Chairman of Salem's board of directors. Pursuant to the related agreements, Mr. Epperson has committed to provide an unsecured revolving line of credit to Salem in a principal amount of up to \$3 million, and Mr. Atsinger has committed to provide an unsecured revolving line of credit in a principal amount of up to \$6 million (together, the Affiliate Lines of Credit). The proceeds of the Affiliate Lines of Credit may be used to repurchase a portion of Salem's outstanding 9<sup>5</sup>/<sub>8</sub>% Notes. Outstanding amounts under each Affiliate Line of Credit will bear interest at a rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Credit Agreement referred to above plus 2% per annum. Interest is payable at the time of any repayment of principal. In addition, outstanding amounts under each Affiliate Line of Credit must be repaid within three months from the time that such amounts are borrowed. The Affiliate Lines of Credit do not contain any covenants. At December 31, 2011, \$9.0 million was outstanding under the Affiliate Lines of Credit. On March 1, 2012 we paid the outstanding balances under the Affiliate Lines of Credit of \$9.0 million plus interest of \$0.1 million.

**Summary of long-term debt obligations**

Long-term debt consisted of the following:

	As of December 31, 2011	As of March 31, 2012
	<i>(Dollars in thousands)</i>	
Revolver under senior credit facility	\$ 31,000	\$ 36,310
9 <sup>5</sup> / <sub>8</sub> % senior secured second lien notes due 2016	233,846	233,891
Lines of credit due to related parties	9,000	
Capital leases and other loans	957	928
	274,803	271,129
Less current portion	(9,124)	(128)
	\$ 265,679	\$ 271,001

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of March 31, 2012:

Outstanding borrowings of \$36.3 million under the Revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;

\$235.0 million 9<sup>5</sup>/<sub>8</sub>% Notes with semi-annual interest payments at an annual rate of 9<sup>5</sup>/<sub>8</sub>%; and

Commitment fee of 0.60% on the unused portion of the Revolver.



**Other Debt**

We have several capital leases related to various office equipment. The obligation recorded at December 31, 2011 and March 31, 2012 represents the present value of future commitments under the lease agreements.

**Table of Contents****Maturities of Long-Term Debt**

Principal repayment requirements under all long-term debt agreements outstanding at March 31, 2012 for each of the next five years and thereafter are as follows:

<b>For the Twelve Months Ended March 31,</b>	<b>Amount</b> <i>(Dollars in thousands)</i>
2013	\$ 128
2014	36,406
2015	93
2016	70
2017	233,957
Thereafter	475
	<b>\$ 271,129</b>

**NOTE 9. DEFERRED FINANCING COSTS**

Deferred financing costs consist of bond issue costs and bank loan fees associated with the 95/8% Notes and our Revolver. The capitalized costs are being amortized over the debt term on a straight-line basis. Deferred financing costs consist of the following:

	<b>As of December 31, 2011</b>	<b>As of March 31, 2012</b>
	<i>(Dollars in thousands)</i>	
Bond issue costs	\$ 4,219	\$ 4,005
Bank loan fees	1,270	1,170
	<b>\$ 5,489</b>	<b>\$ 5,175</b>

**NOTE 10. AMORTIZABLE INTANGIBLE ASSETS**

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

	<b>As of March 31, 2012</b>		
	<i>Cost</i>	<i>Accumulated Amortization</i>	<b>Net</b>
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 15,519	\$ (11,670)	\$ 3,849
Domain and brand names	8,227	(6,647)	1,580
Favorable and assigned leases	1,649	(1,559)	90
Other amortizable intangible assets	3,891	(3,529)	362
	<b>\$ 29,286</b>	<b>\$ (23,405)</b>	<b>\$ 5,881</b>

	<b>As of December 31, 2011</b>		
	<i>Cost</i>	<i>Accumulated Amortization</i>	<b>Net</b>
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 15,519	\$ (11,372)	\$ 4,147

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Domain and brand names	8,227	(6,436)	1,791
Favorable and assigned leases	1,649	(1,536)	113
Other amortizable intangible assets	3,891	(3,473)	418
	<b>\$ 29,286</b>	<b>\$ (22,817)</b>	<b>\$ 6,469</b>

Based on the amortizable intangible assets as of March 31, 2012, we estimate amortization expense for the next five years to be as follows:

Year Ending December 31,	Amortization Expense (Dollars in thousands)
2012 (Apr Dec)	\$ 1,421
2013	1,719
2014	1,415
2015	826
2016	252
Thereafter	248
Total	\$ 5,881

**NOTE 11. 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.

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Options to purchase 1,137,911 and 2,225,947 shares of Class A common stock were outstanding at March 31, 2011 and 2012, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company's stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. As of March 31, 2011 and 2012, there were 238,395 and 188,724 dilutive shares, respectively.

### **NOTE 12. FAIR VALUE ACCOUNTING**

FASB ASC Topic 820 Fair Value Measurements and Disclosures established a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the FASB ASC Topic 820 hierarchy are as follows:

Level 1 Inputs quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Level 2 Inputs inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and

Level 3 Inputs unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

As of March 31, 2012, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the company.

### **NOTE 13. INCOME TAXES**

We account for income taxes in accordance with FASB ASC Topic 740 Income Taxes. We recorded an increase in our unrecognized tax benefits of \$0.2 million and \$0.03 million as of March 31, 2011 and 2012. At December 31, 2011, we had \$3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were \$0.1 million accrued for the related interest, net of federal income tax benefits, and \$0.2 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations.

#### ***Valuation Allowance (Deferred Taxes)***

For financial reporting purposes, we recorded a valuation allowance of \$0.1 million as of March 31, 2012 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.

### **NOTE 14. COMMITMENTS AND CONTINGENCIES**

The company enters into various agreements in the normal course of business that contain minimum guarantees. The typical minimum guarantee is tied to future revenue amounts that exceed the contractual level. Accordingly, the fair value of these arrangements is zero.

The company and its subsidiaries, incident to its business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. The company maintains insurance that 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 consolidated financial position, results of operations or cash flows.

**NOTE 15. SEGMENT DATA**

FASB ASC Topic 280 Segment Reporting requires companies to provide certain information about their operating segments. We have historically had one reportable operating segment radio broadcasting. Our radio broadcasting segment operates radio

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stations throughout the United States, as well as various radio networks and our National sales group. Beginning with the first quarter of 2011, we separated our non-broadcast segment into two operating segments, Internet and Publishing. We believe that this information regarding our non-broadcast segment is useful to readers of our financial statements. Additionally, due to growth within our Internet operations, including the acquisition of WorshipHouse Media on March 28, 2011, our Internet segment meets the threshold for disclosure as a reportable segment. All prior periods have been updated to separate these non-broadcast segments. Our Internet segment operates all of our websites and our consumer product sales. Our publishing segment operates our print magazine and Xulon Press, a print-on-demand book publisher.

Management uses operating income before depreciation, amortization, impairments of indefinite-lived intangible assets, (gain) loss on disposal of assets, and costs of denied towers, abandoned projects and terminated transactions as its measure of profitability for purposes of assessing performance and allocating resources.

	Radio Broadcast	Internet	Publishing	Corporate	Consolidated
<i>(Dollars in thousands)</i>					
<b>Three Months Ended March 31, 2012</b>					
Net revenue	\$ 43,957	\$ 7,434	\$ 2,893	\$	\$ 54,284
Operating expenses	29,142	5,924	2,971	4,867	42,904
Operating income (loss) before depreciation, amortization and (gain) loss on disposal of assets	\$ 14,815	\$ 1,510	\$ (78)	\$ (4,867)	\$ 11,380
Depreciation	2,078	569	96	287	3,030
Amortization	35	551	2	1	589
(Gain) loss on disposal of assets	(179)	7		3	(169)
Operating income (loss) from continuing operations	\$ 12,881	\$ 383	\$ (176)	\$ (5,158)	\$ 7,930
<b>Three Months Ended March 31, 2011</b>					
Net revenue	\$ 42,730	\$ 5,592	\$ 2,841	\$	\$ 51,163
Operating expenses	27,802	4,836	2,880	4,551	40,069
Operating income (loss) before depreciation, amortization and (gain) loss on disposal of assets	\$ 14,928	\$ 756	\$ (39)	\$ (4,551)	\$ 11,094
Depreciation	2,278	528	66	310	3,182
Amortization	31	434	54		519
(Gain) loss on disposal of assets	(4,540)	15			(4,525)
Operating income (loss) from continuing operations	\$ 17,159	\$ (221)	\$ (159)	\$ (4,861)	\$ 11,918
<i>(Dollars in thousands)</i>					
<b>As of March 31, 2012</b>					
Property, plant and equipment, net	\$ 95,797	\$ 5,925	\$ 1,234	\$ 8,805	\$ 111,761
Broadcast licenses	372,181				372,181
Goodwill	3,877	14,874	1,337	8	20,096
Other indefinite-lived intangible assets			1,961		1,961
Amortizable intangible assets, net	176	5,684	17	4	5,881
<b>As of December 31, 2011</b>					
Property, plant and equipment, net	\$ 95,295	\$ 5,752	\$ 1,233	\$ 8,942	\$ 111,222
Broadcast licenses	371,420				371,420

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Goodwill	3,873	14,874	1,337	8	20,092
Other indefinite-lived intangible assets			1,961		1,961
Amortizable intangible assets, net	211	6,235	19	4	6,469
<b>NOTE 16. SUBSEQUENT EVENTS</b>					

On April 10, 2012, we completed the acquisition of radio station WKDL-AM in Warrenton, Virginia for \$30,000. We began programming the station upon the close of the transaction.

On April 27, 2012, we received a non-binding commitment letter from First California Bank ( FCB ) (the Letter ). Pursuant to the Letter, FCB has committed to provide an unsecured term credit facility in a principal amount of \$10 million (the FCB Facility ). FCB s commitment to make the FCB Facility available to Salem is subject to the execution of a definitive loan agreement and other documentation acceptable to the FCB and its counsel.

The proceeds of the FCB Facility may be used to repurchase a portion of Salem s outstanding senior secured notes. Outstanding amounts under the FCB Facility will bear interest at a floating rate equal to Wall Street Journal ( WSJ ) Prime Rate plus 1.0% (adjusted when WSJ s Prime Rate changes) with a minimum interest rate of 4.25%. Interest is payable monthly. In addition, the term of the FCB Facility will be twenty four months. Amounts borrowed under the FCB Facility may be repaid at Salem s discretion without penalty or premium.

The indebtedness under the FCB Facility will be subordinated to the indebtedness under the existing Revolver. A separate subordination agreement is anticipated to be entered into among Wells Fargo, FCB and Salem and the description of terms herein is subject to such subordination agreement. The parties intend to execute definitive credit agreements reflecting the terms set forth in the Letter on or before May 31, 2012.

Subsequent events reflect all applicable transactions through the date of the filing.

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**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 condensed consolidated financial statements are not directly comparable from period to period due to acquisitions and dispositions of selected assets of radio stations and acquisitions of various Internet and publishing businesses. See Note 4 of our condensed consolidated financial statements for additional information.

Salem is a domestic multi-media company with integrated business operations covering radio broadcasting, publishing and the Internet. Our programming is intended for audiences interested in Christian and conservative opinion content.

**Broadcast Segment**

Broadcast revenues are impacted by the program rates our radio stations charge, the level of broadcast airtime sold 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. We do not subscribe to traditional audience measuring services for most of our radio stations. Instead, we have marketed ourselves to advertisers based upon the responsiveness of our audiences. In selected markets, we do 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 has a pre-determined level of time that they make available for block programming and/or advertising, which may vary at different times of the day.

Arbitron has developed technology to collect data for its ratings service. The PPM is a small device that does not require active manipulation by the end user and is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals that are encoded for the service by the broadcaster. The PPM offers a number of advantages over the traditional diary ratings collection system including ease of use, more reliable ratings data and shorter time periods between when advertising runs and when audience listening or viewing habits can be reported. This service is already in a number of our markets and is scheduled to be introduced in more markets in the future. It is not clear what long-term impact, if any, the introduction of the PPM will have on our revenues for stations that subscribe to Arbitron.

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 with quarterly fluctuations in the retail advertising industry. Additionally, we experience increased demand for advertising during election years by way of political advertisements. Quarterly revenue from the sale of block programming time does not tend to vary significantly because program rates are generally set annually and are recognized on a per program basis. We currently program 39 of our stations with our Christian Teaching and Talk format, which is talk programming with Christian and family themes. We also program 25 News Talk stations, 11 Contemporary Christian Music stations, 10 Business format stations, and 6 Spanish-language Christian Teaching and Talk stations. The business format features financial experts, business talk, and nationally recognized Bloomberg programming. The business format operates similar to our Christian Teaching and Talk format as it features long-form block programming.

Our cash flow is historically 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 listener and customer 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 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 2011, we sold 97% of our broadcast revenue 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 promotional 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 expect to continue to incur significant depreciation, amortization and interest expense as a result of completed and future acquisitions and existing and future borrowings.





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### **Internet Segment**

Salem Web Network and our Internet business earns revenues from the sales of streaming services, sales of advertising and, to a lesser extent, sales of software, software support contracts and consumer products such as DVD s and editorial products. The revenues of these businesses are reported as Internet revenue on our Consolidated Statements of Operations.

The primary operating expense incurred in the ownership and operation of our Internet businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses and (iv) streaming costs.

### **Publishing Segment**

Our publishing business, Salem Publishing , earns revenues from advertising in and subscriptions to our magazine publications and from book sales. Xulon Press generally earns its revenue from fees paid by authors in association with the publishing of their books. The revenues of these businesses are reported as Publishing on our Consolidated Statements of Operations.

The primary operating expenses incurred by Salem Publishing include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses and (iv) printing and production costs, including paper costs.

We maintain a website at [www.salem.cc](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 with or furnished to the Securities and Exchange Commission ( SEC ). *Any information found on our 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**

Our radio-broadcasting segment derives revenue primarily from the sale of broadcast time and radio advertising on a national and local basis.

Our principal sources of broadcast revenue include:

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;

the sale of advertising time on our national radio network; and

revenue derived from radio station sponsored events.

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 market;

the general economic conditions in each market; and

supply and demand on both a local and national level.

Our principal sources of Internet revenue include:

the sale of Internet advertising;

the support and promotion to stream third-party content on our websites;

sales of software and support services; and

product sales and royalties for on-air host materials.

Our principal sources of publishing revenue include:

subscription fees for our magazines;

the sale of print magazine advertising;

fees from authors for book publishing; and

the sale of books.

**Table of Contents****RESULTS OF OPERATIONS****Three months ended March 31, 2012 compared to the three months ended March 31, 2011**

The following factors affected our results of operations and cash flows for the three months ended March 31, 2012 as compared to same period of the prior year:

**Financing**

On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. The initial quarterly cash dividend of \$0.035 per share will be paid on March 30, 2012 to all common stockholders of record as of March 23, 2012. We anticipate paying the quarterly dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay a total annual dividend of approximately \$3.4 million.

**Acquisitions**

On January 13, 2012, we completed the acquisition of KTNO-AM, Dallas, Texas for \$2.2 million. We began programming the station pursuant to a Time Brokerage Agreement with the current owner on November 1, 2011.

**Dispositions**

On March 16, 2012, we completed the sale of radio station WBZS-AM in Pawtucket, Rhode Island for \$0.8 million in cash. The sale resulted in a pre-tax gain of \$0.2 million.

**Net Broadcasting Revenue**

	<b>Three Months Ended March 31,</b>					
	2011	<b>2012</b>	Change \$	Change %	2011	<b>2012</b>
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Net Broadcast Revenue	\$ 42,730	<b>\$ 43,957</b>	\$ 1,227	2.9%	83.5%	<b>81.0%</b>
Same Station Net Broadcast Revenue	\$ 42,244	<b>\$ 43,524</b>	\$ 1,280	3.0%		

Net broadcast revenues increased due to overall improving economic conditions and a greater demand for radio advertising as compared to the prior year. Included in these results are a \$0.8 million increase in block programming and a \$0.2 million increase in political advertisements. These results reflect higher sales volume due to advertisers and programmers purchasing more air-time and the annual rate increase for block programming.

The following table shows the dollar amount and percentage of net broadcast revenue for each broadcast revenue source.

	<b>Three Months Ended March 31,</b>			
	2011	<b>2012</b>	Change \$	Change %
	<i>(Dollars in thousands)</i>			
Block program time:				
National			\$ 10,428	24.4%
Local			7,738	18.1%
			<b>\$ 10,708</b>	<b>24.4%</b>
			<b>8,239</b>	<b>18.7%</b>

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	18,166	42.5%	<b>18,947</b>	<b>43.1%</b>
Advertising:				
National	2,932	6.9%	<b>3,257</b>	<b>7.4%</b>
Local	15,079	35.3%	<b>14,554</b>	<b>33.1%</b>
	18,011	42.2%	<b>17,811</b>	<b>40.5%</b>
Infomercials	1,577	3.7%	<b>1,630</b>	<b>3.7%</b>
Network	3,458	8.1%	<b>3,831</b>	<b>8.7%</b>
Other	1,518	3.5%	<b>1,738</b>	<b>4.0%</b>
Net broadcast revenue	\$ 42,730	100.0%	<b>\$ 43,957</b>	<b>100.0%</b>

**Table of Contents****Internet Revenue**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	% of Total Net Revenue	
Internet Revenue	\$ 5,592	<b>\$ 7,434</b>	\$ 1,842	32.9%	10.9%	<b>13.7%</b>

The increase in Internet revenues reflect growth from acquisitions and improving overall economic conditions with higher demand for banner advertisements across all of our web-based platforms. The increases are driven primarily by a higher sales volume and secondarily to higher rates charged to our customers. Banner advertisements, including those on our station websites, increased \$1.0 million due to higher demand.

**Publishing Revenue**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	% of Total Net Revenue	
Publishing Revenue	\$ 2,841	<b>\$ 2,893</b>	\$ 52	1.8%	5.6%	<b>5.3%</b>

Publishing revenue increased from higher submission fees and book sales with Xulon Press that were partially offset by declines in subscription revenues from our print magazines as a result of a lower number of subscribers.

**Broadcast Operating Expenses**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	% of Total Net Revenue	
Broadcast Operating Expenses	\$ 27,802	<b>\$ 29,142</b>	\$ 1,340	4.8%	54.3%	<b>53.7%</b>
Same Station Net Broadcast Operating Expenses	\$ 27,578	<b>\$ 28,756</b>	\$ 1,178	4.3%		

Broadcast operating expenses increased due to higher expenses primarily associated with higher revenues, including a \$0.6 million increase in personnel-related costs including commissions, a \$0.3 million increase in advertising expenses, a \$0.3 million increase in facility related costs, a \$0.2 million increase in production and programming, a \$0.1 million increase in music license fees, and a \$0.1 million increase in professional services offset by a decrease in bad debt expense of \$0.3 million.

**Internet Operating Expenses**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	% of Total Net Revenue	
Internet Operating Expenses	\$ 4,836	<b>\$ 5,924</b>	\$ 1,088	22.5 %	9.5%	<b>10.9%</b>

Internet operating expenses increased due to higher variable expenses associated with higher revenues, including a \$0.4 million increase in personnel-related costs including commissions and expense associated with acquisitions.

**Publishing Operating Expenses**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	% of Total Net Revenue	
Publishing Operating Expenses	\$ 2,880	\$ <b>2,971</b>	\$ 91	3.2 %	5.6%	<b>5.5%</b>

Publishing operating expenses increased from Xulon Press, our digital book publishing service that incurred higher variable costs associated with revenue growth. These costs primarily include an increase of \$0.1 million in personnel related costs including commissions.

#### Corporate Expenses

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	% of Total Net Revenue	
Corporate Expenses	\$ 4,551	\$ <b>4,867</b>	\$ 316	6.9%	8.9%	<b>9.0%</b>

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Corporate expenses include shared general and administrative services. The increase over the same period of the prior year includes \$0.2 million in personnel-related costs and a \$0.1 million increase in accounting and public reporting costs.

**Depreciation Expense**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	<i>% of Total Net Revenue</i>	
Depreciation Expense	\$ 3,182	\$ 3,030	\$ (152)	(4.8)%	6.2%	5.6%

Depreciation expense decreased due to reductions in capital expenditures and acquisition related activity, primarily in our broadcast operating segment.

**Amortization Expense**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	<i>% of Total Net Revenue</i>	
Amortization Expense	\$ 519	\$ 589	\$ 70	13.5%	1.0%	1.1%

Amortization expense increased primarily due to the acquisitions of intangible assets from our 2010 acquisitions of HotAir.com and GodTube.com and our 2011 acquisition of WorshipHouse Media. These intangible assets include customer lists and domain names with useful lives of between one and five years.

**Gain on disposal of assets**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	<i>% of Total Net Revenue</i>	
Gain on disposal of assets	\$ (4,525)	\$ (169)	\$ 4,356	(96.3)%	(8.8)%	(0.3)%

The net gain on disposal of assets for the three months ended March 31, 2012, includes a \$0.2 million pre-tax gain on the sale of WBZS-AM in Pawtucket, Rhode Island. The net gain on disposal of assets for the same period of the prior year includes a \$2.4 million pre-tax gain on the sale of KKMO-AM in Seattle, Washington and a \$2.1 million pre-tax gain on the sale of KXMX-AM in Los Angeles, California, partially offset by various fixed asset and equipment disposals.

**Other income (expense), net**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	<i>(Dollars in thousands)</i>		\$	%	<i>% of Total Net Revenue</i>	
Interest Income	\$ 43	\$ 31	\$ (12)	(27.9)%	0.1%	0.1%
Interest Expense	(7,235)	(6,396)	(839)	(11.6)%	(14.1)%	(11.8)%
Other Income (Expense)	(11)	7	18	(163.6)%	%	%

Interest income represents earnings on excess cash. The decrease in interest expense is due to the lower principal balance outstanding on our 9<sup>5</sup>/<sub>8</sub>% Notes, partially offset by higher interest on the outstanding balances on our Revolver. Other income and expense, net relates royalty income



from real estate properties.

**Provision for income taxes**

	<b>Three Months Ended March 31,</b>					
	2011	<b>2012</b>	Change \$	Change %	2011	<b>2012</b>
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Provision for income taxes	\$ 2,156	<b>\$ 687</b>	\$ (1,469)	(68.1)%	4.2%	<b>1.3%</b>

In accordance with FASB ASC Topic 740 Income Taxes, our provision for income taxes was \$0.7 million for the three months ended March 31, 2012 compared to \$2.2 million for the same period of the prior year. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 43.7% for the three months ended March 31, 2012 compared to 45.7% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

**Table of Contents****Income (loss) from discontinued operations, net of tax**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	(Dollars in thousands)			% of Total Net Revenue		
Income (loss) from discontinued operations, net of tax	\$ 28	\$ (42)	\$ (70)	(251.3)%	0.1 %	(0.1)%

The income (loss) from discontinued operations for the three months ended March 31, 2012 and 2011 relate to the operating results of Samaritan Fundraising that ceased operations in December 2011.

**Net Income**

	Three Months Ended March 31,					
	2011	2012	Change	Change	2011	2012
	(Dollars in thousands)			% of Total Net Revenue		
Net Income	\$ 2,587	\$ 843	\$ (1,744)	(67.4)%	5.1%	1.6%

Net income decreased due to a \$4.0 million decrease in our net operating income due primarily to higher operating costs as discussed above, offset by a \$0.8 million decrease in interest expense and a \$1.5 million decrease in our tax provision.

**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.

**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 broadcast revenue less broadcast operating expenses. Accordingly, changes in net broadcast revenue and broadcast operating expenses, as explained above, have a direct impact on changes in SOI.

SOI is not a measure of performance calculated in accordance with GAAP. SOI 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, profitability and our internal review associated with our impairment analysis of indefinite-lived intangible assets. 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, 2012 compared to the three months ended March 31, 2011**

**STATION OPERATING INCOME.** SOI decreased \$0.1 million, or 0.8%, to \$14.8 million for the three months ended March 31, 2012, compared to \$14.9 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI decreased to 33.7% for the three months ended March 31, 2012 from 34.9% for the same period of the prior year. On a same station basis, SOI increased \$0.1 million, or 0.7%, to \$14.8 million for the three months ended March 31, 2012 from \$14.7 million for the same period of the prior year. As a percentage of same station net

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broadcast revenue, same station SOI decreased to 33.9% for the three months ended March 31, 2012 from 34.7% for the same period of the prior year. The decline in SOI is primarily due to higher operating expenses, including personnel related costs during the three months ending March 31, 2012 compared to the same period of the prior year.

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The following table provides a reconciliation of SOI (a non-GAAP financial measure) to operating income (as presented in our condensed consolidated financial statements) for the three months ended March 31, 2011 and 2012:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	2011	2012
	<i>(Dollars in thousands)</i>	
Station operating income	\$ 14,928	\$ <b>14,815</b>
Plus Internet revenue	5,592	<b>7,434</b>
Plus publishing revenue	2,841	<b>2,893</b>
Less Internet operating expenses	(4,836)	<b>(5,924)</b>
Less publishing operating expenses	(2,880)	<b>(2,971)</b>
Less corporate expenses	(4,551)	<b>(4,867)</b>
Less depreciation and amortization	(3,701)	<b>(3,619)</b>
Less gain (loss) on disposal of assets	4,525	<b>169</b>
<b>Operating income from continuing operations</b>	<b>\$ 11,918</b>	<b>\$ 7,930</b>

**CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

The discussion and analysis of our financial condition and results of operations are based upon our condensed 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 acquisitions and upgrades of radio station and network assets, revenue recognition, allowance for doubtful accounts, goodwill and other non-intangible assets, uncertain tax positions, valuation allowance (deferred taxes), long-term debt and debt covenant compliance, and stock-based compensation. 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 that affect the preparation of our condensed consolidated financial statements.

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

A majority of our radio station 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 broadcast license. It is our policy generally to retain third-party appraisers to value radio stations, networks, Internet and publishing properties. The allocations assigned to acquired broadcast 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 that 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 at the close of the transaction.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast 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 the completion of a project 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 or the project is abandoned, we write-off the capitalized costs of the project.

***Revenue recognition***

Revenues are recognized when pervasive evidence of an arrangement exists, delivery has occurred or the service has been rendered, the price to the customer is fixed or determinable and collection of the arrangement fee is reasonably assured.

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Revenues from radio programs and commercial advertising are recognized when the program or advertisement is broadcast. Revenue is reported net of agency commissions, which are calculated based on a stated percentage applied to gross billing. Our customers principally include not-for-profit charitable organizations and commercial advertisers. Revenue from the sale of products and services are recognized when the products are shipped and the services are rendered. Revenues from the sale of advertising in our magazines are recognized upon publication. Revenue from the sale of subscriptions to our publications is recognized over the life of the subscription. Revenue from book sales are recorded when shipment occurs.

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*Multiple-Deliverables*

We may enter bundled advertising agreements that include spot advertisements on our radio stations, Internet banner placements, print magazine advertisements and booth space at specific events or some combination thereof. The multiple deliverables contained in each agreement are accounted for separately over their respective delivery period provided that they are separate units of accounting. The selling price used for each deliverable is based on vendor specific objective evidence if available or estimated selling price if vendor specific objective evidence is not available. Objective evidence of fair value includes the price charged for each element when it is sold separately. The estimated selling price is the price that we would transact if the deliverable were sold regularly on a standalone basis. Arrangement consideration is allocated at the inception of each arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

*Barter Transactions*

We may provide advertising time in exchange for certain products, supplies and services. The terms of the exchanges generally permit for the preemption of such broadcast time in favor of advertisers who purchase time on regular terms. We include the value of such exchanges in both net broadcasting revenues and broadcast operating expenses. The value recorded for barter revenues is based upon management's estimate of the fair value of the products, supplies and services received.

Advertising time that our radio stations exchange for goods and or services is recorded as barter revenue when the advertisement is broadcast at an amount equal to our estimate fair value of what was received. The value of the goods and services received in such barter transactions is charged to expense when used. Barter advertising revenue included in broadcast revenue for the three months ended March 31, 2011 and 2012 was approximately \$1.2 million and \$1.0 million, respectively, and barter expenses were approximately the same as barter revenue for each period.

*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.

*Accounting for discontinued operations*

We regularly review underperforming assets to determine if a sale might be a better way to monetize the assets. When a station, group of stations, or other asset groups are considered for sale, we review the transaction to determine if or when the entity qualifies as a discontinued operation in accordance with the criteria of FASB ASC Topic 205-20 Discontinued Operations. This pronouncement specifies that the operations and cash flow of the entity disposed of, or to be sold, have or will be eliminated from the ongoing operations as a result of the disposal and that we will not have significant continuing involvement in the operations after the disposal transaction. For our radio stations, we define a cluster as a group of radio stations operating in the same geographic market, sharing the same building, equipment, and managed by a single general manager. The cluster level is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results. General Managers are compensated based on the results of their cluster as a whole, not the results of any individual radio stations. We have determined that a radio market qualifies for a discontinued operation when management, having the authority to approve the action, commits to a plan to sell the asset (disposal group), the sale is probable, and the sale will result in the exit of a particular geographic market.

During the 4th quarter of 2011, based on operating results that did not meet expectations, we ceased operating Samaritan Fundraising as of December 31, 2011. Samaritan Fundraising, reported in our Internet operations, was a web-based fundraising products company operating from a single facility in Fairfax, VA, under the control of one general manager. As a result of our decision to close operations, there will be no material cash flows associated with this entity and we have no ongoing or further involvement in the operations of this entity. We have reported the operating results and net assets of this entity as a discontinued operation for all prior periods presented.

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**Table of Contents*****Goodwill and other indefinite-lived intangible assets***

Approximately 70% of our total assets as of March 31, 2012, consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) Topic 350, Intangibles—Goodwill and Other. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 6%. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired.

We complete our annual impairment tests in the fourth quarter of each year. We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on past experiences and judgment about future operating performance of our markets and business segments. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820 Fair Value Measurements and Disclosures as Level 3 inputs discussed in detail in Note 12 to our Condensed Consolidated Financial Statements.

***Partial self-insurance on employee health plan***

We provide health insurance benefits to eligible employees under a self-insured plan whereby the company pays actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Any projection of losses concerning our liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated we may need to adjust our future reserves.

***Income taxes and uncertain tax positions***

We account for income taxes in accordance with FASB ASC Topic 740 Income Taxes. We recorded an increase in our unrecognized tax benefits of \$0.2 million and \$0.03 million as of March 31, 2011 and 2012. At December 31, 2011, we had \$3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were \$0.1 million accrued for the related interest, net of federal income tax benefits, and \$0.2 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations.

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

For financial reporting purposes, we recorded a valuation allowance of \$0.1 million as of March 31, 2012 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.

***Fair value accounting***

FASB ASC Topic 820 Fair Value Measurements and Disclosures established a single definition of fair value in generally accepted accounting principles and expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. We adopted the fair value provisions for financial assets and financial liabilities effective January 1, 2008. The adoption had a material impact on our consolidated financial position, results of operations and cash flows. We adopted fair value provisions for nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value. The adoption of the fair value provisions of FASB ASC Topic 820 to nonfinancial assets and nonfinancial liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows.





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The fair value provisions include guidance on how to estimate the fair value of assets and liabilities in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less (or no) pricing observability and a higher degree of judgment utilized in measuring fair value. Please refer to Note 12 Fair Value Accounting for a further discussion.

***Stock-Based compensation***

We account for stock-based compensation under the provisions of FASB ASC Topic 718 Compensation Stock Compensation. We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of our options using the Black-Scholes option-pricing model that requires the input of highly subjective assumptions, including the expected stock price volatility and expected term of the options granted. The exercise price for options is equal to the closing market price of Salem Communications common stock as of the date of grant. We use the straight-line attribution method to recognize share-based compensation costs over the expected service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock awards, deferred tax assets for options and restricted stock awards with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas for which management uses estimates include, but are not limited to: (1) asset impairments, including broadcasting licenses and goodwill; (2) income tax valuation allowances; (3) uncertain tax positions; (4) allowance for doubtful accounts; (5) self-insurance reserves; (6) fair value of equity awards; (7) estimated lives for tangible and intangible assets; (8) fair value measurements; and (9) contingency reserves. These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

**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 currently expect to fund any future acquisitions from cash on hand, proceeds from debt and equity offerings, borrowings under our credit facility, operating cash flow and possibly through the sale of income-producing 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 the notes from operating cash flow, borrowings under the Revolver and, if necessary, proceeds from the sale of selected assets or radio stations.

**Cash Flows**

Cash and cash equivalents increased \$0.2 million to \$0.3 million as of March 31, 2012 compared to \$0.1 million as of December 31, 2011. Working capital increased \$1.5 million to \$11.7 million as of March 31, 2012, compared to \$10.2 million for the same period of the prior year.

The following events impacted our liquidity and capital resources during the three months ended March 31, 2012:

Capital expenditures increased \$0.4 million to \$2.8 million from \$2.4 million for the prior year;

Our Days Sales Outstanding (DSO) improved to 66 days as of March 31, 2012 compared to 67 days for the same period of the prior year;

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Cash paid for acquisitions decreased \$4.5 million to \$2.1 million from \$6.6 million for the same period of the prior year;

Cash proceeds from the sale of assets decreased \$11.9 million to \$0.8 million compared to \$12.7 million for the same period of the prior year;

We increased the outstanding balance on our Revolver by \$5.3 million compared to a \$16.0 million decrease in the same period of the prior year, primarily due to cash proceeds from the sale of assets; We repaid \$9.0 million under Affiliate Lines of Credit; and

On March 30, 2012 we paid a cash dividend of \$0.9 million or \$0.035 per share to all common stockholders of record as of March 23, 2012.

**Credit Facilities**

The Revolver and the 9<sup>5</sup>/<sub>8</sub>% Notes have been entered into by Salem Communications Corporation. Our parent company, Salem Communications Corporation has no independent assets or operations. All of the subsidiaries of Salem Communications Corporation are currently guarantors of the Revolver and the 9<sup>5</sup>/<sub>8</sub>% Notes. The guarantees are full and unconditional and joint and several, and any subsidiaries of the parent company other than the subsidiary guarantors are minor.

**Senior Credit Facility**

On December 1, 2009, our parent company, Salem Communications Corporation entered into a Revolver. We amended the Revolver on November 1, 2010 to increase the borrowing capacity from \$30 million to \$40 million. The amendment allows us to use borrowings under the Revolver, subject to the Available Amount as defined by the terms of the Credit Agreement, to redeem applicable portions of the 9<sup>5</sup>/<sub>8</sub>% Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ratio is above 5.0 to 1.

On November 15, 2011, we completed the Second Amendment of our Revolver to among other things, (1) extend the maturity date from December 1, 2012 to December 1, 2014 (2) change the interest rate applicable to LIBOR or the Wells Fargo base rate plus a spread to be determined based on our leverage ratio, (3) allow us to borrow and repay unsecured indebtedness provided certain conditions are met and (4) include step-downs related to our leverage ratio covenant. We incurred \$0.5 million in fees to complete this amendment, which are being amortized over the remaining term of the agreement. The applicable interest rate relating to the amended credit agreement is LIBOR plus a spread of 3.0% per annum or the Base Rate plus a spread of 1.25% per annum, which is adjusted based on our leverage ratio. If an event of default occurs, the interest rate may increase by 2.0% per annum. Details of the change in our rate based on our leverage ratio are as follows:

Consolidated Leverage Ratio	Base Rate	Eurodollar Rate Loans	Applicable Fee Rate
Less than 3.25 to 1.00	0.75%	2.25%	0.40%
Greater than or equal to 3.25 to 1.00 but less than 4.50 to 1.00	0.75%	2.50%	0.50%
Greater than or equal to 4.50 to 1.00 but less than 6.00 to 1.00	1.25%	3.00%	0.60%
Greater than or equal to 6.00 to 1.00	2.25%	3.50%	0.75%

The Revolver includes a \$5 million subfacility for standby letters of credit and a subfacility for swingline loans of up to \$5 million, subject to the terms and conditions of the credit agreement relating to the Revolver. In addition to interest charges outlined above, we pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Revolver may be paid and then reborrowed at Salem's discretion without penalty or premium. At March 31, 2012, the blended interest rate on amounts outstanding under the Revolver was 3.38%. We believe that our borrowing capacity under the Revolver allows us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

With respect to financial covenants, the credit agreement includes a maximum leverage ratio of 6.25 to 1.0 and a minimum interest coverage ratio of 1.5 to 1. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to

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exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. As of March 31, 2012, our leverage ratio was 5.02 to 1 and our interest coverage ratio was 2.05 to 1. We were in compliance with our debt covenants at March 31, 2012, and we remain in compliance.

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Our parent company, Salem Communications Corporation, has no independent assets or operations, the subsidiary guarantees are full and unconditional and joint and several, and any subsidiaries of the parent company other than the subsidiary guarantors are minor.

**Senior Secured Second Lien Notes**

On December 1, 2009, we issued \$300.0 million principal amount of 9<sup>5</sup>/<sub>8</sub>% Notes at a discount for \$298.1 million resulting in an effective yield of 9.75%. Interest is due and payable on June 15 and December 15 of each year, commencing June 15, 2010 until maturity. We are not required to make principal payments on the 9<sup>5</sup>/<sub>8</sub>% Notes that are due in full in December 2016. The 9<sup>5</sup>/<sub>8</sub>% Notes are guaranteed by all of our existing domestic restricted subsidiaries. Upon issuance, we were required to pay \$28.9 million per year in interest on the then outstanding 9<sup>5</sup>/<sub>8</sub>% Notes. As of December 31, 2011 and March 31, 2012, accrued interest on the 9<sup>5</sup>/<sub>8</sub>% Notes was \$1.0 million and \$6.7 million, respectively. The discount is being amortized to interest expense over the term of the 9<sup>5</sup>/<sub>8</sub>% Notes based on the effective interest method. For each of the three months ended March 31, 2011 and 2012, approximately \$48,000 and \$45,000, respectively, of the discount has been recognized as interest expense.

On December 12, 2011, we redeemed \$12.5 million of our 9<sup>5</sup>/<sub>8</sub>% Notes for \$12.9 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.8 million pre-tax loss on the early retirement of debt, including approximately \$62,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9<sup>5</sup>/<sub>8</sub>% Notes.

On September 6, 2011, we repurchased \$5.0 million of our 9<sup>5</sup>/<sub>8</sub>% Notes for \$5.1 million, or at a price equal to 102<sup>7</sup>/<sub>8</sub>% of the face value. This transaction resulted in a \$0.3 million pre-tax loss on the early retirement of debt, including approximately \$26,000 of unamortized discount and \$0.1 million of bond issues costs associated with the 9<sup>5</sup>/<sub>8</sub>% Notes.

On June 1, 2011, we redeemed \$17.5 million of the 9<sup>5</sup>/<sub>8</sub>% Notes for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$1.1 million pre-tax loss on the early retirement of debt, including \$0.1 million of unamortized discount and \$0.5 million of bond issues costs associated with the 9<sup>5</sup>/<sub>8</sub>% Notes.

Information regarding repurchases and redemptions of the 9<sup>5</sup>/<sub>8</sub>% Notes are as follows:

Date	Principal Redeemed	Premium Paid	Unamortized Discount	Bond Issue Costs
	<i>(Dollars in thousands)</i>			
June 1, 2010	\$ 17,500	\$ 525	\$ 105	\$ 417
December 1, 2010	12,500	375	70	334
June 1, 2011	17,500	525	93	472
September 6, 2011	5,000	144	26	135
December 12, 2011	12,500	375	62	337

The carrying value of the 9<sup>5</sup>/<sub>8</sub>% Notes was \$233.8 million and \$233.9 million at December 31, 2011 and March 31, 2012, respectively.

**Lines of Credit due to Related Parties**

On November 17, 2011, Salem entered into Affiliate Lines of Credit with Edward G. Atsinger III, Chief Executive Officer and director of Salem, and Stuart W. Epperson, Chairman of Salem's board of directors. Pursuant to the related agreements, Mr. Epperson has committed to provide an unsecured revolving line of credit to Salem in a principal amount of up to \$3 million, and Mr. Atsinger has committed to provide an unsecured revolving line of credit in a principal amount of up to \$6 million (together, the Affiliate Lines of Credit). The proceeds of the Affiliate Lines of Credit may be used to repurchase a portion of Salem's outstanding 9/8% Notes. Outstanding amounts under each Affiliate Line of Credit will bear interest at a rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Credit Agreement referred to above plus 2% per annum. Interest is payable at the time of any repayment of principal. In addition, outstanding amounts under each Affiliate Line of Credit must be repaid within three months from the time that such amounts are borrowed. The Affiliate Lines of Credit do not contain any covenants. At December 31, 2011, \$9.0 million was outstanding under the Affiliate Lines of Credit. On March 1, 2012 we paid the outstanding balances under the Affiliate Lines of Credit of \$9.0 million plus interest of \$0.1 million.

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***Impairment Losses on Goodwill and Indefinite-Lived Intangible Assets***

Under FASB ASC Topic 350 Intangibles Goodwill and Other, indefinite-lived intangibles, including broadcast licenses, goodwill and mastheads are not amortized but instead are tested for impairment at least annually, or more frequently if events or circumstances indicate that there may be an impairment. Impairment is measured as the excess of the carrying value of the indefinite-lived intangible asset over its fair value. Intangible assets that have finite useful lives continue to be amortized over their useful lives and are measured for impairment if events or circumstances indicate that they may be impaired. Impairment losses are recorded as operating expenses. We have incurred significant impairment losses in prior periods with regard to our indefinite-lived intangible assets.

The valuation of intangible assets is subjective and based on estimates rather than precise calculations. The fair value measurements of our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. Given the current economic environment and uncertainties that can negatively impact our business, there can be no assurance that our estimates and assumptions made for the purpose of our indefinite-lived intangible fair value estimates will prove to be accurate.

**OFF-BALANCE SHEET ARRANGEMENTS**

We have, from time to time, divested certain of our radio stations and assets. In connection with these divestitures, we often provide representations, warranties and/or indemnities to cover various risks and unknown liabilities, such as environmental liabilities. We cannot estimate the potential liability from such representations, warranties and indemnities because they relate to unknown conditions.

We indemnify our directors and certain employees as permitted by law. We have not recorded a liability associated with these indemnification arrangements as we historically have not incurred any losses associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that we maintain; however, such insurance may not cover any of, or may cover only a portion of, the amounts we may be required to pay. In addition, such insurance coverage could change in the future.

We do 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 financial arrangements or other contractually narrow or limited purposes at March 31, 2012. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

As of March 31, 2012, we had no other off-balance sheet arrangements.

**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 may 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 that may increase the volatility of our earnings.

Under FASB ASC Topic 815 Derivatives and Hedging the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument shall be reported as a component of other comprehensive income (outside earnings) and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, shall be recognized currently in earnings.

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**ITEM 4T. 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 our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2012.

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. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. We maintain insurance that 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 consolidated financial position, results of operations or cash flows.

**ITEM 1A. RISK FACTORS.**

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the Risk Factors ). The Risk Factors are hereby incorporated in Part II, Item 1A of this Form 10-Q. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

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

None.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

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**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 4, 2012

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

May 4, 2012

By: /s/ EVAN D. MASYR  
Evan D. Masyr  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)



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<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File No.</b>	<b>Date of First Filing</b>	<b>Exhibit Number</b>	<b>Filed Herewith</b>
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.					X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.					X
101	The following financial information from the Quarterly Report on Form 10Q for the quarter ended March 31, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets (ii) Condensed Consolidated Statements of Operations (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Notes to the Condensed Consolidated Financial Statements.					X