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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _________________ TO _________________

COMMISSION FILE NUMBER 000-26497

SALEM COMMUNICATIONS CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**77-0121400** (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
4880 SANTA ROSA ROAD, SUITE 300 **CAMARILLO, CALIFORNIA** (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	**93012** (ZIP CODE)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

As of May 14, 2002 there were 17,907,317 shares of Class A common stock and 5,553,696 shares of Class B common stock of Salem Communications Corporation outstanding.

SALEM COMMUNICATIONS CORPORATION
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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

From time to time, in both written reports (such as this report) and oral statements, Salem Communications Corporation ("Salem" or the "company", including references to Salem by "we," "us" and "our") makes "forward-looking statements" within the meaning of Federal and state securities laws. Disclosures that use words such as the company "believes," "anticipates," "expects," "may" or "plans" and similar expressions are intended to identify forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company's current expectations and are based upon data available to the company at the time of the statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations including, but not limited to, Salem's ability to close and integrate announced transactions, competition in the radio broadcast, publishing and Internet industries and from new technologies, market acceptance of recently launched music formats and adverse economic conditions. These risks as well as other risks and uncertainties are detailed from time to time in Salem's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Forward-looking statements made in this report speak as of the date hereof. The company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections or forward-looking statements fall under the safe harbors of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act").

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	December 31, 2001	March 31, 2002
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,921	**$ 4,097**
Accounts receivable (less allowance for doubtful accounts of $5,749 in 2001 and $6,158 in 2002)	27,695	**26,986**
Other receivables	1,284	**919**
Prepaid expenses	1,282	**1,416**
Due from stockholders	302	**259**
Deferred income taxes	1,531	**1,683**
Total current assets	56,015	**35,360**
Property, plant and equipment, net	93,087	**95,600**
Broadcast licenses	323,848	**337,850**
Goodwill	14,154	**9,340**
Amortizable intangible assets, net	6,057	**5,523**
Bond issue costs	7,685	**7,517**
Due from stockholders	448	**457**
Other assets	5,960	**8,251**
Total assets	$ 507,254	**$ 499,898**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 828	**$ 491**
Accrued expenses	3,726	**4,538**
Accrued compensation and related	4,136	**4,592**
Accrued interest	9,748	**8,451**
Deferred subscription revenue	1,457	**1,315**
Income taxes	44	**103**
Current portion of long-term debt and capital lease obligations	665	**658**
Total current liabilities	20,604	**20,148**
Long-term debt and capital lease obligations, less current portion	311,621	**307,674**
Deferred income taxes	15,914	**14,869**
Other liabilities	1,745	**1,596**
Stockholders' equity:		
Class A common stock, $0.01 par value; authorized 80,000,000 shares; issued and outstanding 17,904,942 shares and 17,907,567 in 2001 and 2002, respectively	179	**179**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; issued and outstanding 5,553,696 shares	56	**56**
Additional paid-in capital	147,415	**147,455**
Retained earnings	9,720	**7,921**
Total stockholders' equity	157,370	**155,611**
Total liabilities and stockholders' equity	$ 507,254	**$ 499,898**

See accompanying notes

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

	Three Months Ended March 31,	
	2001	**2002**
Gross broadcasting revenue	$ 32,904	**$ 38,876**
Less agency commissions	2,818	**3,351**
Net broadcasting revenue	30,086	**35,525**
Other media revenue	1,965	**1,695**
Total revenue	32,051	**37,220**
Operating expenses:		
Broadcasting operating expenses (including $272 and $250 for the quarter ended March 31, 2001 and 2002, respectively, paid to related parties)	19,850	**24,494**
Other media operating expenses	2,536	**2,033**
Corporate expenses (including $31 and $64 for the quarter ended March 31, 2001 and 2002, respectively, paid to related parties)	3,868	**3,687**
Depreciation and amortization (including $572 and $175 for the quarter ended March 31, 2001 and 2002, respectively, for other media businesses)	7,273	**2,878**

Total operating expenses		33,527		**33,092**
Net operating income (loss)		(1,476)		**4,128**
Other income (expense):				
Interest income		795		**40**
Interest expense		(6,467)		**(6,706)**
Loss on sale of assets		(8)		**(226)**
Other expense, net		(55)		**(164)**
Loss before income taxes		(7,211)		**(2,928)**
Benefit for income taxes		(2,549)		**(1,129)**
Net loss	$	(4,662)	**$**	**(1,799)**
Basic and diluted loss per share	$	(0.20)	**$**	**(0.08)**
Basic and diluted weighted average shares outstanding		23,456,088		**23,458,164**

See accompanying notes

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

	Three Months Ended March 31,			
		2001		**2002**
OPERATING ACTIVITIES				
Net loss	$	(4,662)	**$**	**(1,799)**
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization		7,273		**2,878**
Amortization of bond issue costs and bank loan fees		183		**377**
Provision for bad debts		1,116		**1,061**
Deferred income taxes		(2,563)		**(1,197)**
Loss on sale of assets		8		**226**
Changes in operating assets and liabilities:				
Accounts receivable		2,229		**(87)**
Prepaid expenses and other current assets		(546)		**(100)**
Accounts payable and accrued expenses		4,843		**(386)**
Deferred subscription revenue		21		**(142)**
Other liabilities		(160)		**128**
Income taxes		(27)		**59**
Net cash provided by operating activities		7,715		**1,018**
INVESTING ACTIVITIES				
Capital expenditures		(7,743)		**(4,656)**
Deposits on radio station acquisitions		—		**(2,700)**
Purchases of radio stations		(38,214)		**(9,092)**
Proceeds from sale of property, plant and equipment and intangible assets		98,358		**6**
Other assets		399		**(354)**
Net cash provided by (used in) investing activities		52,800		**(16,796)**
FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt and notes payable to stockholders		1,000		**—**
Payments of long-term debt and notes payable to stockholders		—		**(4,000)**
Proceeds from exercise of stock options		—		**40**
Payments on capital lease obligations		(19)		**(11)**
Payments of costs related to bank credit facility and debt refinancing		(316)		**—**
Payments of bond issue costs		—		**(75)**
Net cash provided by (used in) financing activities		665		**(4,046)**
Net increase (decrease) in cash and cash equivalents		61,180		**(19,824)**
Cash and cash equivalents at beginning of period		3,928		**23,921**
Cash and cash equivalents at end of period	$	65,108	**$**	**4,097**
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	1,746	**$**	**7,627**
Income taxes		42		**8**

See accompanying notes

SALEM COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Information with respect to the three months ended March 31, 2002 and 2001 is unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles 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 Salem Communications Corporation and Subsidiaries ("Salem," or "company"), for the periods presented. 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, 2001.

NOTE 2. ACQUISITIONS AND OTHER SIGNIFICANT TRANSACTIONS

We purchased the assets (principally intangibles) of the following radio stations during the three months ended March 31, 2002:

Acquisition Date	Station	Market Served	Allocated Purchase Price	Format Changed
			(in thousands)	
January 12, 2002	KLNA-FM (now KKFS-FM)	Sacramento, CA	$ 8,675	Yes
February 15, 2002	KIKN-AM	Seattle, WA	525	Yes
			$ 9,200	

NOTE 3. ACCOUNTING CHANGE - GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The company began applying the new rules on accounting for goodwill and other intangible assets to assets acquired subsequent to June 30, 2001 and effective January 1, 2002 for all other amounts. Application of the nonamortization provisions of SFAS No. 142 is expected to result in an increase in net income of approximately $13 million ($0.56 per share) per year. During the first quarter of 2002, the company performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has determined that there will be no effect on the earnings and financial position of the company as a result of these tests.

The following table provides a reconciliation of reported net loss for the three months ended March 31, 2001 to net loss that would have been reported had SFAS No. 142 been applied as of January 1, 2001:

	Three Months Ended March 31, 2001 *(Dollars in thousands, except per share data)*
Reported net loss	$ (4,662)
Add back goodwill and broadcast licenses amortization, net of tax	3,400
Adjusted net loss	$ (1,262)
Basic and diluted loss per share:	
As reported	$ (0.20)
Goodwill and broadcast license amortization, net of tax	0.15
As adjusted	$ (0.05)

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

	As of December 31, 2001		
	Cost	Accumulated Amortization	Net
	(Dollars in thousands)		
Noncompetition agreements	$ 12,618	$ (12,156)	$ 462
Customer lists and contracts	7,094	(2,918)	4,176
Favorable and assigned leases	1,800	(1,138)	662
Other intangible assets	2,409	(1,652)	757
	$ 23,921	$ (17,864)	$ 6,057

	As of March 31, 2002		
	Cost	Accumulated Amortization	Net
	(Dollars in thousands)		
Noncompetition agreements	$ 12,618	$ (12,174)	$ 444
Customer lists and contracts	7,094	(3,356)	3,738
Favorable and assigned leases	1,800	(1,154)	646
Other intangible assets	2,397	(1,702)	695

	$ 23,909	$ (18,386)	$ 5,523

Based on the amortizable intangible assets as of March 31, 2002, we estimate amortization expense for the next five years to be as follows:

Year Ending December 31,	***(Dollars in thousands)***
2002	$ 1,842
2003	1,215
2004	1,188
2005	937
2006	390

NOTE 4. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed by dividing net loss by the weighted average number of common stock shares outstanding. Diluted loss per share is computed by dividing net loss by the weighted average number of common stock shares and when dilutive, common stock share equivalents outstanding. Options to purchase 527,105 and 473,200 shares of Class A common stock were outstanding as of March 31, 2001 and 2002, respectively. These options were excluded from the respective computations of diluted net loss per share because their effect would be anti-dilutive and, as such, basic and diluted net loss per share are the same.

The following table sets forth the computation of basic and diluted loss per share for the periods indicated:

	Three Months Ended March 31,	
	2001	**2002**
Numerator:		
Net loss	$ (4,662,000)	**$ (1,799,000)**
Denominator for basic loss per share:		
Weighted average shares	23,456,088	**23,458,164**
Effect of dilutive securities — stock options	—	—
Denominator for diluted loss per share		
Weighted average shares adjusted for dilutive securities	23,456,088	**23,458,164**
Basic loss per share	$ (0.20)	**$ (0.08)**
Diluted loss per share	$ (0.20)	**$ (0.08)**

NOTE 5. CONTINGENCIES

Incident to our business activities, we are party to a number of legal proceedings, lawsuits, arbitration and other claims, including the Gospel Communications International, Inc. ("GCI") matter described in more detail below. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Also, we maintain insurance which may provide coverage for such matters. Consequently, our management is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters, however, our management believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our financial position, results of operations or cash flows.

On December 6, 2000, GCI made a demand for arbitration upon us. The demand, pending before an arbitration panel of the American Arbitration Association, alleges, among other things, we and our subsidiary OnePlace failed to provide certain e-commerce software to GCI pursuant to a written contract between GCI and OnePlace. We have filed an answer to the demand, denying the factual basis for certain elements of GCI's claims and have asserted counterclaims against GCI for breach of contract. Based on communications with the arbitrators, GCI has clarified that it seeks $10.0 million in damages for its claims. We will vigorously defend the action and pursue the counterclaims against GCI although there can be no assurance that the GCI matter will be resolved in our favor.

NOTE 6. SUBSEQUENT EVENTS

On May 2, 2002, we acquired the assets of radio station KJUN-FM (now KFIS-FM), Portland, Oregon, for $35.8 million. We began to operate this station under a local marketing agreement on September 1, 2001.

Effective as of April 18, 2002, we entered into an interest rate swap agreement for the notional principal amount of $66.0 million. This agreement expires when the 9% senior subordinated notes mature, effectively swapping the fixed interest rate on $66.0 million of our debt for a floating rate equal to the LIBOR rate plus 3.09%.

NOTE 7. SEGMENT DATA

SFAS No. 131 "Disclosures About Segments of An Enterprise and Related Information" requires companies to provide certain information about their operating segments. The Company has one reportable operating segment - radio broadcasting. The remaining non-reportable segments consist of OnePlace and CCM, which do not meet the reportable segment quantitative threshholds and accordingly are aggregated below as other media. Revenue and expenses earned and charged between segments are recorded at fair value. The radio broadcasting segment also operates various radio networks.

Management uses operating income before depreciation and amortization as its measure of profitability for purposes of assessing performance and allocating resources.

	Three Months Ending March 31,	
	2001	2002
	(Dollars in thousands)	
Net revenue		

Radio broadcasting	$ 30,129	$ 35,513
Other media	2,028	1,778
Eliminations	(106)	(71)
Consolidated net revenue	$ 32,051	$ 37,220
Operating expenses		
Radio broadcasting	$ 20,005	$ 24,874
Other media	2,548	1,989
Corporate	3,868	3,687
Eliminations	(167)	(336)
Consolidated operating expenses	$ 26,254	$ 30,214
Operating income before depreciation and amortization		
Radio broadcasting	$ 10,124	$ 10,639
Other media	(520)	(211)
Corporate	(3,868)	(3,687)
Eliminations	61	265
Consolidated operating income before depreciation and amortization	$ 5,797	$ 7,006
Depreciation expense		
Radio broadcasting	$ 1,411	$ 2,143
Other media	311	112
Corporate	99	85
Consolidated depreciation expense	$ 1,821	$ 2,340
Amortization expense		
Radio broadcasting	$ 5,191	$ 475
Other media	261	63
Consolidated amortization expense	$ 5,452	$ 538
Operating income		
Radio broadcasting	$ 3,522	$ 8,021
Other media	(1,093)	(385)
Corporate	(3,967)	(3,772)
Eliminations	601	264
Consolidated operating income	$ (1,476)	$ 4,128
Total property, plant and equipment		
Radio broadcasting	$ 72,514	$ 91,531
Other media	2,165	1,640
Corporate	1,615	2,429
Consolidated property, plant and equipment	$ 76,294	$ 95,600

Reconciliation of operating income before depreciation and amortization to pretax income

	Three Months Ending March 31,	
	2001	2002
	(Dollars in thousands)	
Operating income before depreciation and amortization	$ 5,797	$ 7,006
Depreciation	(1,821)	(2,340)
Amortization	(5,452)	(538)
Interest Income	795	40
Loss on sale of assets	(8)	(226)
Interest expense	(6,467)	(6,706)
Other expense, net	(55)	(164)
Pretax loss	$ (7,211)	$ (2,928)

NOTE 8. CONSOLIDATING FINANCIAL STATEMENTS

The following is the consolidating information for Salem Communication Corporation for purposes of presenting the financial position and operating results of certain wholly-owned entities, representing guarantors of the senior subordinated notes, which are consolidated within the company, including Salem Communications Corporation, excluding its subsidiaries ("Parent"), Salem Communications Acquisition Corporation and its subsidiaries ("AcqCo"), CCM Communications, Inc. and OnePlace, LLC (collectively "Other Media") and Salem Communications Holding Corporation and its subsidiaries ("HoldCo"). HoldCo is the issuer of the outstanding 9% and 9½% senior subordinated notes. Separate financial information is not presented because HoldCo has substantially no assets, operations or cash other than its investment in subsidiaries.

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

	As of March 31, 2002					
	Guarantors			Issuer and Guarantor Subsidiaries		
	Parent	AcqCo	Other Media	HoldCo	Adjustments	Salem Consolidated
Current assets:						
Cash and cash equivalents	$ 47	$ 956	$ 193	$ 2,901	$ —	$ 4,097
Accounts receivable	—	1,722	1,028	24,236	—	26,986
Other receivables	—	30	150	739	—	919
Prepaid expenses	—	—	158	1,258	—	1,416
Due from stockholders	—	—	—	259	—	259
Deferred income taxes	993	217	—	1,695	(1,222)	1,683
Total current assets	1,040	2,925	1,529	31,088	(1,222)	35,360
Property, plant, equipment and software, net	—	4,663	1,640	89,297	—	95,600
Intangible assets, net	—	93,514	5,683	253,516	—	352,713
Bond issue costs	—	—	—	7,517	—	7,517
Deferred income taxes	—	—	—	—	—	
Due from stockholders	—	—	—	457	—	457
Other assets	254,127	—	(410)	102,125	(347,591)	8,251
Total assets	$ 255,167	$ 101,102	$ 8,442	$ 484,000	$ (348,813)	$ 499,898
Current liabilities:						
Accounts payable and accrued expenses	$ —	$ 362	$ 513	$ 4,154	$ —	$ 5,029
Accrued compensation and other	—	199	263	4,130	—	4,592
Accrued interest	—	—	—	8,451	—	8,451
Deferred subscription revenue	—	—	1,315	—	—	1,315
Income taxes payable	(4)	461	6	267	(627)	103
Current maturities of long-term debt	—	—	16	642	—	658
Total current liabilities	(4)	1,022	2,113	17,644	(627)	20,148
Long-term debt	111,851	1,024	25,408	312,801	(143,410)	307,674
Deferred income taxes	3,527	20,093	—	16,460	(25,211)	14,869
Other liabilities	165	—	6,271	(4,677)	(163)	1,596
Stockholders' equity	139,628	78,963	(25,350)	141,772	(179,402)	155,611
Total liabilities and stockholders' equity	$ 255,167	$ 101,102	$ 8,442	$ 484,000	$ (348,813)	$ 499,898

SALEM COMMUNICATIONS CORPORATION
CONSOLIDATING INCOME STATEMENT
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	Three Months Ended March 31, 2002					
	Guarantors			Issuer and Guarantor Subsidiaries		
	Parent	AcqCo	Other Media	HoldCo	Adjustments	Salem Consolidated
Gross broadcasting revenue	$ —	$ 2,527	$ —	$ 36,563	$ (214)	$ 38,876
Less agency commissions	—	(186)	—	(3,165)	—	(3,351)
Net broadcasting revenue	—	2,341	—	33,398	(214)	35,525
Other media revenue	—	—	1,778	—	(83)	1,695
Total revenue	—	2,341	1,778	33,398	(297)	37,220
Operating expenses:						
Broadcasting operating expenses	—	1,788	—	22,885	(179)	24,494
Other media operating expenses	—	—	1,989	—	44	2,033
Corporate expenses	—	220	—	3,681	(214)	3,687
Depreciation and amortization	—	89	175	2,614	—	2,878
Total operating expenses	—	2,097	2,164	29,180	(349)	33,092
Net operating income (loss)	—	244	(386)	4,218	52	4,128

Other income (expense):						
Interest income	—	3	15	2,708	(2,686)	40
Loss on sale of assets	—	—	(20)	(206)	—	(226)
Interest expense	(2,265)	—	(423)	(6,704)	2,686	(6,706)
Other expense	—	—	—	(164)	—	(164)
Income (loss) before income taxes	(2,265)	247	(814)	(148)	52	(2,928)
Provision (benefit) for income taxes	(906)	95	(325)	60	(53)	(1,129)
Net income (loss)	$ (1,359)	$ 152	$ (489)	$ (208)	$ 105	$ (1,799)

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 because of our acquisition and disposition of radio stations and disposition of certain assets of other media businesses. See note 2 to our condensed consolidated financial statements.

We believe that we are the largest U.S. radio broadcasting company, measured by number of stations and audience coverage, providing programming targeted at audiences interested in religious and family themes. Our core business is the ownership and operation of radio stations in large metropolitan markets. We own and operate 82 radio stations, including 57 stations in 22 of the top 25 markets. This makes us the sixth largest operator measured by number of stations overall and the third largest operator measured by number of stations in the top 25 markets. In addition, management believes that we are the thirteenth largest radio broadcaster measured by net broadcasting revenues for the year ended December 31, 2001. We also own Salem Radio Network®, which we believe to be a leading developer, producer and syndicator of religious and family issues oriented talk, news and music, but not of general broadcast programming, with over 1,600 affiliated radio stations. In addition, we own complementary Internet and publishing businesses.

Historically, our principal sources of revenue have been:

- the sale of block program time, both to national and local program producers,
- the sale of advertising time on our radio stations, both to national and local advertisers, and
- the sale of advertising time on our national radio network.

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

In recent years, we have begun to place greater emphasis on the development of local advertising in all of our markets. We encourage our general managers and sales managers to increase advertising revenue. We can create additional advertising revenue in a variety of ways, such as removing block programming that generates marginal audience response, adjusting the start time of programs to add advertising in more desirable time slots and increasing advertising rates.

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. Quarterly revenue from the sale of block program time does not tend to vary, however, since program rates are generally set annually.

Our cash flow is affected by a transition 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 or advisable to change its format. This transition period is when we develop a radio station's customer and listener base. During this period, a station will typically generate negative or insignificant cash flow.

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services (such as other media advertising, travel or lodging), in lieu of cash. In order to preserve the sale of our advertising time for cash, we generally enter into trade agreements only if the goods or services bartered to us will be used in our business. We have minimized our use of trade agreements and have generally sold most of our advertising time for cash. In 2001, we sold 94% of our advertising time for cash. In addition, it is our general policy not to preempt advertising paid for in cash with advertising paid for in trade.

The primary operating expenses incurred in the ownership and operation of our radio stations include employee salaries and commissions, and facility expenses (for example, rent and utilities). Beginning in 2000, in connection with the launch of our contemporary Christian music format in several markets, we incurred increased amounts for promotional expenses and music license fees. In addition to these expenses, our networks incur programming costs and lease expenses for satellite communication facilities. We also incur and will continue to incur significant depreciation and interest expense as a result of completed and future acquisitions of radio stations and existing and future borrowings.

OnePlace, our Internet business, earns its revenue from the (i) sales of streaming services, (ii) sales of banner advertising and sponsorships on the Internet, and (iii) sales of software and software support contracts. CCM, our publishing business, earns its revenue by selling advertising in and subscriptions to its publications. The revenue and related operating expenses of these businesses are reported as "other media" on our condensed consolidated statements of operations.

The performance of a radio broadcasting company is customarily measured by the ability of its stations to generate broadcast cash flow and EBITDA. We define broadcast cash flow as net operating income, excluding other media revenue and other media operating expenses, before depreciation and amortization and corporate expenses. We define EBITDA as net operating income before depreciation and amortization. We define after-tax cash flow as income (loss) before extraordinary item minus gain (loss) on disposal of assets (net of income tax) plus depreciation and amortization, plus the tax benefit from non-book amortization of broadcast licenses and goodwill.

Although broadcast cash flow, EBITDA and after-tax cash flow are not measures of performance calculated in accordance with generally accepted accounting principles, and should be viewed as a supplement to and not a substitute for our results of operations presented on the basis of generally accepted accounting principles, we believe that broadcast cash flow, EBITDA and after-tax cash flow are useful because they are generally recognized by the radio broadcasting industry as measures of performance and are used by analysts who report on the performance of broadcast companies. These measures are not necessarily comparable to similarly titled measures employed by other companies.

In the following discussion of our results of operations, 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. We include in our same station comparisons the results of operations of radio stations and networks that we own or operate in the same format during the current period compared with the results of the same stations for the corresponding period of the prior year. We do not include a station or a network in the comparison unless it has been owned or operated for at least an entire quarter included in each of the current and corresponding prior year periods.

RESULTS OF OPERATIONS

Quarter ended March 31, 2002 compared to quarter ended March 31, 2001

NET BROADCASTING REVENUE. Net broadcasting revenue increased $5.4 million or 17.9% to $35.5 million for the quarter ended March 31, 2002 from $30.1 million for the same quarter of the prior year. The growth is attributable to the increase in same station revenue and the acquisitions of radio stations and a network during 2001, partially offset by the sales of radio stations during 2001. On a same station basis, net revenue improved $3.1 million or 14.0% to $25.2 million for the quarter ended March 31, 2002 from $22.1 million for the same quarter of the prior year. The improvement was primarily due to an increase in net revenue at radio stations we acquired in 2000 that were launched as music stations and a small increase in net revenue from our talk stations. Revenue from advertising as a percentage of our gross broadcasting revenue increased to 47.7% for the quarter ended March 31, 2002 from 41.0% for the same quarter of the prior year. Revenue from block program time as a percentage of our gross broadcasting revenue decreased to 38.6% for the quarter ended March 31, 2002 from 43.5% for the same quarter of the prior year. This change in our revenue mix is primarily due to our continued efforts to develop more advertising revenue in all of our markets as well as the launch of our contemporary Christian music format.

OTHER MEDIA REVENUE. Other media revenue decreased $0.3 million or 15.0% to $1.7 million for the quarter ended March 31, 2002 from $2.0 million for the same quarter in the prior year. The decrease is due primarily to reduced revenues from print advertising in a softening publishing market, partially offset by increased revenue from banner advertising.

BROADCASTING OPERATING EXPENSES. Broadcasting operating expenses increased $4.6 million or 23.1% to $24.5 million for the quarter ended March 31, 2002 from $19.9 million for the same quarter of the prior year. The increase is primarily attributable to operating expenses associated with the acquisitions of radio stations and a network during 2001, partially offset by a decrease in operating expenses associated with stations sold during 2001. On a same station basis, broadcasting operating expenses increased $1.1 million or 7.7% to $15.4 million for the quarter ended March 31, 2002 from $14.3 million for the same quarter of the prior year. The increase is primarily due to incremental selling and production expenses incurred to produce the increased revenue in the period and increased music license fees.

OTHER MEDIA OPERATING EXPENSES. Other media operating expenses decreased $0.5 million or 20.0% to $2.0 million for the quarter ended March 31, 2002 from $2.5 million for the same quarter in the prior year. The decrease is attributable primarily to the reduction of selling expenses of $0.2 miilion associated with our publishing business, lower legal fees of $0.2 million associated with the Gospel Communications International, Inc. lawsuit and reduced audio streaming costs of $0.1 million for our Internet business due to the streaming of fewer affiliates.

BROADCAST CASH FLOW. Broadcast cash flow increased $0.8 million or 7.8% to $11.0 million for the quarter ended March 31, 2002 from $10.2 million for the same quarter of the prior year. As a percentage of net broadcasting revenue, broadcast cash flow decreased to 31.0% for the quarter ended March 31, 2002 from 33.9% for the same quarter of the prior year. The decrease is primarily attributable to the effect of radio stations acquired during 2001 that previously operated with formats other than their current format and the effect of the launch of the contemporary Christian music format in several markets. Acquired and reformatted radio stations typically produce low margins during the first several years following conversion. Broadcast cash flow margins improve as we implement scheduled program rate increases and increase advertising revenue on our stations. On a same station basis, broadcast cash flow improved $2.0 million or 25.6% to $9.8 million for the quarter ended March 31, 2002 from $7.8 million for the same quarter of the prior year.

CORPORATE EXPENSES. Corporate expenses decreased $0.2 million or 5.1% to $3.7 million in the quarter ended March 31, 2002 from $3.9 million in the same quarter of the prior year, primarily due to the elimination of office rent as a result of the purchase of our corporate headquarters, partially offset by an increase in additional overhead costs associated with the acquisitions of radio stations and a network during 2001.

EBITDA. EBITDA increased $1.2 million or 20.7% to $7.0 million for the quarter ended March 31, 2002 from $5.8 million for the same quarter of the prior year. As a percentage of total revenue, EBITDA increased to 18.8% for the quarter ended March 31, 2002 from 18.1% for the same quarter of the prior year. The increase is primarily attributable to the effect of stations acquired during 2001 and 2002 that previously operated with formats other than their current format, the launch of the contemporary Christian music format in several markets and the improvement of results in other media.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense decreased $4.5 million or 61.6% to $2.9 million for the quarter ended March 31, 2002 from $7.3 million for the same quarter of the prior year. The decrease is due principally to the adoption of SFAS No. 142, which requires the company to discontinue amortizing broadcast licenses and goodwill.

OTHER INCOME (EXPENSE). Interest income was $0.8 million for the quarter ended March 31, 2001, primarily related to interest earned on the investment of the proceeds from the sale of the assets of radio station KALC-FM, Denver, Colorado for $100 million in January 2001. Loss on disposal of assets of $0.2 million for the quarter ended March 31, 2002 is primarily due to the disposition of certain property, plant and equipment and intangible assets. Interest expense increased $0.2 million or 3.1% to $6.7 million for the quarter ended March 31, 2002 from $6.5 million for the same quarter of the prior year. The increase is primarily due to increased long-term debt related to our radio station and network acquisitions in 2001. Other expense, net was $0.2 million for the quarter ended March 31, 2002 and was related primarily to bank committment fees related to our credit facility.

PROVISION (BENEFIT) FOR INCOME TAXES. Provision (benefit) for income taxes as a percentage of income (loss) before income taxes (that is, the effective tax rate) was 38.6% for the quarters ended March 31, 2002 and 35.3% for the same quarter of the prior year. For the quarters ended March 31, 2002 and 2001 the effective tax rates differ from the federal statutory income rate of 34.0% primarily due to the effect of state income taxes and certain expenses that are not deductible for tax purposes.

NET INCOME (LOSS). We recognized a net loss of $1.8 million for the quarter ended March 31, 2002 as compared to a net loss of $4.7 million for the same quarter of the prior year. Assuming the company had adopted the provisions of SFAS No. 142 on January 1, 2001, the net loss for the quarter ended March 31, 2001 would have been $1.3 million.

AFTER-TAX CASH FLOW. After-tax cash flow, including the tax benefit from non-book amortization, increased $1.4 million or 53.8% to $4.0 million for the quarter March 31, 2002 from $2.6 million for the same quarter of the prior year. After-tax cash flow was negatively impacted by the after-tax cash flow of our other media businesses. After-tax cash flow excluding our other media losses (net of income tax) increased $1.2 million or 40.0% to $4.2 million for the quarter ended March 31, 2002 from $3.0 million for the same quarter of the prior year. The increase is due primarily to an increase in broadcast cash flow and a decrease in corporate expenses, partially offset by a decrease in interest income.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed acquisitions of radio stations through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and selected asset dispositions. We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, capital expenditures and debt service required by our credit facility and the senior subordinated notes from operating cash flow and borrowings under our credit faclility.

We will fund future acquisitions from cash on hand, borrowings under our credit facility, sales of existing radio stations and operating cash flow. We believe that cash on hand, cash flow from operations and borrowings under the credit facility will be sufficient to permit us to meet our financial obligations, fund pending acquisitions and fund operations for at least the next twelve months.

Cash. Cash and cash equivalents was $4.1 million at March 31, 2002. Working capital was $15.2 million at March 31, 2002. Cash and cash equivalents was $23.9 million at December 31, 2001. The decrease in cash and cash equivalents is due to the use of $9.1 million to acquire two radio stations, $4.7 million for capital expenditures and $4.0 million to repay borrowings under our credit facility.

Net cash provided by operating activities decreased to $1.0 million for the quarter ended March 31, 2002 compared to $7.8 million in the same period of the prior year, primarily due to an increase in accrued interest due to our issuance of senior subordinated notes in 2001.

Net cash used in investing activities was $16.8 million for the quarter ended March 31, 2002, compared to net cash provided by investing activities of $52.8 million for the same quarter of the prior year. The decrease is due to cash received for the sale of the assets of radio station KALC-FM, Denver, Colorado, in January 2001 for $100 million, cash used for acquisitions ($9.1 million cash used to purchase the assets of two radio stations during the quarter ended March 31, 2002 as compared to $38.2 million cash used to purchase the assets of five radio stations for the same period of the prior year) and a decrease in capital expenditures.

Net cash used in financing activities was $4.0 million for the quarter ended March 31, 2002, compared to net cash provided by financing activities of $0.7 million for the same quarter of the prior year. The difference was primarily due to payments made on our long-term debt during the quarter ended March 31, 2002.

*Credit Facility.*Our wholly-owned subsidiary, Salem Communications Holding Corporation (“HoldCo”) is the borrower under our credit facility. At March 31, 2002, $57.6 million was outstanding under the credit facility. The credit facility was amended as of May 2, 2002. The description of the credit facility as set forth below reflects the terms of the amendment. The borrowing capacity and aggregate commitments under the credit facility is $146.25 million at March 31, 2002. Some financial ratio tests were modified in May 2002 to provide HoldCo with additional borrowing flexibility. The credit facility matures on June 30, 2007. In June 2001, HoldCo used the net proceeds of the offering of its 9% Senior Subordinated Notes due 2011 to repay approximately $145.5 million of borrowings under the credit facility.

Amounts outstanding under the credit facility bear interest at a base rate, at HoldCo’s option, of the bank’s prime rate or LIBOR, plus a spread. For purposes of determining the interest rate under the credit facility, the prime rate spread ranges from 0% to 1.875%, and the LIBOR spread ranges from 0.875% to 3.25%.

The maximum amount that HoldCo may borrow under the credit facility is limited by a ratio of our consolidated existing total adjusted debt to pro forma twelve-month cash flow (the “Total Adjusted Funded Debt to Cash Flow Ratio”). The credit facility will allow us to adjust our total debt as used in such calculation by the lesser of 50% of the aggregate purchase price of acquisitions of newly acquired non-religious formatted radio stations that we reformat to a religious talk, conservative talk or religious music format or $30.0 million and the cash flow from such stations will not be considered in the calculation of the ratio. The maximum Total Adjusted Funded Debt to Cash Flow Ratio allowed under the credit facility is 6.75 to 1 through May 1, 2002 and 7.25 to 1 from May 2, 2002 through December 30, 2002. Thereafter, the maximum ratio will decline periodically until December 31, 2006, at which point it will remain at 4.25 to 1 through June 2007. The Total Adjusted Funded Debt to Cash Flow Ratio under the credit facility at March 31, 2002 was 6.31 to 1, resulting in a borrowing availability of approximately $19.2 million.

The credit facility contains additional restrictive covenants customary for credit facilities of the size, type and purpose contemplated which, with specified exceptions, limits our ability to enter into affiliate transactions, pay dividends, consolidate, merge or effect certain asset sales, make specified investments, acquisitions and loans and change the nature of our business. The credit facility also requires us to satisfy specified financial covenants, which covenants require us on a consolidated basis to maintain specified financial ratios and comply with certain finacial tests, including ratios for maximum leverage as described, minimum interest coverage (not less than 1.4 to 1, thereafter increasing periodically until January 1, 2005, at which point it will remain at 2.5 to 1 until June 2007), minimum debt service coverage (a static ratio of not less than 1.1 to 1), a maximum consolidated senior leverage ratio (a static ratio of 3.5 to 1) and a minimum fixed charge coverage (a static ratio of not less than 1.1 to 1). As of March 31, 2002, we were in compliance with all such covenants. We and all our subsidiaries, except for HoldCo, are guarantors of borrowings under the credit facility. The credit facility is secured by pledges of all of our and our subsidiaries' assets and all of the capital stock of our subsidiares.

9½% Senior Subordinated Notes due 2007. In September 1997, we issued $150.0 million principal amount of 9½% senior subordinated notes due 2007. In July 1999, we repurchased $50.0 million in principal amount of those notes with a portion of the net proceeds of our initial public offering.

In August 2000, HoldCo assumed the indenture governing the existing 9½% notes in connection with the assignment of substantially all of our assets and liabilities to HoldCo, including the obligations as successor issuer under that indenture. The indenture for the 9½% notes contains restrictive covenants that, among others, limit the incurrence of debt by HoldCo and its subsidiaries, the payment of dividends, the use of proceeds of specified asset sales and transactions with affiliates. HoldCo is required to pay $9.5 million per year in interest on the outstanding 9½% notes. We and all of our subsidiaries (other than HoldCo) are guarantors of the 9½% notes.

9% Senior Subordinated Notes due 2011. In June 2001, HoldCo issued $150.0 million principal amount of 9% senior subordinated notes due 2011. HoldCo used the net proceeds to repay approximately $145.5 million in borrowings under the credit facility. The indenture for the 9% notes contains restrictive coventants that, among others, limit the incurrence of debt by HoldCo and its subsidiaries, the payment of dividends, the use of proceeds of specified asset sales and transactions with affiliates. HoldCo is required to pay $13.5 million per year in interest on the 9% notes. We and all our subsidiaries (other than HoldCo) are guarantors of the 9% notes.

The issuance of the 9% notes places HoldCo and its subsidiaries close to the maximum indebtedness allowed under the indentures, thus limiting future indebtedness including additional borrowings under the credit facility.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to allowance for doubtful accounts, acquisitions of radio station and network assets, goodwill and other intangible assets, barter transactions and income taxes. 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 affect the preparation of our consolidated financial statements.

Acquisitions of radio station and network assets

Most 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 FCC license. It is generally our policy to retain third-party appraisers to value radio stations, networks or other media businesses under consideration for acquisition. The allocations assigned to acquired FCC licenses and other assets are subjective by their nature and require our careful consideration and judgment. We believe the allocations represent appropriate estimates of the fair value of the assets acquired. As part of the valuation and appraisal process, the third-party appraisers prepare reports which assign values to the various asset categories in our financial statements. Our management reviews these reports for reasonableness. The reports form the basis to record the acquisition of the radio station, network or other media business at the close of the transaction. When we exchange assets, we consider whether the exchange is an exchange of a business or otherwise requires the assets received to be recorded at fair value with the recognition of a gain or loss on the transaction, or the exchange is an exchange of similar productive assets that should be recorded on a historical cost basis with no gain or loss recorded. In accordance with purchase accounting methodology, the operating results of the acquired assets and businesses are included in the consolidated operating results since the dates of acquisition.

Allowance for bad debt

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 performing other subjective analysis. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Intangible Assets

Under the Financial Accounting Standards Board's new rules (Statement of Accounting Standard (“SFAS”) No. 141, “Business Combinations”, and SFAS No. 142, “Goodwill and Other Intangible Assets”), we will no longer amortize goodwill and intangible assets deemed to have indefinite lives, but will perform annual impairment tests in accordance with the Statements. We believe our FCC licenses have indefinite lives under the new standard and accordingly amortization expense will no longer be recorded for our FCC licenses as well as our goodwill effective July 1, 2001 for assets acquired subsequent to June 30, 2001 and effective January 1, 2002 for all other assets. Other intangible assets will continue to be amortized over their useful lives.

We began to apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of SFAS No. 142 is expected to result in an increase in net income of approximately $13 million ($0.56 per share) per year.

Barter

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services (such as other media advertising, travel or lodging), in lieu of cash. It is our general policy not to preempt advertising paid for in cash with advertising paid for in trade. For financial reporting purposes, advertising by the radio stations exchanged for goods and services is recorded as the advertising is broadcast and is valued at the estimated value of goods or services received or to be received. The value of the goods and services received in such barter transactions is charged to expense when used. The estimated fair value of the barter advertising provided versus barter expenses are approximately the same. Barter advertising provided and barter expenses incurred are included net in broadcasting operating expenses.

Valuation allowance (deferred taxes)

For financial reporting purposes, the company has recorded a valuation allowance of $1.7 million as of March 31, 2002 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. Management regularly reviews the company's financial forecasts in an effort to determine the realizability of 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Instruments.

During the three months ended March 31, 2002 and 2001, we did not invest in market risk sensitive instruments.

Effective as of April 18, 2002, we entered into an interest rate swap agreement for the notional principal amount of $66.0 million. This agreement expires when the 9% senior subordinated notes mature, effectively swapping the fixed interest rate on $66.0 million of our debt for a floating rate equal to the LIBOR rate plus 3.09%.

Market Risk.

Borrowings under the credit facility are subject to market risk exposure, specifically to changes in LIBOR and in the "prime rate" in the United States. As of March 31, 2002, we could borrow up to an additional $19.2 million under the credit facility. At March 31, 2002, we had borrowed $57.6 million under the credit facility. Amounts outstanding under the credit facility bear interest at a base rate, at our option, of the bank's prime rate or LIBOR, plus a spread. For purposes of determining the interest rate under the credit facility, the prime rate spread ranges from 0% to 1.875%, and the LIBOR spread ranges from 0.875% to 3.25%. At March 31, 2002, the blended interest rate on amounts outstanding under our credit facility was 3.77%. At March 31, 2002, a hypothetical 100 basis point increase in the prime rate would result in additional interest expense of $0.6 million on an annualized basis.

In addition to the variable rate debt disclosed above, we have fixed rate debt with a carrying value of $250.0 million (relating to the 9½% senior subordinated notes due 2007 and the 9% senior subordinated notes due 2011) as of March 31, 2002, with an aggregate fair value of $260.4 million. We are exposed to changes in the fair value of these financial instruments based on changes in the market rate of interest on this debt. The ultimate value of these notes will be determined by actual market prices, as all of these notes are tradeable. We estimate that a hypothetical 1% increase in market interest rates would result in a decrease in the aggregate fair value of the notes to approximately $246.9 million and a hypothetical 1% decrease in the market interest rates would result in the increase of the fair value of the notes to approximately $274.9 million.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Incident to our business activities, we are party to a number of legal proceedings, lawsuits, arbitration and other claims, including the Gospel Communications International, Inc. ("GCI") matter described in more detail below. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Also, we maintain insurance which may provide coverage for such matters. Consequently, our management is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters, however, our management believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our financial position, results of operations or cash flows.

On December 6, 2000, GCI made a demand for arbitration upon us. The demand, pending before an arbitration panel of the American Arbitration Association, alleges, among other things, we and our subsidiary OnePlace failed to provide certain e-commerce software to GCI pursuant to a written contract between GCI and OnePlace. We have filed an answer to the demand, denying the factual basis for certain elements of GCI's claims and have asserted counterclaims against GCI for breach of contract. Based on communications with the arbitrators, GCI has clarified that it seeks $10.0 million in damages for its claims. We will vigorously defend the action and pursue the counterclaims against GCI although there can be no assurance that the GCI matter will be resolved in our favor.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

No matters have been submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the period covered by this report.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

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

Exhibit Number	Description of Exhibits
4.24.04	Second Amendment to the Fourth Amended and Restated Credit Agreement, dated as of April 30, 2002, by and among Salem Communications Holding Corporation, a Delaware corporation, The Bank of New York, as administrative agent, the other agents party thereto, and the Lenders party thereto.

(b) REPORTS ON FORM 8-K

No reports on Form 8–K were filed during the quarter ended March 31, 2002.

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.

May 15, 2002

SALEM COMMUNICATIONS CORPORATION

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
President and Chief Executive Officer

May 15, 2002

By: /s/ DAVID A. R. EVANS

David A. R. Evans
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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EXHIBIT 4.24.04

SALEM COMMUNICATIONS HOLDING CORPORATION
AMENDMENT NO. 2

AMENDMENT NO. 2 (this "Amendment"), dated as of April 30, 2002, to the Fourth Amended and Restated Credit Agreement, dated as of June 15, 2001, by and among SALEM COMMUNICATIONS HOLDING CORPORATION, a Delaware corporation (the "Borrower"), THE BANK OF NEW YORK, as administrative agent for the Lenders thereunder (in such capacity, the "Administrative Agent"), the other agents party thereto, and the Lenders party thereto, as amended by Amendment No. 1, dated as of December 27, 2001 (the "Credit Agreement").

RECITALS

I. Except as otherwise provided herein, capitalized terms used herein which are not defined herein shall have the meanings set forth in the Credit Agreement.

II. The Borrower has requested that the Administrative Agent and the Required Lenders amend the Credit Agreement upon the terms and conditions contained herein, and the Administrative Agent and the Required Lenders are willing to do so.

Accordingly, in consideration of the covenants, conditions and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and pursuant to Section 11.1 of the Credit Agreement, the parties hereto agree as follows:

1. Section 1.1 of the Credit Agreement shall be amended by amending and restating the defined terms "KJUN Acquisition" and "KJUN Acquisition Date" in their entirety to read as follows:

"KFIS Acquisition": the acquisition by any wholly-owned Subsidiary of the Borrower of KFIS-FM, Portland, Oregon, for an amount not in excess of $35,800,000.

"KFIS Acquisition Date": the date on which the KFIS Acquisition is consummated.

2. Section 1.1 of the Credit Agreement shall be amended by amending the defined term "Applicable Margin" as follows:

(a) The proviso immediately following the table contained in paragraph (a) is amended and restated to read as follows:

provided that at all times when the Total Leverage Ratio required to be maintained pursuant to Section 6.1(b) is greater than 7.00:1.00, the Applicable Margin with respect to all ABR Loans shall be 1.875% and the Applicable Margin with respect to all Eurodollar Loans and fees payable under Section 3.1(c) shall be 3.250%.

(b) The last sentence of paragraph (b) is amended and restated to read as follows:

Notwithstanding the foregoing, if the Borrower shall fail to deliver a Compliance Certificate within 60 days after the end of any of the first three fiscal quarters, or within 105 days after the end of the last fiscal quarter, of each fiscal year (each a "certificate delivery date"), the Applicable Margin with respect to all ABR Loans shall be 1.500% (1.875% at all times when the Total Leverage Ratio required to be maintained pursuant to Section 6.1(b) is greater than 7.00:1.00) and the Applicable Margin with respect to all Eurodollar Loans and fees payable under Section 3.1(c) shall be 2.750% (3.250% at all times when the Total Leverage Ratio required to be maintained pursuant to Section 6.1(b) is greater than 7.00:1.00), in each case for the period from and including such certificate delivery date to the date of delivery by the Borrower to the Administrative Agent of such Compliance Certificate.

3. Section 6.1(b) of the Credit Agreement shall be amended and restated to read as follows:

(b) On and after the 2001 Subordinated Indenture Issuance Date, the Parent shall maintain at all times a Total Leverage Ratio not greater than the applicable ratio set forth below opposite the applicable period set forth below:

Period	Ratio

2001 Subordinated Indenture Issuance Date through December 30, 2001	6.50:1.00
December 31, 2001 to but excluding the KFIS Acquisition Date	6.75:1.00
KFIS Acquisition Date through December 30, 2002	7.25:1.00
December 31, 2002 through March 30, 2003	7.00:1.00
March 31, 2003 through June 29, 2003	6.75:1.00
June 30, 2003 through September 29, 2003	6.50:1.00
September 30, 2003 through December 30, 2003	6.25:1.00
December 31, 2003 through June 29, 2004	6.00:1.00
June 30, 2004 through December 30, 2004	5.75:1.00
December 31, 2004 through December 30, 2005	5.25:1.00
December 31, 2005 through December 30, 2006	4.75:1.00
December 31, 2006 and thereafter	4.25:1.00

4. Section 6.3(b) of the Credit Agreement shall be amended by replacing the table contained therein with the following:

Period	Ratio
2001 Subordinated Indenture Issuance Date through December 31, 2001	1.40:1.00
January 1, 2002 through March 31, 2002	1.50:1.00
April 1, 2002 through September 30, 2002	1.40:1.00
October 1, 2002 through December 31, 2002	1.50:1.00
January 1, 2003 through June 30, 2003	1.60:1.00
July 1, 2003 through March 31, 2004	1.75:1.00
April 1, 2004 through September 30, 2004	2.00:1.00
October 1, 2004 through December 31, 2004	2.25:1.00
January 1, 2005 and thereafter	2.50:1.00

5. Paragraphs 1 through 4 of this Amendment shall not become effective until:

(a) The Administrative Agent shall have received counterparts of this Amendment duly executed by the Borrower, the Guarantors, the Administrative Agent and the Required Lenders.

(b) The Administrative Agent shall have received a certificate, dated the date hereof, of the Secretary or an Assistant Secretary of each Loan Party attaching a true and complete copy of the resolutions of its Board of Directors or other authorizing documents and of all documents evidencing all necessary corporate or other action (in form and substance reasonably satisfactory to the Administrative Agent) taken by it to authorize this Amendment and the transactions contemplated hereby and thereby.

(c) The KFIS Acquisition shall have been consummated in compliance with the terms of the Credit Agreement, including but not limited to Section 8.3 of the Credit Agreement, and the Administrative Agent shall have received all documents required in connection therewith.

(d) The Administrative Agent shall have received an opinion of General Counsel of the Parent and the Borrower addressed to the Administrative Agent and the other Credit Parties in form and substance satisfactory to the Administrative Agent. It is understood that such opinion is being delivered to the Administrative Agent and the other Credit Parties upon the direction of the Parent and the other Loan Parties and that the Administrative Agent and the other Credit Parties may and will rely upon such opinion.

(e) The Administrative Agent shall have received, for the account of each Lender, a fee in an amount equal to 0.15% of the RC Commitment of such Lender.

(f) The Administrative Agent shall have received, for the account of each Lender executing and delivering (without condition) this Amendment to the Administrative Agent before 5:00 p.m. (New York City time) on April 30, 2002, an amendment fee equal to 0.25% of such Lender's RC Commitment on such date; and

(g) The Borrower shall have paid the fees and expenses of Special Counsel then due and owing.

6. In all other respects the Credit Agreement and other Loan Documents shall remain in full force and effect.

7. In order to induce the Administrative Agent and the Required Lenders to execute and deliver this Amendment, the Borrower and the Guarantors each (a) certifies that, immediately before and after giving effect to this Amendment, all representations and warranties contained in the Loan Documents to which it is a party shall be true and correct in all respects with the same effect as though such representations and warranties had been made on the date hereof, except as the context otherwise requires or as otherwise permitted by the Loan Documents or this Amendment, (b) certifies that, immediately before and after giving effect to this Amendment, no Default or Event of Default shall exist under the Loan Documents, as amended, and (c) agrees to pay all of the reasonable fees and disbursements of counsel to the Administrative Agent incurred in connection with the preparation, negotiation and closing of this Amendment.

8. Each of the Borrower and the Guarantors (a) reaffirms and admits the validity, enforceability and continuing effect of all Loan Documents to which it is a party, and its obligations thereunder, and (b) agrees and admits that as of the date hereof it has no valid defenses to or offsets against any of its obligations to any Credit Party under any Loan Document to which it is a party.

9. This Amendment may be executed in any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same document. It shall not be necessary in making proof of this Amendment to produce or account for more than one counterpart signed by the party to be charged.

10. This Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York, without regard to principles of conflict of laws.

11. The parties have caused this Amendment to be duly executed as of the date first written above.

[signature pages follow]

SALEM COMMUNICATIONS HOLDING CORPORATION

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

SALEM COMMUNICATIONS CORPORATION

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

ATEP RADIO, INC.
BISON MEDIA, INC.
CARON BROADCASTING, INC.
CCM COMMUNICATIONS, INC.
COMMON GROUND BROADCASTING, INC.
GOLDEN GATE BROADCASTING COMPANY, INC.
INSPIRATION MEDIA, INC.
KINGDOM DIRECT, INC.
NEW ENGLAND CONTINENTAL MEDIA, INC.
NEW INSPIRATION BROADCASTING COMPANY, INC.
PENNSYLVANIA MEDIA ASSOCIATES, INC.
RADIO 1210, INC.
REACH SATELLITE NETWORK, INC.
SALEM COMMUNICATIONS ACQUISITION CORPORATION
SALEM MEDIA CORPORATION
SALEM MEDIA OF COLORADO, INC.
SALEM MEDIA OF GEORGIA, INC.
SALEM MEDIA OF HAWAII, INC.
SALEM MEDIA OF KENTUCKY, INC.
SALEM MEDIA OF OHIO, INC.
SALEM MEDIA OF OREGON, INC.
SALEM MEDIA OF PENNSYLVANIA, INC.
SALEM MEDIA OF VIRGINIA, INC.
SALEM MEDIA OF TEXAS, INC.
SALEM MUSIC NETWORK, INC.
SALEM RADIO NETWORK INCORPORATED
SALEM RADIO OPERATIONS - PENNSYLVANIA, INC.
SALEM RADIO PROPERTIES, INC.
SALEM RADIO REPRESENTATIVES, INC.
SCA LICENSE CORPORATION
SOUTH TEXAS BROADCASTING, INC.
SRN NEWS NETWORK, INC.
VISTA BROADCASTING, INC.

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

INSPIRATION MEDIA OF PENNSYLVANIA, LP

By: Salem Radio Operations-Pennsylvania, Inc. its General Partner
By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

INSPIRATION MEDIA OF PENNSYLVANIA, LP

By: INSPIRATION MEDIA OF TEXAS, LLC
SALEM MEDIA OF ILLINOIS, LLC
SALEM MEDIA OF NEW YORK, LLC
SALEM RADIO OPERATIONS, LLC

Salem Media Corporation, as Manager
By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

ONEPLACE, LLC

By: Salem Communications Corporation, as Manager
By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

THE BANK OF NEW YORK,
in its individual capacity
and as Administrative Agent

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

FLEET NATIONAL BANK

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

UNION BANK OF CALIFORNIA, N.A.

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

THE BANK OF NOVA SCOTIA

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

FIRST HAWAIIAN BANK

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

CITY NATIONAL BANK

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

ING BARINGS LLC

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

BANKERS TRUST COMPANY

By: /s/ AUTHORIZED SIGNATORY

Name:
Title:

JP MORGAN CHASE

By: /s/ AUTHORIZED SIGNATORY

Name:
Title: