

SALEM COMMUNICATIONS CORP /DE/

Form 424B2

April 30, 2004

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Filed Pursuant to Rule 424(b)(2)

Registration No. 333-86580

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED MAY 20, 2002

3,100,000 Shares

Class A Common Stock

We are offering 2,325,000 shares of our Class A common stock. Selling stockholders are offering 775,000 shares of our Class A common stock. We will not receive any of the proceeds from the sale of the shares by the selling stockholders.

Our Class A common stock is quoted on the Nasdaq National Market under the symbol SALM. On April 29, 2004, the last reported sale price of our Class A common stock on the Nasdaq National Market was \$30.21 per share.

The underwriters have an option to purchase a maximum of 400,000 additional shares of Class A common stock from us and the selling stockholders to cover over-allotments.

Investing in our Class A common stock involves risks. See the section entitled Risk Factors beginning on page S-9 of this prospectus supplement.

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Salem</u>	<u>Proceeds to Selling Stockholders</u>
Per Share	\$30.00	\$1.50	\$28.50	\$28.50
Total	\$93,000,000	\$4,650,000	\$66,262,500	\$22,087,500

Delivery of the shares of Class A common stock will be made on or about May 5, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined this prospectus supplement or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

Credit Suisse First Boston

Deutsche Bank Securities

UBS Investment Bank

Jefferies & Company, Inc.

SunTrust Robinson Humphrey

The date of this prospectus supplement is April 29, 2004.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus that is also a part of this document. We have not authorized anyone to provide information different from that contained or incorporated in this prospectus supplement and the accompanying prospectus. We are offering to sell, and seeking offers to buy, shares of our Class A common stock only in jurisdictions where offers and sales are permitted. The information contained or incorporated in this prospectus supplement and the accompanying prospectus is accurate only as of the date of such information, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of our Class A common stock.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the SEC that utilizes a shelf registration process. Under the shelf registration process, we and Salem Holding may sell certain of our securities, up to a total maximum aggregate offering price of \$110,025,000 and the selling stockholders may sell up to an aggregate of 1,250,000 shares of our Class A common stock, of which this offering is a part. In this prospectus supplement, we provide you with specific information about the terms of this offering and certain other information. Both this prospectus supplement and the accompanying prospectus include important information about us and the selling stockholders, our Class A common stock being offered hereby and other information you should know before investing in our Class A common stock.

In this prospectus supplement, the terms we, us, our and ours refer to Salem Communications Corporation, a Delaware corporation, and its consolidated subsidiaries. Our subsidiary, Salem Communications Holding Corporation, is referred to throughout this prospectus supplement as Salem Holding and Salem Communications Corporation, excluding its subsidiaries, is referred to as Salem. The term our Class A common stock means the Class A common stock, par value \$0.01 per share, of Salem. The term our Class B common stock means the Class B common stock, par value \$0.01 per share, of Salem. The term selling stockholders refers to Edward G. Atsinger III, Stuart W. Epperson and trusts and other entities through which they have beneficial ownership.

You should read both this prospectus supplement and the accompanying prospectus, as well as the additional information described under the section entitled Where You Can Obtain More Information on page S-62 of this prospectus supplement, before investing in our Class A common stock. This prospectus supplement adds to, updates and changes information contained in the accompanying prospectus and previously filed information incorporated by reference. To the extent that any statement that we make in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus or the previously filed information incorporated by reference, the statements made in the accompanying prospectus or the previously filed information incorporated by reference are deemed modified or superseded by the statements made in this prospectus supplement.

We have not taken any action to permit a public offering of the shares of securities outside the United States. Persons outside the United States who come into possession of this prospectus supplement must inform themselves about and observe any restrictions relating to the offering of the shares of Class A common stock and the distribution of this prospectus supplement outside the United States.

MARKET AND INDUSTRY DATA

The market data included in this prospectus supplement, including information relating to our relative position in the broadcast industry, is based on internal surveys, market research, publicly available information and industry publications. Although we believe that such independent sources are reliable, we have not independently verified the information contained in them, and we cannot guarantee the accuracy or completeness of this information. Unless otherwise noted, individual radio stations are described in this prospectus supplement with reference to the markets they serve and not the city and state of license.

All metropolitan statistical area (MSA) rank information used in this prospectus supplement is from the Fall 2003 Radio Market Survey Schedule & Population Rankings (Radio Market Survey) published by The Arbitron Company, excluding the Commonwealth of Puerto Rico. According to the Radio Market Survey, the population estimates used were based upon 2000 U.S. Bureau Census estimates updated and projected to January 2004 by Claritas, Inc.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the information incorporated herein by reference contains forward-looking statements that are subject to risks, uncertainties and assumptions. You should not place undue reliance on these statements. Forward-looking statements include information concerning possible or assumed future results of operations, including descriptions of business strategies. These statements often include words such as believes, expects, anticipates, intends, plans, estimates, seeks, will, may or similar expressions. These statements are based on assumptions that have been made in light of experience as well as perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. As you read and consider this prospectus supplement, you should understand that these statements are not guarantees of performance or results. Many factors could affect actual financial results or results of operations or could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to:

operations and prospects;

our ability to successfully acquire and integrate new radio stations;

business and financing plans;

the cost and availability of financing sources;

future growth of the religious and family issues format segment of the radio broadcasting industry;

characteristics of competition;

actions of third parties such as government regulatory agencies; and

various other factors beyond our control including those described in the section entitled "Risk Factors" beginning on page S-9 of this prospectus supplement.

All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this prospectus supplement, and in any document incorporated herein or therein, by reference. We do not have any obligation or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future or to reflect the occurrence of unanticipated events. We nonetheless reserve the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this prospectus supplement. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

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PROSPECTUS SUPPLEMENT SUMMARY

This is only a summary of the offering. It contains information about us and the offering. It may not contain all of the information that may be important to you. To fully understand the investment you are contemplating, you should read carefully this prospectus supplement, including the Risk Factors section, the accompanying prospectus and the detailed information incorporated into each of them by reference before you make an investment decision. Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the over-allotment option to purchase additional shares of Class A common stock granted to the underwriters by us and the selling stockholders. The description of our business assumes completion of all announced transactions.

Salem Communications Corporation

We believe that we are the largest commercial U.S. radio broadcasting company, measured by number of stations and audience coverage, providing programming targeted at audiences interested in religious and family themes. Upon completion of all announced transactions, we will own a national portfolio of 95 radio stations in 37 markets, including 60 stations in 23 of the top 25 markets, which consists of 28 FM stations and 67 AM stations. Upon completion of all announced transactions, we will be one of only four commercial radio broadcasters with radio stations in all of the top 10 markets. We are the sixth largest operator measured by number of stations overall and the third largest operator measured by number of stations in the top 25 markets. Management believes that we are the fourteenth largest radio broadcaster measured by net broadcasting revenue for the year ended December 31, 2003.

We also own Salem Radio Network®, which is a developer, producer and syndicator of religious and family themed talk, news and music programming with approximately 1,600 affiliated radio stations. In addition, we own Internet and publishing businesses which target our radio audiences.

Our business strategy is to expand and improve our national multimedia platform in order to deliver compelling content to audiences interested in religious and family themes. We primarily program our stations with our Christian teaching and talk format, which is talk programming with religious and family themes. We also feature news/talk and contemporary Christian music formats. Salem Radio Network® supports our strategy by allowing us to reach listeners in markets where we do not own or operate radio stations.

Both our chief executive officer and our chairman are career radio broadcasters who have owned and operated radio stations for more than 30 years. We believe our management team has successfully executed a strategy of identifying, acquiring and operating radio stations.

Large and Growing Target Audiences

We believe our operations focus on a highly attractive and growing market:

38% growth in listenership over the past five years has made religious radio the fastest growing format in radio (*Arbitron, Inc.*);

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85% of Americans rely on faith to bring meaning and purpose to their lives (*Gallup Organization Study, January 2003*);

41% of Americans say they have attended church in the last seven days (*Gallup Organization Study, March 2004*);

religious formats combined (including Religion (teaching/variety), contemporary Christian, Southern Gospel, Black Gospel and Gospel formats) represent the third largest radio format in the U.S. measured by number of commercial and noncommercial stations (*The M Street Radio Directory*); and

annual sales of Christian/Gospel music as a percentage of total U.S. genre album sales have grown from 6.0% in 2000 to 7.0% in 2003 (*Soundscan*).

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Growth and Operating Strategies

Continue to Focus on and Serve Targeted Audiences. A key attribute of our success is our consistent focus on reaching the audiences interested in religious and family themes. We have demonstrated a long-term commitment to these audiences by operating radio stations with formats directed to our listeners' specific needs and interests.

Emphasize Compelling Content. As more listening, reading and viewing options become available, compelling content is a key to expanding our listening audiences and increasing audience response to our advertisers. Each of our primary formats enhances our strategy of delivering compelling programming content and enables us to broaden our appeal to our target audiences. Our national radio network will continue to look for new block programming, compete aggressively for talk show talent, expand and refine our music networks, and develop compelling news and public affairs features.

Build Format Awareness. We seek to build local format awareness for each of our radio stations in order to retain and increase our listening audiences, expand our base of advertisers and provide increased audience response to our block programming clients. We emphasize the development of a radio station's identity to allow each radio station to better compete by developing local on-air personalities, improving production quality and technical facilities, and increasing promotional activities.

Build Radio Station Clusters. By operating clusters of stations within the same market, we are able to broaden our appeal to our target audiences by broadcasting a range of formats, offer customers multiple programming options to advertise their products and achieve cost savings by integrating our operations.

Pursue Strategic Radio Acquisitions in Large Metropolitan Markets. We intend to pursue acquisitions of radio stations in both new and existing markets, particularly in large metropolitan areas. Because we believe our presence in large markets makes us attractive to national block programmers and national advertisers, we will continue to pursue acquisitions of radio stations in selected top 50 markets where we currently do not own stations. Upon the completion of all announced transactions, we will own stations in 30 of the top 50 markets.

Consider Strategic Diversification. We will continue to consider opportunities in other forms of media that complement our primary radio formats. This strategy will allow us to build upon our expertise in serving the audiences interested in religious and family themes.

Utilize Market Research, Targeted Programming and Marketing. We use market research in certain key markets to tailor our programming, marketing and promotion of our music and news/talk stations to maximize audience share in these markets. This research helps us identify underserved or unserved markets or segments of the audiences interested in religious and family themes.

Organizational Structure

Salem Communications Corporation (Salem) was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Salem Communications Holding Corporation (Salem Holding) was formed as a wholly-owned subsidiary of Salem in May 2000. Also in May

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2000, we formed an additional wholly-owned subsidiary, Salem Communications Acquisition Corporation (Salem Acquisition), which has since acquired nine radio stations through its wholly-owned subsidiary SCA License Corporation. In August 2000, Salem assigned substantially all of its assets and liabilities, other than stock of Salem Holding and Salem Acquisition, to Salem Holding.

In June 2001, Salem Holding effected a dividend to Salem of Salem Holding s Internet and publishing businesses. This transaction was effected as a dividend of the capital stock and membership interests,

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respectively, of Salem Holding's wholly-owned subsidiaries, CCM Communications, Inc. and OnePlace, LLC. As a result, CCM and OnePlace became direct subsidiaries of Salem. Subsequently, the membership interests of OnePlace were contributed to SCA License Corporation, and OnePlace became an indirect subsidiary of Salem. Salem and all of its subsidiaries (other than Salem Holding) are guarantors of the borrowings under Salem Holding's credit facility, as well as the existing 9% senior subordinated notes and 7¾% senior subordinated notes issued by Salem Holding and guaranteed by Salem and its other direct and indirect subsidiaries.

Recent Financial Developments

On April 26, 2004, we announced our operating results for the three months ended March 31, 2004. The following unaudited summary consolidated financial data should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial information included in this prospectus supplement.

	Three Months Ended March 31,	
	2003	2004
	(In thousands, except share and per share data)	
	(unaudited)	
Statement of Operations Data:		
Net broadcasting revenue	\$ 38,706	\$ 43,157
Other media revenue	1,921	1,946
Total revenue	40,627	45,103
Operating expenses:		
Broadcasting operating expenses	26,338	27,544
Cost of denied tower site and license upgrade	2,202	
Other media operating expenses	1,860	2,162
Corporate expenses	4,044	4,304
Depreciation and amortization	3,025	3,097
Total operating expenses	37,469	37,107
Operating income	3,158	7,996
Other income (expense):		
Interest income	154	29
Loss on sale of assets		(224)
Interest expense	(6,636)	(5,670)
Loss on early retirement of debt	(6,440)	
Other expense	(69)	(111)
Total other income (expense)	(12,991)	(5,976)
Income (loss) before income taxes	(9,833)	2,020
Provision (benefit) for income taxes	(3,745)	777

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Net income (loss)	\$ (6,088)	\$ 1,243
	<u> </u>	<u> </u>
Basic earnings (loss) per share:	\$ (0.26)	\$ 0.05
	<u> </u>	<u> </u>
Diluted earnings (loss) per share:	\$ (0.26)	\$ 0.05
	<u> </u>	<u> </u>
Basic weighted average shares outstanding	23,484,113	23,526,105
	<u> </u>	<u> </u>
Diluted weighted average shares outstanding	23,484,113	23,678,124
	<u> </u>	<u> </u>

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	Three Months Ended March 31,	
	2003	2004
(In thousands) (unaudited)		
Balance Sheet Data (at end of period):		
Cash and cash equivalents	\$ 1,448	\$ 4,159
Broadcast licenses	363,232	381,740
Other intangible assets including goodwill, net	16,920	15,011
Total assets	553,277	556,776
Long-term debt, including current portion	323,318	331,863
Total stockholders' equity	\$ 165,840	\$ 173,657
Other Data:		
Station operating income(1)	\$ 12,368	\$ 15,613
Station operating income margin(2)	32.0%	36.2%

- (1) We define station operating income as net broadcasting revenue less broadcasting operating expenses. Although station operating income is not a measure of performance calculated in accordance with generally accepted accounting principles (GAAP), it should be viewed as a supplement to and not a substitute for results of operations presented on the basis of GAAP. Management believes that station operating income is useful, 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 by analysts who report on the industry to provide comparisons between broadcast groups. Additionally, we use station operating income as one of our key measures of operating efficiency and profitability. Station operating income 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. Our station operating income is not necessarily comparable to similarly titled measures employed by other companies.

The following table provides a reconciliation of station operating income (a non-GAAP financial measure) to operating income (the most directly comparable GAAP financial measure, as presented in our financial statements) for the periods presented:

	Three Months Ended March 31,	
	2003	2004
Station operating income	\$ 12,368	\$ 15,613
Plus other media revenue	1,921	1,946
Less cost of denied tower site and license upgrade	(2,202)	
Less other media operating expenses	(1,860)	(2,162)
Less depreciation and amortization	(3,025)	(3,097)
Less corporate expenses	(4,044)	(4,304)
Operating income	\$ 3,158	\$ 7,996

- (2) Station operating income margin is station operating income as a percentage of net broadcasting revenue.

Recently Announced Acquisitions

We have recently announced that we have agreements to acquire the following three radio stations:

<u>Transaction</u>	<u>Market</u>	<u>Station(s)</u>	<u>MSA Rank(1)</u>	<u>Purchase Price</u>
Station Acquisition	Detroit, MI	WQBH-AM	10	\$ 4,750,000
Station Acquisition	Atlanta, GA	WAFS-AM	11	\$ 16,413,350
Station Acquisition	Honolulu, HI	KJPN-AM	60	\$ 500,000

(1) MSA means metropolitan statistical area.

Corporate Information

Our principal executive offices are located at 4880 Santa Rosa Road, Camarillo, California 93012, and our telephone number is (805) 987-0400. Our website is located at www.salem.cc. The information contained on or linked to our website is not a part of or incorporated into this prospectus supplement.

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The Offering

Class A common stock being offered by:

Salem Communications Corporation 2,325,000 shares

The selling stockholders 775,000 shares

Total 3,100,000 shares

Class A common stock outstanding immediately after this offering 20,315,417 shares

Voting rights

Each share of Class A common stock is entitled to one vote. We also have Class B common stock, all of which is beneficially owned directly or indirectly by Edward G. Atsinger III or Stuart W. Epperson through trusts and other entities. Each share of our Class B common stock is generally entitled to 10 votes. Holders of our Class A common stock and Class B common stock generally vote together as a single class on all matters submitted to a vote of stockholders. Shares of our Class A common stock and Class B common stock do not have cumulative voting rights with respect to the election of directors.

Dividend policy

Historically, we have not paid a dividend on either class of our common stock. We have historically retained earnings for use in our business and will continue to do so unless our board of directors makes a determination to declare and pay dividends on our common stock in light of and after consideration of our earnings, financial position, capital requirements, our bank credit facility, the indentures governing our senior subordinated notes and such other factors as the board of directors deems relevant.

Use of proceeds

We intend to use the net proceeds from this offering for working capital and general corporate purposes, which may include the redemption of up to approximately \$52.5 million principal amount of the outstanding 9% senior subordinated notes due 2011. For more details, see the section entitled "Use of Proceeds" in this prospectus supplement. We will not receive any proceeds from the sale of the shares of Class A common stock by the selling stockholders.

Nasdaq National Market symbol

SALM

Risk factors

Before deciding to invest in shares of our Class A common stock, you should read the section entitled "Risk Factors" beginning on page S-9 of this prospectus supplement, as well as other cautionary statements throughout this entire prospectus supplement and the documents incorporated by reference herein and therein.

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Unless we specifically state otherwise, the information in this prospectus supplement:

excludes the sale of up to 400,000 shares of Class A common stock, which the underwriters have the option to purchase from us and the selling stockholders to cover over-allotments; and

excludes 758,416 shares of Class A common stock reserved at April 15, 2004, for issuance upon exercise of outstanding options under our stock incentive plan.

In addition, unless we specifically state otherwise, the number of shares of our common stock outstanding in this prospectus is based on the number of shares of our Class A common stock outstanding as of April 15, 2004.

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The summary consolidated financial and other data presented below for the three years ended December 31, 2003, have been derived from our audited consolidated financial statements. The summary consolidated financial and other data below should be read in conjunction with the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Consolidated Financial Information and Other Data" and our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003.

	Year Ended December 31,		
	2001	2002	2003
	(In thousands, except share and per share data)		
Statement of Operations Data:			
Net broadcasting revenue	\$ 136,106	\$ 156,216	\$ 170,483
Other media revenue	8,016	8,054	7,865
Total revenue	144,122	164,270	178,348
Operating expenses:			