

SALEM COMMUNICATIONS CORP /DE/  
Form 10-Q/A  
May 15, 2007

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

---

**FORM 10-Q/A**

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

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**  
**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 the registrant was

Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form 10-Q/A

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

|  |                            |
|--|----------------------------|
| Class A                                  | Outstanding at May 2, 2007 |
| Common Stock, \$0.01 par value per share | 18,296,324 shares          |

|  |                            |
|--|----------------------------|
| Class B                                  | Outstanding at May 2, 2007 |
| Common Stock, \$0.01 par value per share | 5,553,696 shares           |

### Explanatory Note

This Form 10-Q/A amends and restates the Form 10-Q filed by Salem Communications Corporations on May 10, 2007 which, due to an administrative error, originally included information from "Note 14. Segment Data" in the place of the "Condensed Consolidated Statements of Operations."

---

**PART I - FINANCIAL INFORMATION**

**SALEM COMMUNICATIONS CORPORATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

---

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

(Dollars in thousands, except share data)

|  | December 31, 2006<br>(Note 1) | March 31, 2007<br>(Unaudited) |
|--|-------------------------------|-------------------------------|
| <b>ASSETS</b>  |                               |                               |
| Current assets:  |                               |                               |
| Cash and cash equivalents  | \$ 710                        | \$ 598                        |
| Accounts receivable (net of allowance for doubtful accounts of \$7,606 in 2006 and \$7,318 in 2007)  | 31,984                        | 30,214                        |
| Other receivables  | 551                           | 507                           |
| Prepaid expenses   | 2,330                         | 2,406                         |
| Income tax receivable  | —                             | 30                            |
| Deferred income taxes  | 5,020                         | 4,943                         |
| Total current assets   | 40,595                        | 38,698                        |
| Property, plant and equipment (net of accumulated depreciation of \$74,766 in 2006 and \$76,458 in 2007)   | 128,713                       | 129,620                       |
| Broadcast licenses   | 476,544                       | 473,571                       |
| Goodwill   | 20,606                        | 20,606                        |
| Other indefinite-lived intangible assets   | 2,892                         | 2,892                         |
| Amortizable intangible assets (net of accumulated amortization of \$10,846 in 2006 and \$11,657 in 2007)   | 8,368                         | 7,878                         |
| Bond issue costs   | 593                           | 556                           |
| Bank loan fees   | 2,996                         | 2,741                         |
| Fair value of interest rate swap agreements  | 1,290                         | 913                           |
| Other assets   | 3,667                         | 3,770                         |
| Total assets   | \$ 686,264                    | \$ 681,245                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                               |
| Current liabilities  |                               |                               |
| Accounts payable   | \$ 3,421                      | \$ 2,504                      |
| Accrued expenses   | 6,446                         | 5,577                         |
| Accrued compensation and related expenses  | 7,033                         | 7,935                         |
| Accrued interest   | 4,275                         | 5,866                         |
| Deferred revenue   | 4,050                         | 4,610                         |
| Current portion of long-term debt and capital lease obligations  | 2,048                         | 2,431                         |
| Income tax payable   | 22                            | —                             |
| Total current liabilities  | 27,295                        | 28,923                        |
| Long-term debt and capital lease obligations, less current portion   | 358,978                       | 346,821                       |
| Deferred income taxes  | 53,935                        | 58,114                        |
| Deferred revenue   | 7,063                         | 7,123                         |
| Other liabilities  | 1,277                         | 1,146                         |
| Total liabilities  | 448,548                       | 442,127                       |
| Commitments and contingencies  |                               |                               |
| Stockholders' equity   |                               |                               |
| Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 20,424,242 issued and 18,293,824 outstanding at December 31, 2006 and 20,426,742 issued and 18,296,324 outstanding at March 31, 2007 | 204                           | 204                           |
|  | 56                            | 56                            |

|   |            |                   |
|---|------------|-------------------|
| Class B common stock, \$0.01 par value; authorized<br>20,000,000 shares; 5,553,696 issued and outstanding<br>shares at December 31, 2006 and March 31, 2007 |            |                   |
| Additional paid-in capital  | 221,466    | <b>222,251</b>    |
| Retained earnings   | 47,433     | <b>48,338</b>     |
| Treasury stock, at cost (2,130,418 shares at December<br>31, 2006 and March 31, 2007)   | (32,218)   | <b>(32,218)</b>   |
| Accumulated other comprehensive income  | 775        | <b>487</b>        |
| Total stockholders' equity  | 237,716    | <b>239,118</b>    |
| Total liabilities and stockholders' equity  | \$ 686,264 | <b>\$ 681,245</b> |

See accompanying notes

---

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in thousands, except share and per share data)  
(Unaudited)

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2006                            | 2007      |
| Net broadcasting revenue   | \$ 48,774                       | \$ 50,440 |
| Non-broadcast revenue  | 3,252                           | 5,654     |
| Total revenue  | 52,026                          | 56,094    |
| Operating expenses:  |                                 |           |
| Broadcasting operating expenses, exclusive of depreciation and amortization shown below (including \$277 and \$310 for the quarter ended March 31, 2006 and 2007, respectively, paid to related parties) | 31,694                          | 32,483    |
| Non-broadcast operating expenses, exclusive of depreciation and amortization shown below   | 3,432                           | 5,271     |
| Corporate expenses, exclusive of depreciation and amortization shown below (including \$99 and \$70 for the quarter ended March 31, 2006 and 2007, respectively, paid to related parties)                | 6,440                           | 5,814     |
| Depreciation (including \$87 and \$139 for the quarter ended March 31, 2006 and 2007, respectively, for non-broadcast businesses)  | 2,745                           | 3,091     |
| Amortization (including \$317 and \$738 for the quarter ended March 31, 2006 and 2007, respectively, for non-broadcast businesses)   | 550                             | 810       |
| Gain on disposal of assets   | (3,529)                         | (3,269)   |
| Total operating expenses   | 41,332                          | 44,200    |
| Operating income from continuing operations  | 10,694                          | 11,894    |
| Other income (expense):  |                                 |           |
| Interest income  | 46                              | 60        |
| Interest expense   | (6,588)                         | (6,454)   |
| Other expense, net   | (172)                           | (35)      |
| Income from continuing operations before income taxes  | 3,980                           | 5,465     |
| Provision for income taxes   | 1,594                           | 2,500     |
| Income from continuing operations  | 2,386                           | 2,965     |
| Income from discontinued operations, net of tax  | 329                             | —         |
| Net income   | \$ 2,715                        | \$ 2,965  |
| Other comprehensive income (loss), net of tax  | 1,036                           | (288)     |
| Comprehensive income   | \$ 3,751                        | \$ 2,677  |
| Basic earnings per share data:   |                                 |           |
| Earnings per share from continuing operations  | \$ 0.10                         | \$ 0.12   |
| Income per share from discontinued operations  | 0.01                            | —         |
| Basic earnings per share   | 0.11                            | 0.12      |
| Diluted earnings per share data:   |                                 |           |
| Earnings per share from continuing operations  | \$ 0.10                         | \$ 0.12   |
| Income per share from discontinued operations  | 0.01                            | —         |

|   |            |                   |
|---|------------|-------------------|
| Diluted earnings per share                  | 0.11       | <b>0.12</b>       |
| Basic weighted average shares outstanding   | 24,686,517 | <b>23,848,603</b> |
| Diluted weighted average shares outstanding | 24,696,334 | <b>23,853,068</b> |
| See accompanying notes                      |            |                   |

---

**SALEM COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)  
(Unaudited)

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2006                         | 2007     |
| <b>OPERATING ACTIVITIES</b>  |                              |          |
| Income from continuing operations  | \$ 2,386                     | \$ 2,965 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                              |          |
| Non-cash stock-based compensation  | 1,309                        | 754      |
| Depreciation and amortization  | 3,295                        | 3,901    |
| Amortization of bond issue costs and bank loan fees  | 386                          | 292      |
| Amortization and accretion of financing items  | (126)                        | 31       |
| Provision for bad debts  | 662                          | 464      |
| Deferred income taxes  | 1,743                        | 2,388    |
| Gain on disposal of assets   | (3,529)                      | (3,269)  |
| Changes in operating assets and liabilities:   |                              |          |
| Accounts receivable  | 1,506                        | 1,320    |
| Prepaid expenses and other current assets  | 60                           | (76)     |
| Accounts payable and accrued expenses  | 805                          | 816      |
| Deferred revenue   | 299                          | 620      |
| Other liabilities  | (124)                        | (29)     |
| Income tax payable   | 41                           | (22)     |
| Net cash provided by continuing operating activities   | 8,713                        | 10,155   |
| <b>INVESTING ACTIVITIES</b>  |                              |          |
| Capital expenditures   | (5,680)                      | (4,081)  |
| Purchases of radio station assets  | (17,830)                     | —        |
| Purchase of non-broadcast properties   | (6,296)                      | (300)    |
| Proceeds from disposals of assets  | 4                            | 7,060    |
| Other  | 635                          | 13       |
| Net cash provided by (used in) investing activities  | (29,167)                     | 2,692    |
| <b>FINANCING ACTIVITIES</b>  |                              |          |
| Repurchases of Class A common stock  | (15,149)                     | —        |
| Proceeds from borrowings under credit facilities   | 32,578                       | 2,500    |
| Payments of long-term debt   | (1)                          | (15,165) |
| Proceeds from exercise of stock options  | 24                           | 30       |
| Tax benefit related to stock options exercised   | 1                            | 1        |
| Payments on loans and capital lease obligations  | (7)                          | (13)     |
| Other  | —                            | (312)    |
| Net cash provided by (used in) by financing activities   | 17,446                       | (12,959) |
| <b>CASH FLOWS FROM DISCONTINUED OPERATIONS</b>   |                              |          |
| Operating cash flows   | (971)                        | —        |
| Investing cash flows   | 695                          | —        |
| Total cash used in discontinued operations   | (276)                        | —        |
| Net decrease in cash and cash equivalents  | (3,284)                      | (112)    |
| Cash and cash equivalents at beginning of year   | 3,979                        | 710      |



|  |    |     |    |            |
|--|----|-----|----|------------|
| Cash and cash equivalents at end of period | \$ | 695 | \$ | <b>598</b> |
|--|----|-----|----|------------|

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

|          |    |       |    |              |
|----------|----|-------|----|--------------|
| Interest | \$ | 5,289 | \$ | <b>4,863</b> |
|----------|----|-------|----|--------------|

|              |    |    |    |            |
|--------------|----|----|----|------------|
| Income taxes | \$ | 49 | \$ | <b>168</b> |
|--------------|----|----|----|------------|

**Noncash investing and financing activities:**

Assets acquired through capital lease obligations

|    |   |    |            |
|----|---|----|------------|
| \$ | — | \$ | <b>800</b> |
|----|---|----|------------|

See accompanying notes

**SALEM COMMUNICATIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements of Salem Communications Corporation (“Salem” or the “Company”) include the Company and its wholly-owned subsidiaries. The Company, excluding its subsidiaries, is herein referred to as Parent. All significant intercompany balances and transactions have been eliminated.

Information with respect to the three months ended March 31, 2007 and 2006 is unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the Company. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2006.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

**NOTE 2. RECLASSIFICATIONS**

Certain reclassifications were made to the prior period financial statements to conform to the current period presentation.

These reclassifications include the accounting for WITH-AM, Baltimore, Maryland, WBGB-FM, Jacksonville, Florida, WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida, and WZAZ-AM, Jacksonville, Florida, as discontinued operations as discussed in Note 3. The accompanying Condensed Consolidated Statements of Operations reflect the results of these stations as discontinued operations for the three months ended March 31, 2006. Additionally, as previously reported for the three months ended March 31, 2006, the operating results for WTSJ-AM, Cincinnati, Ohio, WBOB-AM, Cincinnati, Ohio, and WBTK-AM, Richmond, Virginia, are presented as discontinued operations. The assets of WTSJ-AM and WBOB-AM were sold on February 10, 2006, and the results of operations for 2006 are presented as discontinued operations through the date of the sale.

---

**NOTE 3. ACQUISITIONS AND OTHER SIGNIFICANT TRANSACTIONS**

On February 2, 2007, the Company purchased ChristianMusicPlanet.com, a leading Christian music web portal for \$0.3 million. The purchase price was allocated to the assets acquired as follows:

| Asset                        | Amount<br>(Dollars in<br>thousands) |
|------------------------------|-------------------------------------|
| Domain names                 | \$ 268                              |
| Customer lists and contracts | 32                                  |
|                              | <b>\$ 300</b>                       |

On February 7, 2007, the Company sold radio station WKNR-AM in Cleveland, Ohio, to Good Karma Broadcasting for \$7.0 million resulting in a pre-tax gain of \$3.4 million. The operating results of WKNR-AM were excluded from our Condensed Consolidated Statement of Operations beginning on December 1, 2006, the date the Company entered a local marketing agreement (“LMA”) with Good Karma Broadcasting.

**Other Pending Transactions:**

On February 1, 2007, the Company entered into an LMA to operate radio station KKSJN-AM, in Portland, Oregon. The accompanying Condensed Consolidated Statement of Operations includes the operating results of this radio station as of the LMA date. The Company entered an agreement to purchase KKSJN-AM, subject to certain conditions, for \$4.5 million. We do not expect this sale to close during 2007.

On March 9, 2007, the Company entered an agreement to sell radio station WVRV-FM, Nashville, Tennessee for \$0.9 million, subject to certain conditions. The sale is expected to close during the second quarter of 2007.

**Discontinued Operations:**

The following table sets forth the components of income (loss) from discontinued operations, net of tax, for the three months ended March 31, 2006 (dollars in thousands).

|   | <b>Three Months Ended<br/>March 31, 2006</b> |
|---|--|
| Operating loss                                  | \$ (142)                                     |
| Gain on sale or exchange of radio stations      | 667  |
| Gain from discontinued operations, net of tax   | 525  |
| Provision for income taxes                      | 196  |
| Income from discontinued operations, net of tax | <b>\$ 329</b>                                |

Details of these transactions are as follows:

On February 10, 2006, the Company exchanged radio stations WTSJ-AM, Cincinnati, Ohio, and WBOB-AM, Cincinnati, Ohio and \$6.7 million in cash for selected assets of radio station WLQV-AM, Detroit, Michigan. The accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 reflect WTSJ-AM and WBOB-AM as discontinued operations through the date of the sale. The exchange was accounted for under Statement of Financial Accounting Standards ("SFAS") No. 153, "Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29," and resulted in a pre-tax gain on the exchange of \$0.7 million.

On July 17, 2006, the Company completed the sale of radio station WBTK-AM, Richmond, Virginia, for \$1.5 million resulting in a pre-tax gain of \$0.6 million. The accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 reflect WBTK-AM as a discontinued operation.

On September 18, 2006, the Company completed the sale of radio station WBGB-FM, Jacksonville, Florida for \$7.6 million resulting in a pre-tax gain of \$0.8 million. The accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 reflect WBGB-FM as a discontinued operation.

On December 1, 2006, the Company completed the sale of radio stations WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida and WZAZ-AM, Jacksonville, Florida for \$2.8 million resulting in a pre-tax gain of \$0.1 million. The assets were sold to Chesapeake-Portsmouth Broadcasting Corporation ("Chesapeake-Portsmouth"). Chesapeake-Portsmouth is a company controlled by Nancy Epperson, wife of Salem's Chairman of the Board Stuart W. Epperson and sister of Salem's CEO Edward G. Atsinger III. The accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 reflect WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida and WZAZ-AM, Jacksonville, Florida as discontinued operations.

On December 22, 2006, the Company completed the sale of radio station WITH-AM, Baltimore, Maryland for \$3.0 million resulting in a pre-tax gain of \$2.2 million. The accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 reflect WITH-AM as a discontinued operation.

---

**NOTE 4. STOCK INCENTIVE PLAN**

The Company has one stock incentive plan. The Amended and Restated 1999 Stock Incentive Plan (the “Plan”) allows the Company to grant stock options to employees, directors, officers and advisors of the Company. A maximum of 3,100,000 shares are authorized under the Plan. Options generally vest over four or five years and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated in certain corporate transactions of the Company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options. In accordance with SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”), the Company recognizes compensation expense related to the estimated fair value of stock options granted.

The Company adopted SFAS No. 123(R) on January 1, 2006, using the modified-prospective-transition method. Under this transition method, compensation expense recognized subsequent to adoption includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested, as of December 31, 2005 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005, based on the grant-date fair values estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified-prospective-transition method, the Company’s results of operations for prior periods have not been adjusted to reflect the impact of SFAS 123(R).

The following table reflects the components of stock-based compensation expense recognized in our Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006:

|  | Three Months Ended March 31, |               |
|--|------------------------------|---------------|
|  | 2006                         | 2007          |
| Stock option compensation expense included in corporate expenses               | \$ 1,073                     | <b>\$ 507</b> |
| Restricted stock units compensation expense included in corporate expenses     | 22                           | <b>16</b>     |
| Stock option compensation expense included in broadcast operating expenses     | 207                          | <b>207</b>    |
| Stock option compensation expense included in non-broadcast operating expenses | 7                            | <b>24</b>     |
| Total stock-based compensation expense   | \$ 1,309                     | <b>\$ 754</b> |
| Tax benefit from stock-based compensation expense                              | (527)                        | <b>(345)</b>  |
| Total stock-based compensation expense net of tax benefit                      | \$ 782                       | <b>\$ 409</b> |

*Employee stock option and restricted stock grants*

The Plan provides for grants of stock options to employees. The option exercise price is set at the closing price of our common stock on the date of grant, and the related number of shares granted is fixed at that point in time. The Plan also provides for grants of restricted stock and restricted stock units. Grants of these equity instruments generally vest over a four year period. In addition, stock option awards expire five years from the date of grant. Eligible employees generally receive stock options units annually with the number of shares and type of instrument generally determined

by the employee's salary grade and performance level. In addition, certain management and professional level employees typically receive a stock option grant upon commencement of employment. Non-employee directors of the company have received restricted stock units that vest one year from the date of issuance in addition to stock options that vest one year from the date of issuance.

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of stock options. The expected volatility reflects the consideration of the historical volatility of the Company stock as determined by the closing price over the preceding two years. Upon the adoption of SFAS No. 123(R) the expected term of the option is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected life of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted. The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model were as follows for the three months ended March 31, 2007 and 2006:

|                          | Three Months Ended March 31, |              |
|--------------------------|------------------------------|--------------|
|                          | 2006                         | <b>2007</b>  |
| Expected volatility      | 48.3%                        | <b>67.0%</b> |
| Expected dividends       | 0.0%                         | <b>0.0%</b>  |
| Expected term (in years) | 5 - 8                        | <b>5 - 8</b> |
| Risk-free interest rate  | 4.73%                        | <b>4.53%</b> |

---

**NOTE 4. STOCK INCENTIVE PLAN (Continued)**

Stock option information with respect to our stock-based compensation plans during the three months ended March 31, 2007 is as follows (dollars in thousands, except per share amounts):

| Options                               | Shares           | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---------------------------------------|------------------|--|---|---------------------------------|
| <b>Outstanding at January 1, 2007</b> | <b>2,146,564</b> | <b>\$ 22.30</b>                          |   | <b>\$ 47,873</b>                |
| <b>Granted</b>                        | <b>279,650</b>   | <b>11.80</b>                             |   | <b>3,300</b>                    |
| <b>Exercised</b>                      | <b>(2,500)</b>   | <b>11.81</b>                             |   | <b>5</b>                        |
| <b>Forfeited or expired</b>           | <b>(28,950)</b>  | <b>18.39</b>                             |   | <b>532</b>                      |
| <b>Outstanding at March 31, 2007</b>  | <b>2,394,764</b> | <b>\$ 21.13</b>                          | <b>4.7 years</b>  | <b>\$ 50,611</b>                |
| <b>Exercisable at March 31, 2007</b>  | <b>1,389,425</b> | <b>\$ 24.70</b>                          | <b>3.0 years</b>  | <b>\$ 34,313</b>                |

The fair values of shares of restricted stock are determined based on the closing price of the Company common stock on the grant dates. Information regarding our restricted stock unit grants for the three months ended March 31, 2007 is as follows:

| Restricted Stock Units        | Shares | Weighted<br>Average<br>Exercise Price |
|-------------------------------|--------|---------------------------------------|
| Non-Vested at January 1, 2007 | 6,000  | \$ 11.15                              |
| Granted                       | —      | —                                     |
| Vested                        | —      | —                                     |
| Forfeited                     | —      | —                                     |
| Non-Vested at March 31, 2007  | 6,000  | \$ 11.15                              |

**NOTE 5. OTHER COMPREHENSIVE INCOME (LOSS)**

uring the quarter ended March 31, 2007, the Company recognized other comprehensive loss of approximately \$0.3 million, net of tax benefits of \$0.2 million, related to the change in fair value of its three cash flow hedges.

During the quarter ended March 31, 2006, the Company recognized other comprehensive income of approximately \$1.0 million, net of tax of \$0.7 million, related to the change in fair value of its three cash flow hedges.

**NOTE 6. RECENT ACCOUNTING PRONOUNCEMENTS**

*Statement of Financial Accounting Standards No. 159*

On February 15, 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statements No. 115.” SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. SFAS No. 159 is effective beginning January 1, 2008. The Company believes that the adoption of SFAS No. 159 will not have a material impact on the Company’s results of operations, cash flows or financial position.

*Statement of Financial Accounting Standards No. 157*

On September 15, 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” which is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, specifies the acceptable methods for determining fair value, and expands disclosure requirements regarding fair value measurements. SFAS No. 157 is effective beginning January 1, 2008. The Company believes that the adoption of SFAS No. 159 will not have a material impact on the Company’s results of operations, cash flows or financial position.

**NOTE 7. EQUITY TRANSACTIONS**

The Company’s Board of Directors authorized a \$25.0 million share repurchase program in May 2005. In February 2006, the Board of Directors increased Salem’s existing share repurchase program to permit the repurchase of up to an additional \$25.0 million of shares of Salem’s Class A common stock.

As discussed in Note 4, the Company adopted SFAS No. 123(R) as of January 1, 2006. As a result, \$1.3 million and \$0.8 million of stock-based compensation expense has been recorded to additional paid-in capital for the three months ended March 31, 2006 and 2007, respectively.

---



**NOTE 8. NOTES PAYABLE AND LONG-TERM DEBT**

Long-term debt consisted of the following:

|  | December 31,<br>2006          | <b>March 31, 2007</b> |
|--|-------------------------------|-----------------------|
|  | <i>(Dollars in thousands)</i> |                       |
| Term loans under credit facility               | \$ 238,125                    | \$ <b>237,300</b>     |
| Revolving line of credit under credit facility | 19,100                        | <b>8,500</b>          |
| Swingline credit facility                      | 1,241                         | -                     |
| 7¾% Senior Subordinated Notes due 2010         | 100,000                       | <b>100,000</b>        |
| Fair market value of interest swap agreement   | -                             | <b>104</b>            |
| Capital leases and other loans                 | 2,560                         | <b>3,348</b>          |
|  | 361,026                       | <b>349,252</b>        |
| Less current portion                           | 2,048                         | <b>2,431</b>          |
|  | \$ 358,978                    | \$ <b>346,821</b>     |

---

**Maturities of Long-Term Debt**

Principal repayment requirements under all long-term debt agreements outstanding at March 31, 2007 for each of the next five years and thereafter are as follows:

| Twelve Months Ended March<br>31,               | Amount                            |
|--|-----------------------------------|
|  | <i>(Dollars in<br/>thousands)</i> |
| 2008   | \$ 2,431                          |
| 2009   | 12,238                            |
| 2010   | 74,490                            |
| 2011   | 259,251                           |
| 2012   | 27                                |
| Thereafter                                     | 711                               |
|  | \$ 349,148                        |
| Fair value of interest rate swap<br>agreements | 104                               |
|  | \$ 349,252                        |

---

**NOTE 9. AMORTIZABLE INTANGIBLE ASSETS**

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

|                                     | <b>As of March 31, 2007</b>   |                             |                 |
|-------------------------------------|-------------------------------|-----------------------------|-----------------|
|                                     | Cost                          | Accumulated<br>Amortization | Net             |
|                                     | <i>(Dollars in thousands)</i> |                             |                 |
| Customer lists and contracts        | \$ 10,437                     | \$ (6,485)                  | \$ 3,952        |
| Domain and brand names              | 4,775                         | (1,765)                     | 3,010           |
| Favorable and assigned leases       | 1,581                         | (1,166)                     | 415             |
| Other amortizable intangible assets | 2,742                         | (2,241)                     | 501             |
|                                     | <b>\$ 19,535</b>              | <b>\$ (11,657)</b>          | <b>\$ 7,878</b> |

|                                     | <b>As of December 31, 2006</b> |                             |                 |
|-------------------------------------|--------------------------------|-----------------------------|-----------------|
|                                     | Cost                           | Accumulated<br>Amortization | Net             |
|                                     | <i>(Dollars in thousands)</i>  |                             |                 |
| Customer lists and contracts        | \$ 10,404                      | \$ (6,030)                  | \$ 4,374        |
| Domain and brand names              | 4,487                          | (1,533)                     | 2,954           |
| Favorable and assigned leases       | 1,581                          | (1,144)                     | 437             |
| Other amortizable intangible assets | 2,742                          | (2,139)                     | 603             |
|                                     | <b>\$ 19,214</b>               | <b>\$ (10,846)</b>          | <b>\$ 8,368</b> |

Based on the amortizable intangible assets as of March 31, 2007, the Company estimates amortization expense for the next five years to be as follows:

| <b>Year Ending December 31,</b> | <b>Estimated<br/>future<br/>Amortization<br/>Expense</b><br><i>(Dollars in<br/>thousands)</i> |
|---------------------------------|---|
| 2007 (April 1 - December 31)    | \$ 2,177  |
| 2008                            | 2,535   |
| 2009                            | 1,283   |
| 2010                            | 832   |
| 2011                            | 370   |
| Thereafter                      | 681   |
| <b>Total</b>                    | <b>\$ 7,878</b>   |

## **NOTE 10. BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share has been computed using the weighted average number of Class A and Class B shares of common stock outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares of Class A and Class B common stock outstanding during the period plus the dilutive effects of stock options.

Options to purchase 2,192,544 and 2,394,764 shares of Class A common stock were outstanding at March 31, 2006 and 2007, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the Company's stock price. These options are excluded from the respective computation of diluted net income per share because their effect would be anti-dilutive.

## **NOTE 11. DERIVATIVE INSTRUMENTS**

The Company is exposed to fluctuations in interest rates. Salem actively monitors these fluctuations and uses derivative instruments from time to time to manage the related risk. In accordance with our risk management strategy, Salem uses derivative instruments only for the purpose of managing risk associated with an asset, liability, committed transaction, or probable forecasted transaction that is identified by management. The Company's use of derivative instruments may result in short-term gains or losses that may increase the volatility of Salem's earnings.

Under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, the accounting for changes in the fair value of a derivative instrument at each new measurement date is dependent upon its intended use. The change in the fair value of a derivative instrument designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability or a firm commitment, referred to as a fair value hedge, is recognized as gain or loss in earnings in the period of the change together with an offsetting gain or loss for the change in fair value of the hedged item attributable to the risk being hedged. The change in the fair value of a derivative instrument designated as a hedge of the exposure of the variability in expected cash flows of recognized assets, liabilities or of unrecognized forecasted transactions, referred to as a cash flow hedge, is recognized as other comprehensive income. The differential paid or received on the interest rate swaps is recognized in earnings as an adjustment to interest expense.

During 2004 and through February 18, 2005, the Company had an interest rate swap agreement with a notional principal amount of \$66.0 million. This agreement related to its \$94.4 million 9% Notes. This agreement was scheduled to expire in 2011 when the 9% Notes were to mature, and effectively swapped the 9.0% fixed interest rate on \$66.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 3.09%. On February 18, 2005, the Company sold its entire interest in this swap and received a payment of approximately \$3.7 million, which was amortized as a reduction of interest expense over the remaining life of the 9% Notes. On July 6, 2006, the Company completed the redemption of the remainder of its outstanding 9% senior subordinated notes. As a result of the redemption, the Company wrote off the remaining balance of the buyout premium of approximately \$2.7 million as a reduction of the loss on the early redemption of long term debt. Interest expense for the three months ended March 31, 2006, was reduced by \$0.1 million related to the amortization of the buyout premium received. -

During 2004, the Company also had a second interest rate swap agreement with a notional principal amount of \$24.0 million. This agreement related to its 9% Notes. This agreement was to expire in 2011 when the 9% Notes were to mature, and effectively swapped the 9.0% fixed interest rate on \$24.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 4.86%. On August 20, 2004, the Company sold its interest in \$14.0 million of this swap. As a result of this transaction, the Company paid and capitalized \$0.3 million in buyout premium, which was to be amortized into interest expense over the remaining life of the 9% Notes. On October 22, 2004, the Company sold its remaining \$10.0 million interest in this swap. As a result of this second transaction, the Company paid and capitalized approximately \$110,000 in buyout premium, which was to be amortized into interest expense over the remaining life of the 9% Notes. On July 6, 2006, the Company completed the redemption of the remainder of its outstanding 9% Notes. Interest expense for the three months ended March 31, 2006 included approximately \$16,000 related to the amortization of the capitalized buyout premium.

On April 8, 2005, the Company entered into an interest rate swap arrangement for the notional principal amount of \$30.0 million whereby we will pay a fixed interest rate of 4.99% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the three months ended March 31, 2007, was reduced by approximately \$28,000 as a result of the difference between the interest rates. As of March 31, 2007, the Company recorded a liability for the fair value of the interest swap of approximately \$104,000. This amount, net of income tax benefits of approximately \$42,000, is reflected in other comprehensive income, as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On April 26, 2005, the Company entered into a second interest rate swap arrangement for the notional principal amount of \$30.0 million whereby we will pay a fixed interest rate of 4.70% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the three months ended March 31, 2007, was reduced by approximately \$49,000 as a result of the difference between the interest rates. As of March 31, 2007, the Company recorded an asset for the fair value of the interest swap of approximately \$0.3 million. This amount, net of income taxes of approximately \$0.1 million, is reflected in other comprehensive income, as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On May 5, 2005, the Company entered into a third interest rate swap arrangement for the notional principal amount of \$30.0 million whereby we will pay a fixed interest rate of 4.53% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the three months ended March 31, 2007, was reduced by approximately \$62,000 as a result of the difference between the interest rates. As of March 31, 2007, the Company recorded an asset for the fair value of the interest swap of approximately \$0.6 million. This amount, net of income taxes of approximately \$0.2 million, is reflected in other comprehensive income, as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

### **Interest Rate Caps**

On October 18, 2006, the Company purchased two interest rate caps for \$0.1 million to mitigate exposure to rising interest rates. The first interest rate cap covers \$50.0 million of borrowings under the credit facilities for a three year period. The second interest rate cap covers \$50.0 million of borrowings under the credit facilities for a four year period. Both interest rate caps are at 7.25%. The caps do not qualify for hedge accounting and accordingly, all changes in fair value have been included as a component of interest expense. Interest expense of approximately \$24,000 was recognized during the three months ended March 31, 2007 related to our interest rate caps.

## **NOTE 12. INCOME TAXES**

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS No. 109"). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN No. 48 effective January 1, 2007. In accordance with FIN No. 48, paragraph 19, the Company has decided to classify interest and penalties as a component of tax expense. As a result of the implementation of FIN No. 48, the Company recognized a \$2.0 million increase in liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

The Company files numerous consolidated and separate income tax returns in the United States Federal jurisdiction and in many state jurisdictions. The Company is no longer subject to US Federal income tax examinations for years before 2003 and is no longer subject to state and local, or income tax examinations by tax authorities for years before 2002.

The Company has unrecognized tax benefits of approximately \$3.0 million as of January 1, 2007 and, if recognized, would result in a reduction of the Company's effective tax rate. Interest and penalties are immaterial at the date of adoption and are included in the unrecognized tax benefits. The Company recorded an increase of its unrecognized tax benefits of approximately \$0.3 million as of March 31, 2007.

## **NOTE 13. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries, incident to its business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. Also, the Company maintains insurance which may provide coverage for such matters. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. The Company believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's annual consolidated financial position, results of operations or cash flows.

## **NOTE 14. 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 our Internet businesses, SWN and Townhall.com, and our publishing businesses, Salem Publishing and Xulon Press, which do not meet the reportable segment quantitative thresholds and accordingly are aggregated in the following tables as non-broadcast. The radio broadcasting segment also operates various radio networks.

**NOTE 14. SEGMENT DATA (CONTINUED)**

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

|   | <b>Three Months Ended<br/>March 31,</b> |           |
|---|---|-----------|
|   | 2006                                    | 2007      |
|   | <i>(Dollars in thousands)</i>           |           |
| <b>Net revenue</b>  |   |           |
| Radio broadcasting  | \$ 48,774                               | \$ 50,440 |
| Non-broadcast   | 3,252                                   | 5,654     |
| Consolidated net revenue  | \$ 52,026                               | \$ 56,094 |
| <b>Operating expenses before depreciation, amortization and gain on disposal of assets</b>                                |   |           |
| Radio broadcasting  | \$ 31,694                               | \$ 32,483 |
| Non-broadcast   | 3,432                                   | 5,271     |
| Corporate   | 6,440                                   | 5,814     |
| Consolidated operating expenses before depreciation, amortization and gain on disposal of assets                          | \$ 41,566                               | \$ 43,568 |
| <b>Operating income from continuing operations before depreciation, amortization and gain on disposal of assets</b>       |   |           |
| Radio broadcasting  | \$ 17,080                               | \$ 17,957 |
| Non-broadcast   | (180)                                   | 383       |
| Corporate   | (6,440)                                 | (5,814)   |
| Consolidated operating income from continuing operations before depreciation, amortization and gain on disposal of assets | \$ 10,460                               | \$ 12,526 |
| <b>Depreciation</b>   |   |           |
| Radio broadcasting  | \$ 2,374                                | \$ 2,665  |
| Non-broadcast   | 87                                      | 139       |
| Corporate   | 284                                     | 287       |
| Consolidated depreciation expense   | \$ 2,745                                | \$ 3,091  |
| <b>Amortization</b>   |   |           |
| Radio broadcasting  | \$ 228                                  | \$ 67     |
| Non-broadcast   | 317                                     | 738       |
| Corporate   | 5                                       | 5         |
| Consolidated amortization expense   | \$ 550                                  | \$ 810    |
| <b>Operating income from continuing operations before gain on disposal of assets</b>                                      |   |           |
| Radio broadcasting  | \$ 14,478                               | \$ 15,225 |
| Non-broadcast   | (584)                                   | (494)     |
| Corporate   | (6,729)                                 | (6,106)   |
| Consolidated operating income from continuing operations before gain on disposal of assets                                | \$ 7,165                                | \$ 8,625  |

|   |            |                   |
|---|------------|-------------------|
| Total property, plant and equipment, net        |            |                   |
| Radio broadcasting                              | \$ 115,604 | \$ <b>115,616</b> |
| Non-broadcast                                   | 2,830      | <b>3,516</b>      |
| Corporate                                       | 10,279     | <b>10,488</b>     |
| Consolidated property, plant and equipment, net | \$ 128,713 | \$ <b>129,620</b> |

---



**NOTE 14. SEGMENT DATA (CONTINUED)**

|  | <b>Three months ended<br/>March 31,</b> |           |
|--|---|-----------|
|  | 2006                                    | 2007      |
| Goodwill   |   |           |
| Radio broadcasting   | \$ 5,011                                | \$ 5,011  |
| Non-broadcast  | 15,587                                  | 15,587    |
| Corporate  | 8                                       | 8         |
| Consolidated goodwill  | \$ 20,606                               | \$ 20,606 |
| <i>Reconciliation of operating income from continuing operations before depreciation, amortization and gain on disposal of assets to income from continuing operations before income taxes</i> |   |           |
|  | <b>Three Months Ended<br/>March 31,</b> |           |
|  | 2006                                    | 2007      |
|  | <i>(Dollars in thousands)</i>           |           |
| Operating income from continuing operations before depreciation, amortization and gain (loss) on disposal of assets  | \$ 10,460                               | \$ 12,526 |
| Depreciation expense   | (2,745)                                 | (3,091)   |
| Amortization expense   | (550)                                   | (810)     |
| Interest income  | 46                                      | 60        |
| Gain on disposal of assets   | 3,529                                   | 3,269     |
| Interest expense   | (6,588)                                 | (6,454)   |
| Other expense, net   | (172)                                   | (35)      |
| Income from continuing operations before income taxes  | \$ 3,980                                | \$ 5,465  |

**NOTE 15. CONSOLIDATING FINANCIAL INFORMATION**

The following is the consolidating information of Salem Communications Corporation for purposes of presenting the financial position and operating results of HoldCo as the issuer of the 7¾% Notes and its guarantor subsidiaries on a consolidated basis and the financial position and operating results of the other guarantors, which are consolidated within the Company. Separate financial information of HoldCo on an unconsolidated basis is not presented because HoldCo has substantially no assets, operations or cash other than its investments in subsidiaries. Each guarantor has given its full and unconditional guarantee, on a joint and several basis, of indebtedness under the 7¾% Notes. HoldCo and AcquisitionCo are 100% owned by Salem and HoldCo owns 100% of all of its subsidiaries. All subsidiaries of HoldCo are guarantors. The net assets of HoldCo are subject to certain restrictions which, among other things, require HoldCo to maintain certain financial covenant ratios, and restrict HoldCo and its subsidiaries from transferring funds in the form of dividends, loans or advances without the consent of the holders of the 7¾% Notes. The restricted net assets of HoldCo as of March 31, 2007, amounted to \$200.3 million. Included in intercompany receivables of HoldCo presented in the consolidating balance sheet below is \$65.3 million of amounts due from Salem and AcquisitionCo as of March 31, 2007.

---

SALEM COMMUNICATIONS CORPORATION  
CONDENSED CONSOLIDATING BALANCE SHEET  
(UNAUDITED)

(Dollars in thousands)

As of March 31, 2007

|  | Guarantors |               |                |            | Issuer and<br>Guarantor<br>Subsidiaries | Salem<br>Consolidated |
|--|------------|---------------|----------------|------------|---|-----------------------|
|  | Parent     | AcquisitionCo | Other<br>Media | HoldCo     | Adjustments                             |                       |
| <b>Current assets:</b>                   |            |               |                |            |   |                       |
| Cash and cash equivalents                | \$ —       | \$ 117        | \$ 161         | \$ 320     | \$ —                                    | \$ 598                |
| Accounts receivable                      | —          | 2,924         | 929            | 26,445     | (84)                                    | 30,214                |
| Other receivables                        | —          | 14            | 3              | 490        | —                                       | 507                   |
| Prepaid expenses                         | —          | 108           | 280            | 2,018      | —                                       | 2,406                 |
| Income tax receivable                    | —          | (9)           | (8)            | 47         | —                                       | 30                    |
| Deferred income taxes                    | —          | 263           | 176            | 4,504      | —                                       | 4,943                 |
| Total current assets                     | —          | 3,417         | 1,541          | 33,824     | (84)                                    | 38,698                |
| Investment in subsidiaries               | 211,063    | —             | —              | —          | (211,063)                               | —                     |
| Property, plant and equipment, net       | —          | 6,911         | 374            | 122,335    | —                                       | 129,620               |
| Broadcast licenses                       | —          | 94,473        | —              | 379,098    | —                                       | 473,571               |
| Goodwill                                 | —          | 10,256        | 2,554          | 7,796      | —                                       | 20,606                |
| Other indefinite-lived intangible assets | —          | —             | 2,892          | —          | —                                       | 2,892                 |
| Amortizable intangible assets, net       | —          | 5,044         | 1,131          | 1,703      | —                                       | 7,878                 |
| Bond issue costs                         | —          | —             | —              | 556        | —                                       | 556                   |
| Bank loan fees                           | —          | —             | —              | 2,741      | —                                       | 2,741                 |
| Fair value of interest rate swap         | —          | —             | —              | 913        | —                                       | 913                   |
| Intercompany receivables                 | 104,920    | 9,918         | —              | 176,980    | (291,818)                               | —                     |
| Other assets                             | —          | 60            | 27             | 3,683      | —                                       | 3,770                 |
| Total assets                             | \$ 315,983 | \$ 130,079    | \$ 8,519       | \$ 729,629 | \$ (502,965)                            | \$ 681,245            |

**NOTE 15. CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)**

SALEM COMMUNICATIONS CORPORATION  
CONDENSED CONSOLIDATING BALANCE SHEET  
(UNAUDITED)  
(Dollars in thousands)

As of March 31, 2007

|   | Guarantors        |                   |                 |                  | Issuer and<br>Guarantor<br>Subsidiaries | Salem<br>Consolidated |
|---|-------------------|-------------------|-----------------|------------------|---|-----------------------|
|   | Parent            | AcquisitionCo     | Other<br>Media  | HoldCo           | Adjustments                             |                       |
| <b>Current liabilities:</b>                           |                   |                   |                 |                  |   |                       |
| Accounts payable                                      | \$ —              | \$37              | \$ 123          | \$ 2,344         | \$ —                                    | \$ 2,504              |
| Accrued expenses                                      | —                 | 484               | 330             | 4,966            | (203)                                   | 5,577                 |
| Accrued<br>compensation and<br>related expenses       | —                 | 656               | 161             | 7,118            | —                                       | 7,935                 |
| Accrued interest                                      | —                 | —                 | —               | 5,866            | —                                       | 5,866                 |
| Deferred revenue                                      | —                 | —                 | 4,057           | 553              | —                                       | 4,610                 |
| Current<br>maturities of<br>long-term debt            | —                 | —                 | —               | 2,431            | —                                       | 2,431                 |
| <b>Total current liabilities</b>                      | <b>—</b>          | <b>1,177</b>      | <b>4,671</b>    | <b>23,278</b>    | <b>(203)</b>                            | <b>28,923</b>         |
| Intercompany payables                                 | 74,946            | 101,222           | 13,734          | 101,797          | (291,699)                               | —                     |
| Long-term debt  | —                 | 2,523             | —               | 344,298          | —                                       | 346,821               |
| Deferred income taxes                                 | 1,919             | 14,756            | (9,346)         | 50,785           | —                                       | 58,114                |
| Deferred revenue                                      | —                 | 515               | (1,373)         | 7,981            | —                                       | 7,123                 |
| Other liabilities                                     | —                 | —                 | —               | 1,146            | —                                       | 1,146                 |
| <b>Total stockholders'<br/>equity</b>                 | <b>239,118</b>    | <b>9,886</b>      | <b>833</b>      | <b>200,344</b>   | <b>(211,063)</b>                        | <b>239,118</b>        |
| <b>Total liabilities and<br/>stockholders' equity</b> | <b>\$ 315,983</b> | <b>\$ 130,079</b> | <b>\$ 8,519</b> | <b>\$729,629</b> | <b>\$ (502,965)</b>                     | <b>\$ 681,245</b>     |

**NOTE 15. CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)**

SALEM COMMUNICATIONS CORPORATION  
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(Dollars in thousands)

Three Months Ended March 31, 2007

|  | Guarantors   |               |                |           | Issuer and<br>Guarantor<br>Subsidiaries |                       |
|--|--------------|---------------|----------------|-----------|---|-----------------------|
|  | Parent       | AcquisitionCo | Other<br>Media | HoldCo    | Adjustments                             | Salem<br>Consolidated |
| Net broadcasting revenue                             | \$ —         | \$ 2,778      | \$ —           | \$ 48,290 | \$ (628)                                | \$ 50,440             |
| Non-broadcast revenue                                | —            | 3,076         | 1,604          | 1,134     | (160)                                   | 5,654                 |
| Total revenue  | —            | 5,854         | 1,604          | 49,424    | (788)                                   | 56,094                |
| Operating expenses:                                  |              |               |                |           |   |                       |
| Broadcasting operating expenses                      | —            | 1,889         | —              | 30,527    | 67                                      | 32,483                |
| Non-broadcast operating expenses                     | —            | 3,013         | 1,957          | 916       | (615)                                   | 5,271                 |
| Corporate expenses                                   | —            | 336           | —              | 5,718     | (240)                                   | 5,814                 |
| Amortization   | —            | 425           | 101            | 284       | —                                       | 810                   |
| Depreciation   | —            | 246           | 40             | 2,805     | —                                       | 3,091                 |
| Gain on disposal of assets                           | —            | —             | —              | (3,269)   | —                                       | (3,269)               |
| Total operating expenses                             | —            | 5,909         | 2,098          | 36,981    | (788)                                   | 44,200                |
| Operating income (loss)                              | —            | (55)          | (494)          | 12,443    | —                                       | 11,894                |
| Other income (expense):                              |              |               |                |           |   |                       |
| Equity in earnings of consolidated subsidiaries, net | 5,111        | —             | —              | —         | (5,111)                                 | —                     |
| Interest income                                      | 1,916        | —             | —              | 3,070     | (4,926)                                 | 60                    |
| Interest expense                                     | (2,143)      | (2,337)       | (326)          | (6,574)   | 4,926                                   | (6,454)               |
| Other income (expense)                               | —            | —             | —              | (35)      | —                                       | (35)                  |
| Income (loss) before income taxes                    | 4,884        | (2,392)       | (820)          | 8,904     | (5,111)                                 | 5,465                 |
| Provision (benefit) for income taxes                 | 1,919        | (580)         | (395)          | 1,556     | —                                       | 2,500                 |
| Net income (loss)                                    | \$-<br>2,965 | \$ (1,812)    | \$ (425)       | \$ 7,348  | \$ (5,111)                              | \$ 2,965              |

|                                   |          |            |          |          |            |          |
|-----------------------------------|----------|------------|----------|----------|------------|----------|
| Other comprehensive income (loss) | (288)    | —          | —        | (288)    | 288        | (288)    |
| Comprehensive income (loss)       | \$ 2,677 | \$ (1,812) | \$ (425) | \$ 7,060 | \$ (4,823) | \$ 2,677 |

---

