



LETTER TO SHAREHOLDERS

As broadcasters and businessmen, we have a responsibility to describe the environment in which we currently operate as it is, not as we would like it to be. This is the third consecutive year that we are stating in our letter to shareholders that terrestrial radio faces challenges.

The challenges have not lessened; rather, they have increased. Last year, online advertising continued to grow throughout the United States, and it now accounts for 7% of all advertising spending. Satellite radio, iPods and Internet delivery of content offer a menu of alternatives to terrestrial radio, and the use of these alternatives is growing. This fragmentation has resulted in some erosion in time spent listening. Perhaps most importantly, the collapse of the subprime mortgage market in 2007 contributed to a broader economic decline that affected all of media. This collapse was particularly difficult for Salem as we lost advertising customers in the financial services and home improvement industries who had been targeting the demographic makeup of our listening audience.

The combined effect of these facts resulted in industry revenues declining 2.3% in 2007. The consensus is that 2008 is likely to be worse, with revenues projected by some to decrease by more than 3%.

The information in the previous two paragraphs does describe a challenging environment, but it does not fully describe the environment as it currently exists. Many factors suggest that a balanced view of our industry, while rarely presented today, is warranted. Consider the following:

- Ten-year percentage trends for persons using radio in our target 25-54 demographic show virtually no erosion, indicating that, when taking overall population growth into consideration, more people in this demographic than ever before are listening to the radio;
- 61% of adults listen to the radio every day;
- 73% of those entering their vehicle turn on the radio; and
- 53% of radio listeners stay with the same station during commercial breaks, and only 8% turn off the radio during a commercial

Our conclusion is that radio has been and continues to be popular with adults. We recognize the challenges, but we continue to believe in this industry and in our business model.

2007 Financial Highlights

In a year of overall industry decline, we delivered a 2.7% increase in total revenue and a slight increase of 0.1% in adjusted EBITDA. While broadcasting revenue increased slightly by 0.1%, we were particularly pleased with the continued growth of our non-broadcast media businesses, which achieved a 29.7% increase in revenue. Internet and publishing operating income increased 70.2%.

Block programming revenue on our **Christian Teaching and Talk** stations grew 5.2% on a same station basis, demonstrating once again the dependability of this revenue segment. We continue to devote time and resources to maintain strong relationships with our block program partners.

In 2007 we launched a new strategic format, **Spanish Christian Teaching and Talk**. This format, which we have named *Radio Luz*, is currently featured on stations in Atlanta, Boston, Denver and Sacramento. We are encouraged by the early results from this format and expect that it will be added in additional markets during 2008.

Our **Contemporary Christian Music (CCM)** stations continue to show growth in several markets. We increased our Women 25-54 Arbitron shares in seven CCM markets. KLTU-FM in Dallas again demonstrated consistent ratings strength. Over the last five years (20 quarters averaged), KLTU-FM has ranked first in Women 25-54.

(continued on reverse)

Salem's **News Talk** station group grew its cumulative audience by 12% in 2007 and now reaches a total audience of nearly 1.6 million people. Cumulative audience has grown 30-40% in selected markets.

Our **Internet** businesses continue to grow at an impressive pace. Internet sites generate 90 million page views and are used by 8 million unique readers each month, representing double digit growth over 2006. With the successful launch of our new Bible study tools in late 2007, as well as new radio station websites throughout the year, we believe this page view growth can continue.

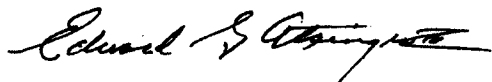
Xulon Press, the on-demand book publishing business which is part of our **Publishing** division, grew by 133% in 2007. We expect to see continued growth in 2008 with the launch of *Townhall Magazine*, the print companion to our Townhall.com conservative opinion website.

In Closing

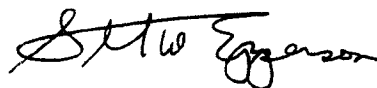
We remain fully committed to fulfilling Salem's mission to superserve the audience interested in content related to faith, family and conservative values. This mission remains unchanged, whether in times of prosperity or times of challenge.

Our employees continue to contribute extraordinary skill and effort to their work. We cannot express enough our appreciation for what they do. We also recognize our customers, many of whom have truly been our partners for more than 30 years. Finally, to our shareholders, we thank you for your patience and your confidence in our company.

Sincerely,



EDWARD G.ATSINGER III
Chief Executive Officer



STUART W. EPPERSON
Chairman of the Board