

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a Smaller Reporting Company) Smaller Reporting Company

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.

<u>Class A</u>	<u>Outstanding at August 1, 2012</u>
Common Stock, \$0.01 par value per share	18,839,260 shares
<u>Class B</u>	<u>Outstanding at August 1, 2012</u>
Common Stock, \$0.01 par value per share	5,553,696 shares

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FORWARD-LOOKING STATEMENTS

From time to time, in both written reports (such as this report) and oral statements, Salem Communications Corporation (“Salem” or the “company,” including references to Salem by “we,” “us” and “our”) makes “forward-looking statements” within the meaning of federal and state securities laws. Disclosures that use words such as the company “believes,” “anticipates,” “estimates,” “expects,” “intends,” “will,” “may” or “plans” and similar expressions are intended to identify forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company’s current expectations and are based upon data available to the company at the time the statements are made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in Salem’s reports on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission. Forward-looking statements made in this report speak as of the date hereof. Except as required by law, the company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections or forward-looking statements fall under the safe harbors of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

PART I – FINANCIAL INFORMATION
SALEM COMMUNICATIONS CORPORATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	<u>December 31, 2011</u> (Note 1)	<u>June 30, 2012</u> (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 67	\$ 299
Restricted cash	110	—
Trade accounts receivable (less allowance for doubtful accounts of \$9,300 in 2011 and \$8,687 in 2012)	31,001	32,189
Other receivables	888	126
Prepaid expenses	3,395	3,720
Deferred income taxes	6,403	9,797
Assets held for sale	—	2,900
Assets of discontinued operations	102	46
Total current assets	<u>41,966</u>	<u>49,077</u>
Notes receivable (less allowance for doubtful accounts of \$100 in 2011 and \$174 in 2012) less current portion	1,459	1,936
Property, plant and equipment (net of accumulated depreciation of \$125,708 in 2011 and \$131,009 in 2012)	111,222	102,341
Broadcast licenses	371,420	372,211
Goodwill	20,092	20,097
Other indefinite-lived intangible assets	1,961	1,961
Amortizable intangible assets (net of accumulated amortization of \$22,817 in 2011 and \$23,948 in 2012)	6,469	5,436
Deferred financing costs	5,489	4,687
Other assets	1,232	1,554
Total assets	<u>\$ 561,310</u>	<u>\$ 559,300</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,565	\$ 4,399
Accrued expenses	5,542	5,233
Accrued compensation and related expenses	8,431	7,705
Accrued interest	1,127	1,113
Deferred revenue	7,521	7,987
Income tax payable	205	212
Subordinated debt due to related parties	9,000	9,000
Current portion of long-term debt and capital lease obligations	124	120
Total current liabilities	<u>36,515</u>	<u>35,769</u>
Long-term debt and capital lease obligations, less current portion	265,679	263,880
Deferred income taxes	48,077	50,430
Deferred revenue	7,962	8,040
Other liabilities	29	29
Total liabilities	<u>358,262</u>	<u>358,148</u>
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 21,051,305 and 21,151,910 issued and 18,733,655 and 18,834,260 outstanding at December 31, 2011 and June 30, 2012, respectively	210	211
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2011 and June 30, 2012	56	56
Additional paid-in capital	231,972	232,728
Retained earnings	4,816	2,163
Treasury stock, at cost (2,317,650 shares at December 31, 2011 and June 30, 2012)	(34,006)	(34,006)
Total stockholders' equity	<u>203,048</u>	<u>201,152</u>
Total liabilities and stockholders' equity	<u>\$ 561,310</u>	<u>\$ 559,300</u>

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
Net broadcast revenue	\$ 45,406	\$ 46,372	\$ 88,136	\$ 90,329
Net Internet revenue	6,890	8,035	12,482	15,469
Net publishing revenue	3,144	3,219	5,985	6,112
Total revenue	<u>55,440</u>	<u>57,626</u>	<u>106,603</u>	<u>111,910</u>
Operating expenses:				
Broadcast operating expenses exclusive of depreciation and amortization shown below (including \$324 and \$335 for the three months ended June 30, 2011 and 2012, respectively, and \$648 and \$659 for the six months ended June 30, 2011 and 2012, respectively, paid to related parties)	29,054	30,519	56,856	59,661
Internet operating expenses exclusive of depreciation and amortization shown below	5,541	6,109	10,377	12,033
Publishing operating expenses exclusive of depreciation and amortization shown below	2,771	3,000	5,651	5,971
Corporate expenses exclusive of depreciation and amortization shown below (including \$170 and \$148 for the three months ended June 30, 2011 and 2012, and \$326 and \$200 for the six months ended June 30, 2011 and 2012, respectively, paid to related parties)	4,204	4,804	8,755	9,671
Depreciation	3,117	3,037	6,299	6,067
Amortization	683	542	1,202	1,131
Impairment of long-lived assets	—	5,608	—	5,608
(Gain) loss on disposal of assets	150	145	(4,375)	(24)
Total operating expenses	<u>45,520</u>	<u>53,764</u>	<u>84,765</u>	<u>100,118</u>
Operating income from continuing operations	9,920	3,862	21,838	11,792
Other income (expense):				
Interest income	54	28	97	59
Interest expense including \$39 and \$114 respectively, for the three months ended June 30, 2012 paid to related parties.	(7,064)	(6,264)	(14,299)	(12,660)
Loss on early redemption of long-term debt	(1,090)	(893)	(1,090)	(893)
Other income (expense), net	(12)	4	(23)	11
Income (loss) from continuing operations before income taxes	1,808	(3,263)	6,523	(1,691)
Provision for (benefit from) income taxes	723	(1,484)	2,879	(797)
Income (loss) from continuing operations	1,085	(1,779)	3,644	(894)
Income (loss) from discontinued operations	15	(13)	43	(55)
Net income (loss)	<u>\$ 1,100</u>	<u>\$ (1,792)</u>	<u>\$ 3,687</u>	<u>\$ (949)</u>
Basic earnings per share data:				
Earnings (loss) per share from continuing operations	\$ 0.04	\$ (0.07)	\$ 0.15	\$ (0.04)
Earnings (loss) per share from discontinued operations	—	—	—	—
Basic earnings (loss) per share	\$ 0.05	\$ (0.07)	\$ 0.15	\$ (0.04)
Diluted earnings per share data:				
Earnings (loss) per share from continuing operations	\$ 0.04	\$ (0.07)	\$ 0.15	\$ (0.04)
Earnings (loss) per share from discontinued operations	—	—	—	—
Diluted earnings (loss) per share	\$ 0.04	\$ (0.07)	\$ 0.15	\$ (0.04)
Dividends per share	\$ —	\$ 0.04	\$ —	\$ 0.07
Basic weighted average shares outstanding	<u>24,279,251</u>	<u>24,356,298</u>	<u>24,400,054</u>	<u>24,460,623</u>
Diluted weighted average shares outstanding	<u>24,491,530</u>	<u>24,356,298</u>	<u>24,625,391</u>	<u>24,460,623</u>

See accompanying notes

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

	Six Months Ended June 30,	
	2011	2012
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	\$ 3,644	\$ (894)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Non-cash stock-based compensation	481	696
Excess tax benefit from stock options exercised	(29)	—
Depreciation and amortization	7,502	7,198
Amortization of deferred financing costs	847	649
Amortization and accretion of financing items	94	90
Provision for bad debts	1,469	791
Deferred income taxes	2,769	(1,041)
Impairment of long-lived assets	—	5,608
(Gain) loss on disposal of assets	(4,375)	(24)
Loss on early redemption of long-term debt	1,090	893
Changes in operating assets and liabilities:		
Accounts receivable	(292)	2,171
Prepaid expenses and other current assets	(637)	(325)
Accounts payable and accrued expenses	1,745	368
Deferred revenue	(749)	(3,443)
Other liabilities	2,799	—
Income taxes payable	(96)	7
Net cash provided by operating activities	<u>16,262</u>	<u>12,744</u>
INVESTING ACTIVITIES		
Capital expenditures	(4,324)	(4,846)
Deposits on radio station acquisitions and equipment	248	(307)
Release of restricted cash	—	110
Purchases of broadcast assets and radio stations	(550)	(2,180)
Purchases of Internet businesses and assets	(6,000)	(165)
Proceeds from the disposal of assets	12,739	765
Other	(424)	(34)
Net cash provided by (used in) investing activities	<u>1,689</u>	<u>(6,657)</u>
FINANCING ACTIVITIES		
Payments of costs related to bank credit facilities	(52)	(134)
Payments of bond issue costs	(43)	—
Payment of bond premium in connection with early redemption	(525)	(525)
Payments to redeem 9 ⁵ / ₈ % Notes	(17,500)	(17,500)
Proceeds from borrowings under bank credit facility and subordinated debt	39,700	77,429
Payments on bank credit facility	(38,700)	(61,842)
Proceeds from lines of credits due to related parties	—	9,000
Payments under lines of credits due to related parties	—	(9,000)
Proceeds from exercise of stock options	19	61
Excess tax benefit from stock options exercised	29	—
Payments on capital lease obligations	(60)	(61)
Payment of cash dividend on common stock	—	(1,704)
Book overdraft	—	(1,580)
Net cash used in financing activities	<u>(17,132)</u>	<u>(5,856)</u>
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Operating cash flows	(189)	1
Investing cash flows	(88)	—
Net cash inflows (outflows) from discontinued operations	<u>(277)</u>	<u>1</u>
Net increase in cash and cash equivalents	<u>542</u>	<u>232</u>
Cash and cash equivalents at beginning of year	828	67
Cash and cash equivalents at end of period	<u>\$ 1,370</u>	<u>\$ 299</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, including \$113 paid to related parties during the six months ending June 30, 2012	\$ 13,497	\$ 11,937
Income taxes	\$ 233	\$ 206
Non-cash investing and financing activities:		
Trade Revenue	\$ 2,649	\$ 2,578
Trade Expense	\$ 2,105	\$ 2,590
Note receivable acquired in exchange for radio station	\$ 1,000	\$ —
Assets acquired under capital leases	\$ 25	\$ —

See accompanying notes

SALEM COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

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

Information with respect to the three and six months ended June 30, 2011 and 2012 is unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the company. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2011.

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

Description of Business

Salem is a domestic multi-media company with integrated business operations covering radio broadcasting, publishing and the Internet. Our programming is intended for audiences interested in Christian and conservative opinion content and complementary programming. Our primary business is the ownership and operation of radio stations in large metropolitan markets. Upon the close of all announced transactions, we will own and/or operate 97 radio stations across the United States. We also own and operate Salem Radio Network® (“SRN”), SRN News Network (“SNN”), Salem Music Network (“SMN”), Solid Gospel Network (“SGN”), Salem Media Representatives (“SMR”) and Vista Media Representatives (“VMR”). SRN, SNN, SMN and SGN are radio networks that produce and distribute programming, such as talk, news and music segments to radio stations throughout the United States, including Salem owned and operated stations. SMR and VMR sell commercial airtime to national advertisers on radio stations and networks that we own, as well as on independent radio station affiliates.

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

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

Variable Interest Entities

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

We may enter into Local Marketing Agreements (“LMA’s”) contemporaneously with entering an Asset Purchase Agreement (“APA”) to acquire or sell a radio station. We may also enter into Time Brokerage Agreements (“TBA’s”). Typically, both LMA’s and TBA’s are contractual agreements under which the station owner / licensee makes air-time available to a programmer / licensee in exchange for a fee and reimbursement of certain expenses. LMA’s and TBA’s are subject to compliance with the antitrust laws and the Communications Laws, including the requirement that the licensee must maintain independent control over the station and, in particular, its personnel, programming, and finances. The FCC has held that such agreements do not violate the Communications Laws as long as the licensee of the station receiving programming from another station maintains ultimate responsibility for, and control over, station operations and otherwise ensures compliance with the Communications Laws.

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The requirements of ASC 810 may apply to entities under LMA's or TBA's, depending on the facts and circumstances related to each transaction. We did not consolidate any entities with which we entered into LMA's or TBA's under the guidance in ASC 810 as of June 30, 2012.

Use of Estimates

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

NOTE 2. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications include the accounting for discontinued operations as described in more detail in Note 5 to our condensed consolidated financial statements.

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

We account for goodwill and other indefinite-lived intangible assets in accordance with the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 350 "Intangibles—Goodwill and Other." We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired.

Due to actual operating results that did not meet or exceed our expectations and assumptions used in prior valuations, we performed an interim valuation of mastheads as of June 30, 2012.

Mastheads

Mastheads consist of the graphic elements that identify our publications to readers and advertisers. These include customized typeset page headers, section headers, and column graphics as well as other name and identity stylized elements within the body of each publication. We test the value of mastheads as a single combined publishing entity as our print magazines operate from one shared facility under one general manager with operating results and cash flows reported on a combined basis for all publications. This is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results. We engaged Bond & Pecaro, an independent third-party appraisal and valuation firm, to perform an income-based approach to determine the estimated fair value of our mastheads. The income approach is based upon an estimated royalty stream that measures a cost savings to the business because it does not have to pay a royalty to use the owned trade name and content. The analysis assumes that the assets are employed by a typical market participant in their highest and best use. Under the income approach, we utilize a discounted cash flow method to calculate the estimated fair value of our mastheads, the key estimates and assumptions to which are as follows:

<u>Mastheads</u>	<u>December 31, 2011</u>	<u>June 30, 2012</u>
Discount rate	8.5%	8.5%
Projected revenue growth ranges	1.5% - 2.50%	1.5% - 2.50%
Royalty growth rate	3.0%	3.0%

Based on our review and analysis we determined that no impairment charges were necessary for mastheads as of the interim testing period ending June 31, 2012. The estimated fair value exceeded the carrying value of our mastheads by 1.7% as of June 30, 2012.

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Goodwill – Publishing

Our publishing segment consists of two accounting units for goodwill testing. The first publishing accounting unit is the magazine unit, which operates and produces all publications from a stand-alone facility, under one general manager, with operating results and cash flows of all publications reported on a combined basis. The second accounting unit is our book publishing division, Xulon Press, which also operates from a stand-alone facility, under one general manager who is responsible for the separately stated operating results and cash flows. These are the lowest levels for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results. During the period ending June 30, 2012, we performed an interim review and valuation of goodwill in our magazine unit.

Our review consisted of a qualitative assessment of the circumstances to determine whether it was more likely than not that the fair value of the reporting unit was less than its carrying amount. Our assessment included reviews of the actual operating results for our magazine publishing unit compared to our projections and compared to growth rates and estimates used in prior period valuations. Based on our review, we performed additional analysis to estimate the fair value of the reporting unit for comparison to the carrying amount.

We engaged Bond & Pecaro to determine the enterprise value of our magazine business in a manner similar to a purchase price allocation. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up. The key estimates and assumptions used for our enterprise valuations are as follows:

Enterprise Valuations	June 30, 2012
Discount rate	8.5%
Operating profit margin ranges	1.4% - 7.5%
Long-term revenue growth rate ranges	1.5%

Based on our analysis we determined that no impairment charge was necessary as of the interim testing period ending June 30, 2012. The table below presents the percentage within a range by which the enterprise value exceeded the carrying value of our accounting units, including goodwill.

	Publishing Accounting units as of June 30, 2012 Percentage Range By Which Enterprise Value Exceeds Carrying Value Including Goodwill			
	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	—	—	—	-1
Enterprise carrying value (in thousands)	\$ —	\$ —	\$ —	\$ -962

There were no indications of impairment during the period ending June 30, 2012 for our broadcast licenses or Internet entities. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 6%.

NOTE 4. IMPAIRMENT OF LONG-LIVED ASSETS

We account for property, plant and equipment in accordance with FASB ASC Topic 360-10, “Property, Plant and Equipment”. We periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable.

During June 2012, based on changes in managements’ intended use of land in Covina, CA we reclassified the land from our broadcast segment to assets held for sale and evaluated for impairment as of that date. In accordance with the authoritative guidance for impairment of long-lived assets held for sale, we determined the carrying value of the land exceeded the estimated fair value less cost to sell. We estimated the fair value of the land based on our estimated future cash flows expected from the sale of the land to a willing party less our estimated closing costs. As a result of our analysis, we recorded an impairment charge of \$5.6 million associated with the land.

The table below presents the fair value measurements used to value this asset.

Description	As of June 30, 2012	Fair Value Measurements Using (Dollars in thousands)			Total Gains (Losses)
		Quoted prices in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-Lived Asset Held for Sale	\$ 2,900			\$ 2,900	\$ 5,608

NOTE 5. SIGNIFICANT TRANSACTIONS

On June 1, 2012, we redeemed \$17.5 million of our 9⁵/₈% senior secured second lien notes (“9⁵/₈% Notes”) for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.9 million pre-tax loss on the early retirement of debt, including approximately \$80,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9⁵/₈% Notes.

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On May 29, 2012, we acquired an FM translator and related construction permits for \$0.3 million that will be used in our Detroit market.

On May 15, 2012, we purchased Churchangel.com and rchurch.com for \$0.2 million. These Internet sites are operated under SWN to enhance and build our relationships with local churches and pastors.

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

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

On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. Quarterly common stock dividends of \$0.9 million and \$0.9 million or \$0.035 per share, were paid on March 31, 2012 and June 29, 2012, respectively, to all common stockholders of record as of indicated date. We anticipate paying quarterly common stock dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay total annual common stock dividends of approximately \$3.4 million.

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

A summary of our business acquisitions and asset purchases for the six months ended June 30, 2012, none of which were material to our condensed consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Cost (Dollars in thousands)
May 15, 2012	Churchangel.com and rchurch.com	\$ 165
April 10, 2012	WKDL-AM, Warrenton, Texas	30
January 13, 2012	KTNO-AM, Dallas, Texas	2,150
		<u>\$ 2,345</u>

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

	Net Broadcast Assets Acquired	Net Internet Assets Acquired	Net Assets Acquired
	(Dollars in thousands)		
Asset			
Property and equipment	\$ 1,242	\$ 87	\$ 1,329
Broadcast licenses	932	—	932
Goodwill	6	—	6
Customer lists and contracts	—	46	46
Domain and brand names	—	32	32
	<u>\$ 2,180</u>	<u>\$ 165</u>	<u>\$ 2,345</u>

Discontinued Operations:

Based on operating results that did not meet our expectations, we ceased operating Samaritan Fundraising in December 2011. As of December 31, 2011, all employees of this entity were terminated. As a result of our decision to close operations, there will be no material cash flows associated with this entity and we have no ongoing or further involvement in the operations of this entity. The Condensed Consolidated Balance Sheets and Statements of Operations for all prior periods presented were reclassified to reflect the operating results and net assets of this entity as a discontinued operation. As of June 30, 2012, assets of discontinued operations consist of net receivables due to us from sales occurring prior to ceasing operations. The following table sets forth the components of income (loss) from discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
	(Dollars in thousands)			
Net revenues	\$ 692	\$ 13	\$ 1,312	\$ 11
Operating expenses	(668)	(34)	(1,244)	(102)
Operating income (loss)	\$ 24	\$ (21)	\$ 68	\$ (91)
Provision for (benefit from) income taxes	9	8	25	36
Income (loss) from discontinued operations, net of tax	<u>\$ 15</u>	<u>\$ 13</u>	<u>\$ 43</u>	<u>\$ (55)</u>

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Pending Transactions:

On May 23, 2012 we entered into an agreement to acquire radio station WLCC-AM, Tampa, Florida for \$1.2 million. The purchase is subject to the approval by the FCC and is expected to close in the third quarter of 2012.

NOTE 6. STOCK OPTION PLAN

The company has one stock option plan. The Amended and Restated 1999 Stock Incentive Plan (the "Plan") allows the company to grant stock options to employees, directors, officers and advisors of the company. At the annual meeting of the company held on June 22, 2012, the company stockholders approved a revision to the Plan to increase the number of shares authorized by 1,900,000. As a result, a maximum of 5,000,000 shares are now authorized under the Plan. Options generally vest over a four year period and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated in certain corporate transactions of the company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options. We recognize non-cash stock-based compensation expense related to the estimated fair value of stock options granted in accordance with FASB ASC Topic 718 "Compensation—Stock Compensation."

The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
	<i>(Dollars in thousands)</i>			
Stock option compensation expense included in corporate expenses	\$ 115	\$ 250	\$ 298	\$ 457
Restricted stock compensation expense included in corporate expenses	—	—	4	—
Stock option compensation expense included in broadcast operating expenses	44	83	144	170
Stock option compensation expense included in Internet operating expenses	13	31	32	59
Stock option compensation expense included in Publishing operating expenses	3	5	3	10
Total stock-based compensation expense, pre-tax	175	\$ 369	481	\$ 696
Tax provision for stock-based compensation expense	(70)	(168)	(210)	(311)
Total stock-based compensation expense, net of tax	<u>\$ 105</u>	<u>\$ 201</u>	<u>\$ 270</u>	<u>\$ 385</u>

Stock Options and Restricted Stock Grants

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

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

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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 and six months ended June 30, 2011 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
Expected volatility	n/a	n/a	100.5%	102.4%
Expected dividends	n/a	n/a	— %	5.07%
Expected term (in years)	n/a	n/a	7.6	8.2
Risk-free interest rate	n/a	n/a	3.08%	1.66%

Stock option information with respect to the company's stock-based compensation plans during the six months ended June 30, 2012 is as follows (Dollars in thousands, except weighted average exercise price and weighted average grant date fair value):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,640,392	\$ 5.01	\$ 4.07	5.2 years	\$ 584
Granted	626,000	2.74	1.51		1,710
Exercised	(100,605)	0.62	0.44		421
Forfeited or expired	(59,113)	14.21	7.99		10
Outstanding at June 30, 2012	2,106,674	4.29	3.37	5.9 years	4,447
Exercisable at June 30, 2012	638,974	7.29	5.53	3.0 years	785
Expected to Vest	1,393,581	2.97	2.40	7.1 years	3,658

The aggregate intrinsic value represents the difference between the company's closing stock price on June 29, 2012 of \$5.47 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the six months ended June 30, 2011 and 2012 was \$0.8 million and \$0.5 million, respectively. The fair values of shares of restricted stock are determined based on the closing price of the company's common stock on the grant dates.

As of June 30, 2012, there was \$2.0 million of total unrecognized compensation cost related to non-vested awards of stock options and restricted shares. This cost is expected to be recognized over a weighted-average period of 2.3 years.

NOTE 7. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, Intangibles – Goodwill and Other "Testing Indefinite-lived Intangible Assets for Impairment." The updated guidance gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not, defined as a likelihood of more than 50%, that an indefinite-lived intangible asset is impaired. If it is determined that it is more likely than not that an impairment exists, then the company is required to estimate the fair value of the indefinite-lived intangible assets and perform the quantitative impairment test in accordance with ASU 350-30. This ASU is effective for fiscal years, and interim periods within those years, beginning after September 15, 2012. Early adoption is permitted as of a date before July 27, 2012. The adoption of ASU 2012-02 is not expected to have a material impact on our financial position, results of operations or cash flows.

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

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

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NOTE 8. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718 "Compensation—Stock Expense." As a result, \$0.4 million and \$0.7 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and six months ended June 30, 2012, respectively, in comparison to \$0.2 million and \$0.5 million for the three and six months ended June 30, 2011.

On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. Quarterly common stock dividends of \$0.9 million and \$0.9 million, or \$0.035 per share, were paid on March 31, 2012 and June 29, 2012, respectively to all common stockholders of record as of indicated date. We anticipate paying quarterly common stock dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay total annual common stock dividends of approximately \$3.4 million.

NOTE 9. NOTES PAYABLE AND LONG-TERM DEBT

Senior Credit Facility

On December 1, 2009, our parent company, Salem Communications Corporation, entered into a Revolver. We amended the Revolver on November 1, 2010 to increase the borrowing capacity from \$30 million to \$40 million. The amendment allows us to use borrowings under the Revolver, subject to the "Available Amount" as defined by the terms of the Credit Agreement, to redeem applicable portions of the 9⁵/₈% Notes. The calculation of the "Available Amount" also pertains to the payment of dividends when the leverage ratio is above 5.0 to 1.

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

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

The Revolver includes a \$5 million subfacility for standby letters of credit and a subfacility for swingline loans of up to \$5 million, subject to the terms and conditions of the credit agreement relating to the Revolver. In addition to interest charges outlined above, we pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Revolver may be paid and then reborrowed at Salem's discretion without penalty or premium. At June 30, 2012 the blended interest rate on amounts outstanding under the Revolver was 3.30%. We believe that our borrowing capacity under the Revolver allows us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

With respect to financial covenants, the credit agreement includes a maximum leverage ratio of 6.25 to 1.0 and a minimum interest coverage ratio of 1.5 to 1. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. As of June 30, 2012, our leverage ratio was 5.10 to 1 and our interest coverage ratio was 2.09 to 1. We were in compliance with our debt covenants under the Revolver at June 30, 2012, and we remain in compliance.

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

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Senior Secured Second Lien Notes

On December 1, 2009, we issued \$300.0 million principal amount of 9⁵/₈% Notes at a discount for \$298.1 million resulting in an effective yield of 9.75%. Interest is due and payable on June 15 and December 15 of each year, commencing June 15, 2010 until maturity. We are not required to make principal payments on the 9⁵/₈% Notes that are due in full in December 2016. The 9⁵/₈% Notes are guaranteed by all of our existing domestic restricted subsidiaries. Upon issuance, we were required to pay \$28.9 million per year in interest on the then outstanding 9⁵/₈% Notes. As of December 31, 2011 and June 30, 2012, accrued interest on the 9⁵/₈% Notes was \$1.0 million and \$0.9 million, respectively. The discount is being amortized to interest expense over the term of the 9⁵/₈% Notes based on the effective interest method. For each of the three and six months ended June 30, 2012 and 2011, approximately \$48,000 and \$0.1 million, respectively, of the discount has been recognized as interest expense.

On June 1, 2012, we redeemed \$17.5 million of the 9⁵/₈% Notes for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.9 million pre-tax loss on the early retirement of debt, including approximately \$80,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9⁵/₈% Notes.

On December 12, 2011, we redeemed \$12.5 million of our 9⁵/₈% Notes for \$12.9 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.8 million pre-tax loss on the early retirement of debt, including approximately \$62,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9⁵/₈% Notes.

On September 6, 2011, we repurchased \$5.0 million of our 9⁵/₈% Notes for \$5.1 million, or at a price equal to 102⁷/₈% of the face value. This transaction resulted in a \$0.3 million pre-tax loss on the early retirement of debt, including approximately \$26,000 of unamortized discount and \$0.1 million of bond issues costs associated with the 9⁵/₈% Notes.

On June 1, 2011, we redeemed \$17.5 million of the 9⁵/₈% Notes for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$1.1 million pre-tax loss on the early retirement of debt, including \$0.1 million of unamortized discount and \$0.5 million of bond issues costs associated with the 9⁵/₈% Notes.

Information regarding repurchases and redemptions of the 9⁵/₈% Notes are as follows:

Date	Principal Redeemed/ Repurchased	Premium Paid	Unamortized Discount	Bond Issue Costs
	<i>(Dollars in thousands)</i>			
June 1, 2012	\$ 17,500	\$ 525	\$ 80	\$ 287
December 12, 2011	12,500	375	62	337
September 6, 2011	5,000	144	26	135
June 1, 2011	17,500	525	93	472
December 1, 2010	12,500	375	70	334
June 1, 2010	17,500	525	105	417

The carrying value of the 9⁵/₈% Notes was \$233.8 million and \$216.5 million at December 31, 2011 and June 30, 2012, respectively.

Subordinated Credit Facility with First California Bank

On May 21, 2012, we entered into a new Business Loan Agreement, Promissory Note and related loan documents with First California Bank (the "FCB Loan"). The FCB Loan is an unsecured, \$10.0 million fixed-term loan with a maturity date of June 15, 2014. The interest rate for the FCB Loan ("Interest Rate") is variable and shall be equal to the greater of: (a) 4.250% or (b) the Wall Street Journal Prime Rate as published in The Wall Street Journal and reported by FCB plus 1%.

We are required to repay the FCB Loan as follows: (a) twenty three (23) consecutive monthly interest payments based upon the then-current principal balance outstanding at the then-current Interest Rate commencing on September 15, 2012; (b) seven quarterly consecutive principal payments of \$1.25 million each commencing on September 15, 2012; and (c) one final principal and interest payment on June 15, 2014 of all outstanding and unpaid interest and principal as of such maturity date. The FCB Loan may be prepaid at any time subject to a minimum interest charge of Fifty Dollars (\$50). If an event of default occurs on the FCB Loan, the Interest Rate may increase by 5.00% per annum. At June 30, 2012, the outstanding principal balance on the FCB loan was \$10.0 million with approximately \$48,400 of accrued interest.

The FCB Loan is unsecured and is subordinate in all respects to our existing Revolver. Our obligations under the FCB Loan are guaranteed by personal guaranties executed in favor of FCB by Edward G. Atsinger III, Salem's CEO and board member, Mr. Stuart Epperson, Salem's Chairman of the Board and board member and trusts controlled by these two individuals. With respect to financial

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covenants, the FCB Loan includes a maximum leverage ratio of 6.25 to 1.0 through December 31, 2012, 6.00 to 1.0 from January 1, 2013 through December 31, 2013, and 5.50 to 1.0 from January 1, 2014 through maturity; and a minimum interest coverage ratio of 1.5 to 1. The FCB Loan also includes other customary negative covenants that restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. At June 30, 2012, our leverage ratio was 5.10 to 1 and our interest coverage ratio was 2.09 to 1. We were in compliance with our debt covenants under the FCB Loan at June 30, 2012, and we remain in compliance.

Subordinated Lines of Credit with Related Parties

On November 17, 2011, we entered into Affiliate Lines of Credit with Edward G. Atsinger III, Chief Executive Officer and director of Salem, and Stuart W. Epperson, Chairman of Salem's board of directors. Pursuant to the related agreements, Mr. Epperson has committed to provide an unsecured revolving line of credit to Salem in a principal amount of up to \$3 million, and Mr. Atsinger has committed to provide an unsecured revolving line of credit in a principal amount of up to \$6 million. On May 21, 2012, we entered into a line of credit with Roland S. Hinz, a Salem board member. Mr. Hinz has committed to provide an unsecured revolving line of credit ("LOC") in a principal amount of up to \$6.0 million (together, the "Affiliate Lines of Credit"). The proceeds of the Affiliate Lines of Credit may be used to repurchase a portion of Salem's outstanding 9⁵/₈% Notes. Outstanding amounts under each Affiliate Line of Credit will bear interest at a rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Credit Agreement referred to above plus 2% per annum. Interest is payable at the time of any repayment of principal. In addition, outstanding amounts under each Affiliate Line of Credit must be repaid within three months from the time that such amounts are borrowed. The Affiliate Lines of Credit do not contain any covenants. At December 31, 2011 and June 30, 2012, \$9.0 million was outstanding under these Affiliate Lines of Credit.

Because the transactions with Mrs. Atsinger, Epperson and Hinz described above constitute related party transactions, the nominating and corporate governance committee (the "Committee") of Salem's board of directors approved the entry by Salem into the LOC and any definitive credit agreements associated therewith. As part of its consideration, the Committee concluded that the terms of the LOC were more favorable to Salem as compared to terms of lines of credit available from unaffiliated third parties.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2011	As of June 30, 2012
	<i>(Dollars in thousands)</i>	
Revolver under senior credit facility	\$ 31,000	\$ 36,587
9 ⁵ / ₈ % senior secured second lien notes due 2016	233,846	216,517
Subordinated debt	—	10,000
Subordinated debt due to related parties	9,000	9,000
Capital leases and other loans	957	896
	274,803	273,000
Less current portion	(9,124)	(9,120)
	<u>\$ 265,679</u>	<u>\$ 263,880</u>

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2012:

- Outstanding borrowings of \$36.6 million under the Revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;
- \$217.5 million 9⁵/₈% Notes with semi-annual interest payments at an annual rate of 9⁵/₈%;
- Outstanding borrowings of \$10.0 million on the FCB loan with interest payments due at the greater of: (a) 4.250% or (b) the Wall Street Journal Prime Rate as published in The Wall Street Journal and reported by FCB plus 1%;
- Outstanding borrowings of \$9.0 million due to related parties at an interest rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Revolver plus 2% per annum; and
- Commitment fee of 0.60% on the unused portion of the Revolver.

Other Debt

We have several capital leases related to various office equipment. The obligation recorded at December 31, 2011 and June 30, 2012 represents the present value of future commitments under the lease agreements.

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Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at June 30, 2012 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended June 30,	<u>Amount</u>
	<i>(Dollars in thousands)</i>
2013	\$ 9,120
2014	46,683
2015	89
2016	67
2017	216,584
Thereafter	457
	<u>\$ 273,000</u>

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

NOTE 10. DEFERRED FINANCING COSTS

Deferred financing costs consist of bond issue costs associated with the 9⁷/₈% Notes and bank loan fees associated with the Revolver and FCB Loan. The capitalized costs are being amortized over the debt term on a straight-line basis. Deferred financing costs consist of the following:

	<u>As of December 31, 2011</u>	<u>As of June 30, 2012</u>
	<i>(Dollars in thousands)</i>	
Bond issue costs	\$ 4,219	\$ 3,511
Bank loan fees	1,270	1,176
	<u>\$ 5,489</u>	<u>\$ 4,687</u>

NOTE 11. AMORTIZABLE INTANGIBLE ASSETS

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

	<u>As of June 30, 2012</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$15,565	\$ (11,954)	\$3,611
Domain and brand names	8,279	(6,839)	1,440
Favorable and assigned leases	1,649	(1,580)	69
Other amortizable intangible assets	3,891	(3,575)	316
	<u>\$29,384</u>	<u>\$ (23,948)</u>	<u>\$5,436</u>

	<u>As of December 31, 2011</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$15,519	\$ (11,372)	\$4,147
Domain and brand names	8,227	(6,436)	1,791
Favorable and assigned leases	1,649	(1,536)	113
Other amortizable intangible assets	3,891	(3,473)	418
	<u>\$29,286</u>	<u>\$ (22,817)</u>	<u>\$6,469</u>

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Based on the amortizable intangible assets as of June 30, 2012, we estimate amortization expense for the next five years to be as follows:

<u>Year Ending December 31,</u>	<u>Amortization Expense</u> <i>(Dollars in thousands)</i>
2012 (July – Dec)	\$ 915
2013	1,745
2014	1,426
2015	836
2016	262
Thereafter	252
Total	<u>\$ 5,436</u>

NOTE 12. BASIC AND DILUTED NET EARNINGS PER SHARE

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

Options to purchase 1,114,675 and 2,106,674 shares of Class A common stock were outstanding at June 30, 2011 and 2012, respectively. There were no outstanding restricted stock awards as of June 30, 2011 or 2012. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company's stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. As of June 30, 2011 and 2012, there were 212,279 and 213,476 dilutive shares, respectively.

NOTE 13. FAIR VALUE ACCOUNTING

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

- Level 1 Inputs—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 Inputs—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- Level 3 Inputs—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

As of June 30, 2012, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the company.

NOTE 14. INCOME TAXES

We account for income taxes in accordance with FASB ASC Topic 740 "Income Taxes." We recorded an increase in our unrecognized tax benefits of \$0.08 million and \$0.3 million as of June 30, 2011 and 2012. At December 31, 2011, we had \$3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were \$0.1 million accrued for the related interest, net of federal income tax benefits, and \$0.02 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations.

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Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of \$0.2 million as of June 30, 2012 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. Management regularly reviews our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on management's estimate of the benefit the company will receive from such carryforwards.

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

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

NOTE 16. SEGMENT DATA

FASB ASC Topic 280 "Segment Reporting" requires companies to provide certain information about their operating segments. We operate in three segments, radio broadcasting, Internet and Publishing of which our radio broadcasting and Internet segment are reportable segments. Our radio broadcasting segment operates radio stations throughout the United States, as well as various radio networks and our National sales group. Our Internet segment operates all of our websites and our consumer product sales. Our publishing segment operates our print magazine and Xulon Press, a print-on-demand book publisher.

Management uses operating income before depreciation, amortization, impairment of long-lived assets, and (gain) loss on disposal of assets as its measure of profitability for purposes of assessing performance and allocating resources.

	Radio Broadcast	Internet	Publishing	Corporate	Consolidated
	<i>(Dollars in thousands)</i>				
Three Months Ended June 30, 2012					
Net revenue	\$46,372	\$8,035	\$ 3,219	\$ —	\$ 57,626
Operating expenses	<u>30,519</u>	<u>6,109</u>	<u>3,000</u>	<u>4,804</u>	<u>44,432</u>
Operating income (loss) before depreciation, amortization, impairment of long-lived assets and (gain) loss on disposal of assets	\$15,853	\$1,926	\$ 219	\$ (4,804)	\$ 13,194
Depreciation	2,057	573	100	307	3,037
Amortization	32	507	3	—	542
Impairment of long-lived assets	5,608	—	—	—	5,608
(Gain) loss on disposal of assets	144	—	—	1	145
Operating income (loss) from continuing operations	<u>\$ 8,012</u>	<u>\$ 846</u>	<u>\$ 116</u>	<u>\$ (5,112)</u>	<u>\$ 3,862</u>
Three Months Ended June 30, 2011					
Net revenue	\$45,406	\$6,890	\$ 3,144	\$ —	\$ 55,440
Operating expenses	<u>29,054</u>	<u>5,541</u>	<u>2,771</u>	<u>4,204</u>	<u>41,570</u>
Operating income (loss) before depreciation, amortization, impairment of long-lived assets and (gain) loss on disposal of assets	\$16,352	\$1,349	\$ 373	\$ (4,204)	\$ 13,870
Depreciation	2,210	522	71	314	3,117
Amortization	35	605	42	1	683
(Gain) loss on disposal of assets	—	1	—	149	150
Operating income (loss) from continuing operations	<u>\$14,107</u>	<u>\$ 221</u>	<u>\$ 260</u>	<u>\$ (4,668)</u>	<u>\$ 9,920</u>

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NOTE 16. SEGMENT DATA (CONT'D)

	Radio Broadcast	Internet	Publishing	Corporate	Consolidated
<i>(Dollars in thousands)</i>					
Six Months Ended June 30, 2012					
Net revenue	\$90,329	\$15,469	\$ 6,112	\$ —	\$ 111,910
Operating expenses	<u>59,661</u>	<u>12,033</u>	<u>5,971</u>	<u>9,671</u>	<u>87,336</u>
Operating income (loss) before depreciation, amortization, impairment of long-lived assets and (gain) loss on disposal of assets	<u>\$30,668</u>	<u>\$ 3,436</u>	<u>\$ 141</u>	<u>\$ (9,671)</u>	<u>\$ 24,574</u>
Depreciation	4,135	1,142	196	594	6,067
Amortization	67	1,058	5	1	1,131
Impairment of long-lived assets	5,608	—	—	—	5,608
(Gain) loss on disposal of assets	(35)	7	—	4	(24)
Operating income (loss) from continuing operations	<u>\$20,893</u>	<u>\$ 1,229</u>	<u>\$ (60)</u>	<u>\$ (10,270)</u>	<u>\$ 11,792</u>
Six Months Ended June 30, 2011					
Net revenue	\$88,136	\$12,482	\$ 5,985	\$ —	\$ 106,603
Operating expenses	<u>56,856</u>	<u>10,377</u>	<u>5,651</u>	<u>8,755</u>	<u>81,639</u>
Operating income (loss) before depreciation, amortization, impairment of long-lived assets and (gain) loss on disposal of assets	<u>\$31,280</u>	<u>\$ 2,105</u>	<u>\$ 334</u>	<u>\$ (8,755)</u>	<u>\$ 24,964</u>
Depreciation	4,488	1,050	137	624	6,299
Amortization	66	1,039	96	1	1,202
(Gain) loss on disposal of assets	(4,540)	16	—	149	(4,375)
Operating income (loss) from continuing operations	<u>\$31,266</u>	<u>\$ —</u>	<u>\$ 101</u>	<u>\$ (9,529)</u>	<u>\$ 21,838</u>

	Radio Broadcast	Internet	Publishing	Corporate	Consolidated
<i>(Dollars in thousands)</i>					
As of June 30, 2012					
Property, plant and equipment, net	\$ 85,929	\$ 5,897	\$ 1,305	\$ 9,210	\$ 102,341
Broadcast licenses	372,211	—	—	—	372,211
Goodwill	3,878	14,874	1,337	8	20,097
Other indefinite-lived intangible assets	—	—	1,961	—	1,961
Amortizable intangible assets, net	143	5,275	15	3	5,436
As of December 31, 2011					
Property, plant and equipment, net	\$ 95,295	\$ 5,752	\$ 1,233	\$ 8,942	\$ 111,222
Broadcast licenses	371,420	—	—	—	371,420
Goodwill	3,873	14,874	1,337	8	20,092
Other indefinite-lived intangible assets	—	—	1,961	—	1,961
Amortizable intangible assets, net	211	6,235	19	4	6,469

NOTE 17. SUBSEQUENT EVENTS

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. Our condensed consolidated financial statements are not directly comparable from period to period due to acquisitions and dispositions of selected assets of radio stations and acquisitions of various Internet and publishing businesses. See Note 5 of our condensed consolidated financial statements for additional information.

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

Broadcast Segment

Broadcast revenues are impacted by the program rates our radio stations charge, the level of broadcast airtime sold and by the advertising rates our radio stations and networks charge. The rates for block programming time are based upon our stations' ability to attract audiences that will support the program producers through contributions and purchases of their products. Advertising rates are based upon the demand for advertising time, which in turn is based on our stations and networks' ability to produce results for their advertisers. We do not subscribe to traditional audience measuring services for most of our radio stations. Instead, we have marketed ourselves to advertisers based upon the responsiveness of our audiences. In selected markets, we do subscribe to Arbitron, which develops quarterly reports to measure a radio station's audience share in the demographic groups targeted by advertisers. Each of our radio stations and our networks has a pre-determined level of time that they make available for block programming and/or advertising, which may vary at different times of the day.

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

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

Our cash flow is historically affected by a transitional period experienced by radio stations when, due to the nature of the radio station, our plans for the market and other circumstances, we find it beneficial to change its format. This transitional period is when we develop a radio station's listener and customer base. During this period, a station may generate negative or insignificant cash flow.

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services in lieu of cash. In order to preserve the sale of our advertising time for cash, we generally enter into trade agreements only if the goods or services bartered to us will be used in our business. We have minimized our use of trade agreements and have generally sold most of our advertising time for cash. In 2011, we sold 97% of our broadcast revenue for cash. In addition, it is our general policy not to preempt advertising paid for in cash with advertising paid for in trade.

The primary operating expenses incurred in the ownership and operation of our radio stations include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses and (iv) music license fees. In addition to these expenses, our network incurs programming costs and lease expenses for satellite communication facilities. We also incur and expect to continue to incur significant depreciation, amortization and interest expense as a result of completed and future acquisitions and existing and future borrowings.

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Internet Segment

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

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

Publishing Segment

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

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

We maintain a website at www.salem.cc. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). *Any information found on our website is not a part of, or incorporated by reference into, this or any other report of the company filed with, or furnished to, the SEC.*

OVERVIEW

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

Our principal sources of broadcast revenue include:

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

The rates we are able to charge for broadcast time and advertising time are dependent upon several factors, including:

- audience share;
- how well our stations perform for our clients;
- the size of the market;
- the general economic conditions in each market; and
- supply and demand on both a local and national level.

Our principal sources of Internet revenue include:

- the sale of Internet advertising;
- the support and promotion to stream third-party content on our websites;
- sales of software and support services; and
- product sales and royalties for on-air host materials.

Our principal sources of publishing revenue include:

- subscription fees for our magazines;
- the sale of print magazine advertising;
- fees from authors for book publishing; and

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- the sale of books.

RESULTS OF OPERATIONS

Three months ended June 30, 2012 compared to the three months ended June 30, 2011

The following factors affected our results of operations and cash flows for the three months ended June 30, 2012 as compared to the same period of the prior year:

Financing

- On May 21, 2012, we entered into a new Business Loan Agreement, Promissory Note and related loan documents with First California Bank (the “FCB Loan”). The FCB Loan is an unsecured, \$10.0 million fixed-term loan with a maturity date of June 15, 2014. The interest rate for the FCB Loan (“Interest Rate”) is variable and shall be equal to the greater of: (a) 4.250% or (b) the Wall Street Journal Prime Rate as published in The Wall Street Journal and reported by FCB plus 1%. With respect to financial covenants, the FCB Loan includes a maximum leverage ratio of 6.25 to 1.0 through December 31, 2012, 6.00 to 1.0 from January 1, 2013 through December 31, 2013, and 5.50 to 1.0 from January 1, 2014 through maturity; and a minimum interest coverage ratio of 1.5 to 1. The FCB Loan also includes other customary negative covenants that restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. At June 30, 2012, our leverage ratio was 5.10 to 1 and our interest coverage ratio was 2.09 to 1. We were in compliance with our debt covenants under the FCB Loan at June 30, 2012, and we remain in compliance.
- On May 21, 2012, we entered into a line of credit with Roland S. Hinz, a Salem board member. Mr. Hinz has committed to provide an unsecured revolving line of credit (“LOC”) in a principal amount of up to \$6.0 million (together, the “Affiliate Lines of Credit”). The proceeds of the Affiliate Lines of Credit may be used to repurchase a portion of Salem’s outstanding 9⁵/₈% Notes. Outstanding amounts under each Affiliate Line of Credit will bear interest at a rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Credit Agreement referred to above plus 2% per annum. Interest is payable at the time of any repayment of principal. In addition, outstanding amounts under each Affiliate Line of Credit must be repaid within three months from the time that such amounts are borrowed. The Affiliate Lines of Credit do not contain any covenants. At December 31, 2011 and June 30, 2012, \$9.0 million was outstanding under these Affiliate Lines of Credit.
- On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. Quarterly common stock dividends of \$0.9 million or \$0.035 per share, were paid on June 29, 2012 to all common stockholders of record as of indicated date. We anticipate paying quarterly common stock dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay total annual common stock dividends of approximately \$3.4 million.

Acquisitions

- On May 15, 2012, we purchased Churchangel.com and rchurch.com for \$0.2 million.
- On April 10, 2012, we completed the acquisition of radio station WKDL-AM in Warrenton, Virginia for \$30,000. We began programming the station upon the close of the transaction.

Net Broadcasting Revenue

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Net Broadcast Revenue	\$45,406	\$46,372	\$ 966	2.1 %	81.9 %	80.5 %
Same Station Net Broadcast Revenue	\$45,352	\$46,211	\$ 859	1.9 %		

Net broadcast revenues increased due to overall improving economic conditions and a greater demand for radio air time as compared to the same period of the prior year. Included in these results are a \$0.4 million increase in political advertisements and a

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\$0.5 million increase in local program revenues primarily from our Christian Teaching and Talk formatted stations. Increases in block programming revenues reflect annual rate increases partially offset by discounts offered through our unwired network under which available air-time is packaged and sold to programmers at discounted rates. Increases in advertising revenues reflect higher volume due to advertisers purchasing more air-time or participation in listener purchasing programs.

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

	Three Months Ended June 30,			
	2011		2012	
	<i>(Dollars in thousands)</i>			
Block program time:				
National	\$10,693	23.6%	10,731	23.1%
Local	7,349	16.2%	7,865	17.0%
	<u>18,042</u>	<u>39.8%</u>	<u>18,596</u>	<u>40.1%</u>
Advertising:				
National	3,631	8.0%	3,587	7.7%
Local	16,499	36.3%	16,655	35.9%
	<u>20,130</u>	<u>44.3%</u>	<u>20,242</u>	<u>43.6%</u>
Infomercials	1,562	3.4%	1,620	3.5%
Network	3,862	8.5%	3,846	8.3%
Other	1,810	4.0%	2,068	4.5%
Net broadcast revenue	<u>\$45,406</u>	<u>100.0%</u>	<u>46,372</u>	<u>100.0%</u>

Internet Revenue

	Three Months Ended June 30,					
	2011	2012	Change \$	Change %	2011	2012
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Internet Revenue	\$6,890	\$8,035	\$ 1,145	16.6%	12.4%	13.9%

The increases in Internet revenue reflect improving overall economic conditions, a higher demand for Internet advertisements, and growth from our Internet acquisitions that typically generate revenues across all of our web-based platforms. Banner advertisements, including those on our station websites, increased \$1.0 million primarily due to higher demand for placement from our advertisers and secondarily to rate increases.

Publishing Revenue

	Three Months Ended June 30,					
	2011	2012	Change \$	Change %	2011	2012
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Publishing Revenue	\$3,144	\$3,219	\$ 75	2.4%	5.7%	5.6%

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

Broadcast Operating Expenses

	Three Months Ended June 30,					
	2011	2012	Change \$	Change %	2011	2012
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Broadcast Operating Expenses	\$29,054	\$30,519	\$ 1,465	5.0%	52.4%	53.0%
Same Station Net Broadcast Operating Expenses	\$28,989	\$30,359	\$ 1,370	4.7%		

Increases in broadcast operating expenses include higher variable costs associated with revenue growth. These costs include a \$1.0 million increase in personnel-related costs including commissions, a \$0.3 million increase in advertising expenses, a \$0.2 million increase in facility related costs, and a \$0.2 million increase in production and programming costs. These increases were partially offset by a reduction in bad debt expenses of \$0.4 million.

Internet Operating Expenses

	Three Months Ended June 30,					
	2011	2012	Change \$	Change %	2011	2012
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Internet Operating Expenses	\$5,541	\$6,109	\$ 568	10.3%	10.0%	10.6%

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Internet operating expenses increased due to higher variable costs associated with revenue growth, including a \$0.4 million increase in personnel-related costs including commissions and a \$0.2 million increase in streaming and hosting fees.

Publishing Operating Expenses

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Publishing Operating Expenses	\$2,771	\$3,000	\$ 229	8.3%	5.0%	5.2%

Operating expenses for Xulon Press, our digital book publishing service, increased due to higher variable costs associated with revenue growth. These costs include an increase of \$0.1 million in personnel related costs including commissions and a \$0.1 million increase in facility related costs and advertising.

Corporate Expenses

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Corporate Expenses	\$4,204	\$4,804	\$ 600	14.3%	7.6%	8.3%

Corporate expenses include shared general and administrative services. Higher costs include a \$0.4 million increase in personnel-related costs primarily due to strategic new-hires, a \$0.1 million increase in non-cash stock-based compensation expense and a \$0.1 million increase in accounting and public reporting costs.

Depreciation Expense

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Depreciation Expense	\$3,117	\$3,037	\$ (80)	(2.6)%	5.6%	5.3%

Depreciation expense decreased due to lower levels of capital expenditures and lower levels of acquisitions, primarily in our broadcast operating segment as compared to prior years.

Amortization Expense

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Amortization Expense	\$683	\$542	\$ (141)	(20.6)%	1.2%	0.9%

The decrease in amortization expense reflects the impact of higher amortization recognized during 2011 for intangibles, such as advertising agreements, customer lists and domain names, which were acquired during that year and prior years with useful lives ranging from one to five years.

Impairment of Long-Lived Assets

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Impairment of Long-Lived Assets	\$—	\$5,608	\$ 5,608	100.0%	— %	9.7%

During June 2012, based on changes in managements' planned usage, land in Covina, CA was classified as held for sale and evaluated for impairment as of that date. In accordance with the authoritative guidance for impairment of long-lived assets held for sale, we determined the carrying value of the land exceeded the estimated fair value less cost to sell. We recorded an impairment charge of \$5.6 million associated with this land.

Loss on Disposal of Assets

	2011	2012	Three Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Loss on Disposal of Assets	\$150	\$145	\$ (5)	(3.3)%	0.3%	0.3%

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The net loss on disposal of assets for the three months ended June 30, 2012 and 2011 represents gains and losses from various fixed asset and equipment disposals.

Other Income (Expense), Net

	2011	2012	Three Months Ended June 30,		2011	2012
			Change \$	Change %		
<i>(Dollars in thousands)</i>						
Interest Income	\$ 54	\$ 28	\$ (26)	(48.1)%	0.1%	— %
Interest Expense	(7,064)	(6,264)	800	(11.3)%	(12.7)%	(10.9)%
Loss on Early Redemption of Long-Term Debt	(1,090)	(893)	197	(18.1)%	(2.0)%	(1.5)%
Other Income (Expense)	(12)	4	16	(133.3)%	— %	— %

Interest income represents earnings on excess cash. The decrease in interest expense is due to the lower principal balance outstanding on our 9/8% Notes, partially offset by higher interest on the outstanding balances on our Revolver and line of credit with First California Bank. Other income and expense, net relates to royalty income from real estate properties.

Loss on early retirement of debt of \$0.9 million for the three months ended June 30, 2012 and for the same period of the prior year represents the redemption in each period of \$17.5 million of the 9% Notes for \$18.0 million, or at a price equal to 103% of the face value.

Provision for (Benefit from) Income Taxes

	2011	2012	Three Months Ended June 30,		2011	2012
			Change \$	Change %		
<i>(Dollars in thousands)</i>						
Provision for (Benefit from) Income Taxes	\$723	\$(1,484)	\$(2,207)	(305.2)%	1.3%	(2.6)%

In accordance with FASB ASC Topic 740 "Income Taxes," our benefit from income taxes was \$1.5 million for the three months ended June 30, 2012 compared to a provision of \$0.7 million for the same period of the prior year. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 45.5% for the three months ended June 30, 2012 compared to 40.0% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Income (loss) from Discontinued Operations, Net of Tax

	2011	2012	Three Months Ended June 30,		2011	2012
			Change \$	Change %		
<i>(Dollars in thousands)</i>						
Income (loss) from Discontinued Operations, Net of Tax	\$15	\$(13)	\$ (28)	(186.4)%	— %	— %

The income (loss) from discontinued operations for the three months ended June 30, 2012 and 2011 relate to the operating results of Samaritan Fundraising that ceased operations in December 2011.

Net Income (Loss)

	2011	2012	Three Months Ended June 30,		2011	2012
			Change \$	Change %		
<i>(Dollars in thousands)</i>						
Net Income (Loss)	\$1,100	\$(1,792)	\$(2,892)	(262.9)%	2.0%	(3.1)%

Net income decreased due to a \$6.0 million decrease in our net operating income due primarily to higher operating costs as discussed above, including the \$5.6 million impairment of long-lived assets partially offset by a \$0.8 million decrease in interest expense and a \$2.2 million decrease in our tax provision.

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Six months ended June 30, 2012 compared to the six months ended June 30, 2011

The following factors affected our results of operations and cash flows for the six months ended June 30, 2012 as compared to the same period of the prior year:

Financing

- On May 21, 2012, we entered into a new Business Loan Agreement, Promissory Note and related loan documents with First California Bank (the "FCB Loan"). The FCB Loan is an unsecured, \$10.0 million fixed-term loan with a maturity date of June 15, 2014. The interest rate for the FCB Loan ("Interest Rate") is variable and shall be equal to the greater of: (a) 4.250% or (b) the Wall Street Journal Prime Rate as published in The Wall Street Journal and reported by FCB plus 1%. With respect to financial covenants, the FCB Loan includes a maximum leverage ratio of 6.25 to 1.0 through December 31, 2012, 6.00 to 1.0 from January 1, 2013 through December 31, 2013, and 5.50 to 1.0 from January 1, 2014 through maturity; and a minimum interest coverage ratio of 1.5 to 1. The FCB Loan also includes other customary negative covenants that restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. At June 30, 2012, our leverage ratio was 5.10 to 1 and our interest coverage ratio was 2.09 to 1. We were in compliance with our debt covenants under the FCB Loan at June 30, 2012, and we remain in compliance.
- On May 21, 2012, we entered into a line of credit with Roland S. Hinz, a Salem board member. Mr. Hinz has committed to provide an unsecured revolving line of credit ("LOC") in a principal amount of up to \$6.0 million (together, the "Affiliate Lines of Credit"). The proceeds of the Affiliate Lines of Credit may be used to repurchase a portion of Salem's outstanding 9⁵/₈% Notes. Outstanding amounts under each Affiliate Line of Credit will bear interest at a rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Credit Agreement referred to above plus 2% per annum. Interest is payable at the time of any repayment of principal. In addition, outstanding amounts under each Affiliate Line of Credit must be repaid within three months from the time that such amounts are borrowed. The Affiliate Lines of Credit do not contain any covenants. At December 31, 2011 and June 30, 2012, \$9.0 million was outstanding under these Affiliate Lines of Credit.
- On March 7, 2012, our Board of Directors authorized and declared a quarterly dividend in the amount of \$0.035 per share on Class A and Class B common stock. Quarterly common stock dividends of \$0.9 million and \$0.9 million or \$0.035 per share, were paid on March 31, 2012 and June 29, 2012, respectively to all common stockholders of record as of indicated date. We anticipate paying quarterly common stock dividends in March, June, September and December of each year. Based on the number of shares currently outstanding we expect to pay total annual common stock dividends of approximately \$3.4 million.

Acquisitions

- On May 15, 2012, we purchased the Internet sites Churchangel.com and rchurch.com for \$0.2 million.
- On April 10, 2012, we completed the acquisition of radio station WKDL-AM in Warrenton, Virginia for \$30,000. We began programming the station upon the close of the transaction.
- On January 13, 2012, we completed the acquisition of radio station KTNO-AM, Dallas, Texas for \$2.2 million. We began programming the station pursuant to a Time Brokerage Agreement with the current owner on November 1, 2011.

Dispositions

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

Net Broadcasting Revenue

	Six Months Ended June 30,				% of Total Net Revenue	
	2011	2012	Change \$	Change %	2011	2012
Net Broadcast Revenue	\$88,136	\$90,329	\$ 2,193	2.5%	82.7%	80.7%
Same Station Net Broadcast Revenue	\$87,596	\$89,735	\$ 2,139	2.4%		

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Net broadcast revenues increased due to overall improving economic conditions and a greater demand for radio air time as compared to the same period of the prior year. Included in these results are a \$0.6 million increase in political advertisements and a \$1.3 million increase in block programming revenue primarily from our Christian Teaching and Talk formatted stations. Increases in block programming revenues reflect the annual rate increases partially offset by discounts offered through our unwired network under which available air-time is packaged and sold to programmers at discounted rates. Also included in this increase are a \$0.4 million increase in network revenues and a \$0.1 million increase in national spots primarily from our News Talk and Business format stations. Overall, increases in national advertising reflect higher sales volume due to advertisers purchasing more air-time. These increases were partially offset by a decline of \$0.4 million in local spot advertising sales.

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

	Six Months Ended June 30,			
	2011	2012		2012
	<i>(Dollars in thousands)</i>			
Block program time:				
National	21,121	24.0%	21,439	23.7%
Local	15,087	17.1%	16,104	17.8%
	36,208	41.1%	37,543	41.5%
Advertising:				
National	6,563	7.4%	6,844	7.6%
Local	31,578	35.8%	31,209	34.6%
	38,141	43.2%	38,053	42.2%
Infomercials	3,139	3.6%	3,250	3.6%
Network	7,320	8.3%	7,677	8.5%
Other	3,328	3.8%	3,806	4.2%
Net broadcast revenue	<u>88,136</u>	<u>100.0%</u>	<u>90,329</u>	<u>100.0%</u>

Internet Revenue

	Six Months Ended June 30,				2011	2012
	2011	2012	Change \$	Change %		
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Internet Revenue	\$12,482	\$15,469	\$ 2,987	23.9%	11.7%	13.8%

The increases in Internet revenue reflect improving overall economic conditions, a higher demand for Internet advertisements, and growth from our Internet acquisitions that typically generate revenues across all of our web-based platforms. Banner advertisements, including those on our station websites, increased \$2.1 million due to higher demand for placement from our advertisers and secondarily to rate increases.

Publishing Revenue

	Six Months Ended June 30,				2011	2012
	2011	2012	Change \$	Change %		
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Publishing Revenue	\$5,985	\$6,112	\$ 127	2.1%	5.6%	5.5%

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

Broadcast Operating Expenses

	Six Months Ended June 30,				2011	2012
	2011	2012	Change \$	Change %		
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Broadcast Operating Expenses	\$56,856	\$59,661	\$ 2,805	4.9%	53.3%	53.3%
Same Station Net Broadcast Operating Expenses	\$56,567	\$59,115	\$ 2,548	4.5%		

Broadcast operating expenses increased due to higher variable expenses associated with higher revenues, including a \$1.6 million increase in personnel-related costs including commissions, a \$0.5 million increase in advertising expenses, a \$0.5 million increase in facility related costs, a \$0.4 million increase in production and programming costs and a \$0.2 million increase in professional services partially offset by a reduction in bad debt expense of \$0.4 million and a decrease in repairs and maintenance costs of \$0.1 million.

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Internet Operating Expenses

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Internet Operating Expenses	\$10,377	\$12,033	\$ 1,656	16.0%	9.7%	10.8%

Internet operating expenses increased due to higher variable expenses associated with higher revenues, including a \$1.0 million increase in personnel-related costs including commissions, a \$0.4 million increase in royalty expense, and a \$0.3 million increase in streaming and hosting.

Publishing Operating Expenses

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Publishing Operating Expenses	\$5,651	\$5,971	\$ 320	5.7%	5.3%	5.3%

Operating expense for Xulon Press, our digital book publishing service, increased due to higher variable costs associated with revenue growth. These costs include an increase of \$0.2 million in personnel related costs including commissions.

Corporate Expenses

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Corporate Expenses	\$8,755	\$9,671	\$ 916	10.5%	8.2%	8.6%

Corporate expenses include shared general and administrative services. Higher costs include a \$0.7 million in personnel-related costs primarily due to strategic new hires, a \$0.1 million increase in non-cash stock-based compensation expense and a \$0.1 million increase in accounting and public reporting costs.

Depreciation Expense

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Depreciation Expense	\$6,299	\$6,067	\$ (232)	(3.7)%	5.9%	5.4%

Depreciation expense decreased due to lower levels of capital expenditures and acquisition related activity, primarily in our broadcast operating segment as compared to prior years.

Amortization Expense

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Amortization Expense	\$1,202	\$1,131	\$ (71)	(5.9)%	1.1%	1.0%

The decrease in amortization expense reflects the impact of higher amortization recognized during 2011 for intangibles, such as advertising agreements, customer lists and domain names that were acquired during that year and prior years with useful lives ranging from one to five years.

Impairment of Long-Lived Assets

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Impairment of Long-Lived Assets	\$—	\$5,608	\$ 5,608	100.0%	— %	5.0%

During June 2012, based on changes in managements' planned usage, land in Covina, CA was classified as held for sale and evaluated for impairment as of that date. In accordance with the authoritative guidance for impairment of long-lived assets held for sale, we determined the carrying value of the land exceeded the estimated fair value less cost to sell. We recorded an impairment charge of \$5.6 million associated with this land.

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(Gain) on Disposal of Assets

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
(Gain) on Disposal of Assets	\$ (4,375)	\$ (24)	\$ 4,351	(99.5)%	(4.1)%	— %

The net gain on disposal of assets for the six months ended June 30, 2012, includes a \$0.2 million pre-tax gain on the sale of WBZS-AM in Pawtucket, Rhode Island, partially offset by various fixed asset and equipment disposals. The net gain on disposal of assets for the same period of the prior year includes a \$2.4 million pre-tax gain on the sale of KKMO-AM in Seattle, Washington and a \$2.1 million pre-tax gain on the sale of KXXM-AM in Los Angeles, California, partially offset by various fixed asset and equipment disposals.

Other Income (Expense), Net

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Interest Income	\$ 97	\$ 59	\$ (38)	(39.2)%	0.1%	0.1%
Interest Expense	(14,299)	(12,660)	1,639	(11.5)%	(13.4)%	(11.3)%
Loss on Early Redemption of Long-Term Debt	(1,090)	(893)	197	(18.1)%	(1.0)%	(0.8)%
Other Income (Expense)	(23)	11	34	(147.8)%	— %	— %

Interest income represents earnings on excess cash. The decrease in interest expense is due to the lower principal balance outstanding on our 9/8% Notes, partially offset by higher interest on the outstanding balances on our Revolver and subordinated debt. Other income and expense, net relates to royalty income from real estate properties. For the same period of the prior year other income and expense, net also includes a \$0.2 million loss related to debt forgiveness on a promissory note not associated with our operating activities offset by the APA termination fee of \$0.2 million received from escrow upon the termination of the sale agreement for WRFD-AM, Columbus, Ohio.

Loss on early retirement of debt of \$0.9 million for the six months ended June 30, 2011 and for the same period of the prior year represents the redemption in each period of \$17.5 million of the 9⁵/₈% Notes for \$18.0 million, or at a price equal to 103% of the face value.

Provision for (Benefit from) Income Taxes

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Provision for (Benefit from) Income Taxes	\$2,879	\$ (797)	\$ (3,676)	(127.7)%	2.7%	(0.7)%

In accordance with FASB ASC Topic 740 "Income Taxes," our benefit from income taxes was \$0.8 million for the six months ended June 30, 2012 compared to a tax provision of \$2.9 million for the same period of the prior year. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 47.1% for the six months ended June 30, 2012 compared to 44.1% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Income (Loss) from Discontinued Operations, Net of Tax

	2011	2012	Six Months Ended June 30,		2011	2012
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Income (Loss) from Discontinued Operations, Net of Tax	\$43	\$ (55)	\$ (98)	(228.4)%	— %	— %

The income (loss) from discontinued operations for the six months ended June 30, 2012 and 2011 relate to the operating results of Samaritan Fundraising that ceased operations in December 2011.

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Net Income (Loss)

	2011	2012	Six Months Ended June 30,		2011	2012
			Change \$	Change %		
	<i>(Dollars in thousands)</i>					
Net Income (Loss)	\$3,687	\$(949)	\$(4,636)	(125.7)%	3.5%	(0.8)%

Net income decreased due to a \$10.0 million decrease in our net operating income due primarily to higher operating costs as discussed above, including the \$5.6 million impairment of long-lived assets partially offset by a \$1.6 million decrease in interest expense and a \$3.7 million decrease in our tax provision.

SAME STATION DEFINITION

In the discussion of our results of operations below, we compare our results between periods on an as reported basis (that is, the results of operations of all radio stations and network formats owned or operated at any time during either period) and on a "same station" basis. With regard to fiscal quarters, we include in our same station comparisons the results of operations of radio stations or radio station clusters and networks that we own or operate in the same format during the quarter, as well as the corresponding quarter of the prior year. Same station results for a full year are based on the sum of the same station results for the four quarters of that year.

NON-GAAP FINANCIAL MEASURES

The performance of a radio broadcasting company is customarily measured by the ability of its stations to generate station operating income. We define station operating income ("SOI") as net broadcast revenue less broadcast operating expenses. Accordingly, changes in net broadcast revenue and broadcast operating expenses, as explained above, have a direct impact on changes in SOI.

SOI is not a measure of performance calculated in accordance with GAAP. SOI should be viewed as a supplement to and not a substitute for our results of operations presented on the basis of GAAP. Management believes that SOI is a useful non-GAAP financial measure to investors, when considered in conjunction with operating income, the most directly comparable GAAP financial measure, because it is generally recognized by the radio broadcasting industry as a tool in measuring performance and in applying valuation methodologies for companies in the media, entertainment and communications industries. This measure is used by investors and analysts who report on the industry to provide comparisons between broadcasting groups. Additionally, our management uses SOI as one of the key measures of operating efficiency, profitability and our internal review associated with our impairment analysis of indefinite-lived intangible assets. SOI does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash flow activity and our income statement presents our historical performance prepared in accordance with GAAP. SOI as defined by and used by our company is not necessarily comparable to similarly titled measures employed by other companies.

Three months ended June 30, 2012 compared to the three months ended June 30, 2011

STATION OPERATING INCOME. SOI decreased \$0.5 million, or 3.1%, to \$15.9 million for the three months ended June 30, 2012, compared to \$16.4 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI decreased to 34.2% for the three months ended June 30, 2012 from 36.0% for the same period of the prior year. On a same station basis, SOI decreased \$0.5 million, or 3.1%, to \$15.9 million for the three months ended June 30, 2012 from \$16.4 million for the same period of the prior year. As a percentage of same station net broadcast revenue, same station SOI decreased to 34.3% for the three months ended June 30, 2012 from 36.1% for the same period of the prior year. The decline in SOI is primarily due to higher operating expenses, including personnel related costs during the three months ending June 30, 2012 compared to the same period of the prior year.

Six months ended June 30, 2012 compared to the six months ended June 30, 2011

STATION OPERATING INCOME. SOI decreased \$0.6 million, or 2.0%, to \$30.7 million for the six months ended June 30, 2012, compared to \$31.3 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI decreased to 34.0% for the six months ended June 30, 2012 from 35.5% for the same period of the prior year. On a same station basis, SOI decreased \$0.4 million, or 1.3%, to \$30.6 million for the six months ended June 30, 2012 from \$31.0 million for the same period of the prior year. As a percentage of same station net broadcast revenue, same station SOI decreased to 34.1% for the six months ended June 30, 2012 from 35.4% for the same period of the prior year. The decline in SOI is primarily due to higher operating expenses, including personnel related costs during the three months ending June 30, 2012 compared to the same period of the prior year.

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The following table provides a reconciliation of SOI (a non-GAAP financial measure) to operating income (as presented in our condensed consolidated financial statements) for the three and six months ended June 30, 2011 and 2012:

	Three Months Ended		Six Months Ended	
	June 30,	2012	2011	2012
	<i>(Dollars in thousands)</i>			
Station Operating Income	\$16,352	\$15,853	\$ 31,280	\$ 30,668
Plus Internet revenue	6,890	8,035	12,482	15,469
Plus publishing revenue	3,144	3,219	5,985	6,112
Less Internet operating expenses	(5,541)	(6,109)	(10,377)	(12,033)
Less publishing operating expenses	(2,771)	(3,000)	(5,651)	(5,971)
Less corporate expenses	(4,204)	(4,804)	(8,755)	(9,671)
Less depreciation and amortization	(3,800)	(3,579)	(7,501)	(7,198)
Less impairment of long-lived assets	—	(5,608)	—	(5,608)
Less gain (loss) on disposal of assets	(150)	(145)	4,375	24
Operating income from continuing operations	<u>\$ 9,920</u>	<u>\$ 3,862</u>	<u>\$ 21,838</u>	<u>\$ 11,792</u>

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to acquisitions and upgrades of radio station and network assets, revenue recognition, allowance for doubtful accounts, goodwill and other non-intangible assets, uncertain tax positions, valuation allowance (deferred taxes), long-term debt and debt covenant compliance, and stock-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following accounting policies and the related judgments and estimates are critical accounting policies that affect the preparation of our condensed consolidated financial statements.

Accounting for acquisitions and upgrades of radio station and network assets

A majority of our radio station acquisitions have consisted primarily of the FCC licenses to broadcast in a particular market. We often do not acquire the existing format, or we change the format upon acquisition when we find it beneficial. As a result, a substantial portion of the purchase price for the assets of a radio station is allocated to the broadcast license. It is our policy generally to retain third-party appraisers to value significant radio stations, networks, Internet and publishing properties. The allocations assigned to acquired broadcast licenses and other assets are subjective by their nature and require our careful consideration and judgment. We believe the allocations represent appropriate estimates of the fair value of the assets acquired. As part of the valuation and appraisal process, the third-party appraisers prepare reports that assign values to the various asset categories in our financial statements. Our management reviews these reports and determines the reasonableness of the assigned values used to record the acquisition at the close of the transaction.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses. Our policy is to capitalize costs incurred up to the point where the project is complete, at which time we transfer the costs to the appropriate fixed asset and/or intangible asset categories. When the completion of a project is contingent upon FCC or other regulatory approval, we assess the probable future benefit of the asset at the time that it is recorded and monitor it through the FCC or other regulatory approval process. In the event the required approval is not considered probable or the project is abandoned, we write-off the capitalized costs of the project.

Revenue recognition

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

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

Multiple-Deliverables

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

Barter transactions

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

Advertising time that our radio stations exchange for goods and or services is recorded as barter revenue when the advertisement is broadcast at an amount equal to our estimate fair value of what was received. The value of the goods and services received in such barter transactions is charged to expense when used. Barter advertising revenue included in broadcast revenue for the three and six months ended June 30, 2012 was approximately \$1.5 million and \$2.6 million, and \$1.4 million and \$2.6 million for the same period of the prior year. Barter expenses were approximately the same as barter revenue for each period.

Allowance for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. An analysis is performed by applying various percentages based on the age of the receivable and other subjective and historical analysis. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Accounting for discontinued operations

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

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

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Goodwill and other indefinite-lived intangible assets

Approximately 70% of our total assets as of June 30, 2012, consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 350, "Intangibles – Goodwill and Other." Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 6%. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired.

We complete our annual impairment tests in the fourth quarter of each year. We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on past experiences and judgment about future operating performance of our markets and business segments. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820 "Fair Value Measurements and Disclosures" as Level 3 inputs discussed in detail in Note 13 to our Condensed Consolidated Financial Statements.

Impairment losses long-lived assets

We account for property, plant and equipment in accordance with FASB ASC Topic 360-10, "Property, Plant and Equipment". We periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. In accordance with the authoritative guidance for impairment of long-lived assets we must estimate the fair value of assets when events or circumstances indicate that they may be impaired. The fair value measurements of our long-lived assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material.

Partial self-insurance on employee health plan

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

Income taxes and uncertain tax positions

We account for income taxes in accordance with FASB ASC Topic 740 "Income Taxes." We recorded an increase in our unrecognized tax benefits of \$0.2 million and \$0.08 million as of June 30, 2011 and 2012. At December 31, 2011, we had \$3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were \$0.1 million accrued for the related interest, net of federal income tax benefits, and \$0.02 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations.

Valuation allowance (deferred taxes)

For financial reporting purposes, we recorded a valuation allowance of \$0.2 million as of June 30, 2012 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. Management regularly reviews our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on management's estimate of the benefit the company will receive from such carryforwards.

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Fair value accounting

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

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

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less (or no) pricing observability and a higher degree of judgment utilized in measuring fair value. Please refer to “Note 13 Fair Value Accounting” for a further discussion.

Stock-based compensation

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

Use of estimates

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

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and selected asset dispositions. We expect to fund future acquisitions from cash on hand, proceeds from debt and equity offerings, borrowings under our credit facilities, operating cash flow and possibly through the sale of income-producing assets. We have funded, and will continue to fund, expenditures for operations, administrative expenses, capital expenditures and debt service from operating cash flow, borrowings allowed under our credit facilities and subordinated debt, and if necessary, proceeds from the sale of selected assets or radio stations.

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Cash Flows

Cash and cash equivalents increased \$0.2 million to \$0.3 million as of June 30, 2011 compared to \$0.1 million as of the December 31, 2011. Working capital increased \$7.9 million to \$13.3 million as of June 30, 2012, compared to \$5.5 million as of December 31, 2011.

The following events impacted our liquidity and capital resources during the six months ended June 30, 2012:

- Capital expenditures increased \$0.5 million to \$4.8 million from \$4.3 million for same period of the prior year;
- Our Day's Sales Outstanding "DSO" improved to 66 days as of June 30, 2012 from 68 days for the same period of the prior year;
- Cash paid for acquisitions decreased \$4.2 million to \$2.4 million from \$6.6 million for the same period of the prior year;
- Our net cash inflows from debt borrowings increased \$14.6 million to \$15.6 million from \$1.0 million for the same period of the prior year;
- We paid two quarterly cash common stock dividends during the six months ending June 2012 of \$1.7 million, or \$0.07 per share to all common stockholders of record as the date of record; and
- Our net income from continuing operations decreased \$4.5 million to a net loss of \$0.8 million from net income of \$3.6 million for the same period of the prior year.

Credit Facilities

Senior Credit Facility

On December 1, 2009, our parent company, Salem Communications Corporation, entered into a Revolver. We amended the Revolver on November 1, 2010 to increase the borrowing capacity from \$30 million to \$40 million. The amendment allows us to use borrowings under the Revolver, subject to the "Available Amount" as defined by the terms of the Credit Agreement, to redeem applicable portions of the 9⁵/₈% Notes. The calculation of the "Available Amount" also pertains to the payment of dividends when the leverage ratio is above 5.0 to 1.

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

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

The Revolver includes a \$5 million subfacility for standby letters of credit and a subfacility for swingline loans of up to \$5 million, subject to the terms and conditions of the credit agreement relating to the Revolver. In addition to interest charges outlined above, we pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Revolver may be paid and then reborrowed at Salem's discretion without penalty or premium. At June 30, 2012 the blended interest rate on amounts outstanding under the Revolver was 3.30%. We believe that our borrowing capacity under the Revolver allows us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

With respect to financial covenants, the credit agreement includes a maximum leverage ratio of 6.25 to 1.0 and a minimum interest coverage ratio of 1.5 to 1. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. As of June 30, 2012, our leverage ratio was 5.10 to 1 and our interest coverage ratio was 2.09 to 1. We were in compliance with our debt covenants under the Revolver at June 30, 2012, and we remain in compliance.

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

Senior Secured Second Lien Notes

On December 1, 2009, we issued \$300.0 million principal amount of 9⁵/₈% Notes at a discount for \$298.1 million resulting in an effective yield of 9.75%. Interest is due and payable on June 15 and December 15 of each year, commencing June 15, 2010 until maturity. We are not required to make principal payments on the 9⁵/₈% Notes that are due in full in December 2016. The 9⁵/₈% Notes are guaranteed by all of our existing domestic restricted subsidiaries. Upon issuance, we were required to pay \$28.9 million per year in interest on the then outstanding 9⁵/₈% Notes. As of December 31, 2011 and June 30, 2012, accrued interest on the 9⁵/₈% Notes was \$1.0 million and \$0.9 million, respectively. The discount is being amortized to interest expense over the term of the 9⁵/₈% Notes based on the effective interest method. For each of the three and six months ended June 30, 2012 and 2011, approximately \$48,000 and \$0.1 million, respectively, of the discount has been recognized as interest expense.

On June 1, 2012, we redeemed \$17.5 million of the 9⁵/₈% Notes for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.9 million pre-tax loss on the early retirement of debt, including approximately \$80,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9⁵/₈% Notes.

On December 12, 2011, we redeemed \$12.5 million of our 9⁵/₈% Notes for \$12.9 million, or at a price equal to 103% of the face value. This transaction resulted in a \$0.8 million pre-tax loss on the early retirement of debt, including approximately \$62,000 of unamortized discount and \$0.3 million of bond issues costs associated with the 9⁵/₈% Notes.

On September 6, 2011, we repurchased \$5.0 million of our 9⁵/₈% Notes for \$5.1 million, or at a price equal to 102¹/₈% of the face value. This transaction resulted in a \$0.3 million pre-tax loss on the early retirement of debt, including approximately \$26,000 of unamortized discount and \$0.1 million of bond issues costs associated with the 9⁵/₈% Notes.

On June 1, 2011, we redeemed \$17.5 million of the 9⁵/₈% Notes for \$18.0 million, or at a price equal to 103% of the face value. This transaction resulted in a \$1.1 million pre-tax loss on the early retirement of debt, including \$0.1 million of unamortized discount and \$0.5 million of bond issues costs associated with the 9⁵/₈% Notes.

Information regarding repurchases and redemptions of the 9⁵/₈% Notes are as follows:

Date	Principal Redeemed/Repurchased	Premium Paid	Unamortized Discount	Bond Issue Costs
June 1, 2012	\$ 17,500	\$ 525	\$ 80	\$ 287
December 12, 2011	12,500	375	62	337
September 6, 2011	5,000	144	26	135
June 1, 2011	17,500	525	93	472
December 1, 2010	12,500	375	70	334
June 1, 2010	17,500	525	105	417

The carrying value of the 9⁵/₈% Notes was \$233.8 million and \$216.5 million at December 31, 2011 and June 30, 2012, respectively.

Subordinated Credit Facility with First California Bank

On May 21, 2012, we entered into a new Business Loan Agreement, Promissory Note and related loan documents with First California Bank (the "FCB Loan"). The FCB Loan is an unsecured, \$10.0 million fixed-term loan with a maturity date of June 15, 2014. The interest rate for the FCB Loan ("Interest Rate") is variable and shall be equal to the greater of: (a) 4.250% or (b) the Wall Street Journal Prime Rate as published in The Wall Street Journal and reported by FCB plus 1%.

We are required to repay the FCB Loan as follows: (a) twenty three (23) consecutive monthly interest payments based upon the then-current principal balance outstanding at the then-current Interest Rate commencing on September 15, 2012; (b) seven quarterly consecutive principal payments of \$1.25 million each commencing on September 15, 2012; and (c) one final principal and interest payment on June 15, 2014 of all outstanding and unpaid interest and principal as of such maturity date. The FCB Loan may be

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prepaid at any time subject to a minimum interest charge of Fifty Dollars (\$50). If an event of default occurs on the FCB Loan, the Interest Rate may increase by 5.00% per annum. At June 30, 2012, the outstanding principal balance on the FCB loan was \$10.0 million with approximately \$48,400 of accrued interest.

The FCB Loan is unsecured and is subordinate in all respects to our existing Revolver. Our obligations under the FCB Loan are guaranteed by personal guaranties executed in favor of FCB by Edward G. Atsinger III, Salem's CEO and board member, Mr. Stuart Epperson, Salem's Chairman of the Board and board member and trusts controlled by these two individuals. With respect to financial covenants, the FCB Loan includes a maximum leverage ratio of 6.25 to 1.0 through December 31, 2012, 6.00 to 1.0 from January 1, 2013 through December 31, 2013, and 5.50 to 1.0 from January 1, 2014 through maturity; and a minimum interest coverage ratio of 1.5 to 1. The FCB Loan also includes other customary negative covenants that restrict the ability of Salem and the guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. At June 30, 2012, our leverage ratio was 5.10 to 1 and our interest coverage ratio was 2.09 to 1. We were in compliance with our debt covenants under the FCB Loan at June 30, 2012, and we remain in compliance.

Subordinated Lines of Credit with Related Parties

On November 17, 2011, we entered into Affiliate Lines of Credit with Edward G. Atsinger III, Chief Executive Officer and director of Salem, and Stuart W. Epperson, Chairman of Salem's board of directors. Pursuant to the related agreements, Mr. Epperson has committed to provide an unsecured revolving line of credit to Salem in a principal amount of up to \$3 million, and Mr. Atsinger has committed to provide an unsecured revolving line of credit in a principal amount of up to \$6 million. On May 21, 2012, we entered into a line of credit with Roland S. Hinz, a Salem board member. Mr. Hinz has committed to provide an unsecured revolving line of credit ("LOC") in a principal amount of up to \$6.0 million (together, the "Affiliate Lines of Credit"). The proceeds of the Affiliate Lines of Credit may be used to repurchase a portion of Salem's outstanding 9⁵/₈% Notes. Outstanding amounts under each Affiliate Line of Credit will bear interest at a rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Credit Agreement referred to above plus 2% per annum. Interest is payable at the time of any repayment of principal. In addition, outstanding amounts under each Affiliate Line of Credit must be repaid within three months from the time that such amounts are borrowed. The Affiliate Lines of Credit do not contain any covenants. At December 31, 2011 and June 30, 2012, \$9.0 million was outstanding under these Affiliate Lines of Credit.

Because the transactions with Mrs. Atsinger, Epperson and Hinz described above constitute related party transactions, the nominating and corporate governance committee (the "Committee") of Salem's board of directors approved the entry by Salem into the LOC and any definitive credit agreements associated therewith. As part of its consideration, the Committee concluded that the terms of the LOC were more favorable to Salem as compared to terms of lines of credit available from unaffiliated third parties.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2011	As of June 30, 2012
	<i>(Dollars in thousands)</i>	
Revolver under senior credit facility	\$ 31,000	\$ 36,587
9 ⁵ / ₈ % senior secured second lien notes due 2016	233,846	216,517
Subordinated debt	—	10,000
Subordinated debt due to related parties	9,000	9,000
Capital leases and other loans	957	896
	274,803	273,000
Less current portion	(9,124)	(9,120)
	<u>\$ 265,679</u>	<u>\$ 263,880</u>

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2012:

- Outstanding borrowings of \$36.6 million under the Revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;
- \$217.5 million 9⁵/₈% Notes with semi-annual interest payments at an annual rate of 9⁵/₈%;
- Outstanding borrowings of \$10.0 million on the FCB loan with interest payments due at the greater of: (a) 4.250% or (b) the Wall Street Journal Prime Rate as published in The Wall Street Journal and reported by FCB plus 1%;
- Outstanding borrowings of \$9.0 million due to related parties at an interest rate equal to the lesser of (1) 5% per annum and (2) the maximum rate permitted for subordinated debt under the Revolver plus 2% per annum; and
- Commitment fee of 0.60% on the unused portion of the Revolver.

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Other Debt

We have several capital leases related to various office equipment. The obligation recorded at December 31, 2011 and June 30, 2012 represents the present value of future commitments under the lease agreements.

Impairment losses on goodwill and indefinite-lived intangible assets

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

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

Impairment losses long-lived assets

We account for property, plant and equipment in accordance with FASB ASC Topic 360-10, “Property, Plant and Equipment”. We periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable.

During June 2012, based on changes in managements’ intended use of land in Covina, CA we reclassified the land from our broadcast segment to assets held for sale and evaluated for impairment as of that date. In accordance with the authoritative guidance for impairment of long-lived assets held for sale, we determined the carrying value of the land exceeded the estimated fair value less cost to sell. We estimated the fair value of the land based on our estimated future cash flows expected from the sale of the land to a willing party less our estimated closing costs. As a result of our analysis, we recorded an impairment charge of \$5.6 million associated with the land. The fair value measurements of our long-lived assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes at June 30, 2012. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

As of June 30, 2102, we had no off-balance sheet arrangements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

DERIVATIVE INSTRUMENTS

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

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

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012.

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

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

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Salem Communications Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 9, 2012

SALEM COMMUNICATIONS CORPORATION

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer
(Principal Executive Officer)

August 9, 2012

By: /s/ EVAN D. MASYR

Evan D. Masyr
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Form</u>	<u>File No.</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
10.19	Affiliate Line of Credit, dated as of May 1, 2012 between Salem Communications Corporation and Roland S. Hinz.					X
10.20.01	Business Loan Agreement dated as of May 21, 2012 between Salem Communications Corp. and First California Bank.					X
10.20.02	Promissory Note dated May 21, 2012 between Salem Communications Corporation and First California Bank.					X
10.20.03	Subordination Agreement dated as of May 21, 2012 between Salem Communications Corporation, First California Bank and Wells Fargo Bank, National Association.					X
10.20.04	Subordination Agreement dated as of May 21, 2012 between Salem Communications Corporation, Edward G. Atsinger III and Wells Fargo Bank, National Association.					X
10.20.05	Subordination Agreement dated as of May 21, 2012 between Salem Communications Corporation, Stuart W. Epperson and Wells Fargo Bank, National Association.					X
10.20.06	Subordination Agreement dated as of May 21, 2012 between Salem Communications Corporation, Roland Hinz and Wells Fargo Bank, National Association.					X
10.20.07	Commercial Guaranty dated May 21, 2012 between Salem Communications Corporation, Atsinger Family Trust and First California Bank.					X
10.20.08	Commercial Guaranty dated May 21, 2012 between Salem Communications Corporation, Edward G. Atsinger III and First California Bank.					X
10.20.09	Commercial Guaranty dated May 21, 2012 between Salem Communications Corporation, The Stuart W. Epperson Revocable Living Trust under agreement dated January 14, 1993, as amended and First California Bank.					X
10.20.10	Commercial Guaranty dated May 21, 2012 between Salem Communications Corporation, Stuart W. Epperson and First California Bank.					X
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.					X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.					X

The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets (ii) Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to the Condensed Consolidated Financial Statements.

May 1, 2012

Evan D. Masyr
Chief Financial Officer
Salem Communications Corporation
4880 Santa Rosa Road
Camarillo, California 93012

RE: **Letter of Intent to Lend**

Dear Evan:

This Letter of Intent to Lend, when countersigned below, will confirm the intention of Roland S. Hinz ("Lender") to provide Six Million Dollars (\$6,000,000.00) of unsecured financing to Salem Communications Corporation ("Borrower") on the terms set forth below.

1. Revolving Line of Credit: Term

Borrower may borrow any amount, up to the amount stated above, as a revolving line of credit (the "Line of Credit") upon two business days' notice to Lender. If Borrower borrows funds, the funds will be due five months from the date Lender makes such funds available to Borrower. Borrower may prepay any or all of the funds borrowed at any time, without penalty. The Line of Credit will remain outstanding and available to Borrower, even if there is no outstanding balance due on the Line of Credit. The ability of Borrower to borrow under the Line of Credit will terminate upon either party giving thirty days written notice of such termination to the other party, with any outstanding balance at the time of termination due in accordance with the terms hereof.

2. Interest Rate: Payment

The interest rate on funds borrowed under the Line of Credit shall be the lesser of:

(a) five percent (5%) simple interest; or

(b) the then-current, applicable indexed rate (the rate of interest that Salem is required to pay) under the Second Amendment to Credit Agreement dated as of November 15, 2011 (the "Second Amendment"), to that certain Credit Agreement, dated as of December 1, 2009, as amended by that certain AMENDMENT NO. 1 AND WAIVER dated as of November 1, 2010 among Borrower, Wells Fargo Bank, National Association ("Wells Fargo"), as Administrative Agent, Swing Line Lender and L/C Issuer, and each lender from time to time party thereto plus two percent (2%) (the "Applicable Interest Rate"). The Applicable Interest Rate shall accrue on any borrowings made hereunder from the date of withdrawal until the date the funds are repaid. Interest shall be due on the date that the funds are repaid. Partial payments on the Line of Credit balance shall be applied to the oldest outstanding amounts first.

3. Certain Conditions for Establishing the Line of Credit

The availability of funds pursuant to the Line of Credit shall be subject in all respects to the approval of the Line of Credit by the Board of Directors of Borrower.

4. Use of Funds

Borrower may use funds from the Line of Credit for any purpose.

5. Definitive Documentation

Following the execution of this Letter of Intent to Lend by Borrower, and if required by the Second Amendment, Borrower will prepare and deliver to Lender a definitive unsecured revolving line of credit agreement (the "Line of Credit Agreement") containing terms consistent with this Letter of Intent to Lend and customary representations, warranties and terms for a transaction of this nature between similarly situated parties. If required, Lender and Borrower will each negotiate in good faith to execute the Line of Credit Agreement within seven days of the satisfaction of the conditions stated in Paragraph 3 of this Letter of Intent to Lend, and approval of the Line of Credit Agreement by Borrower's Board of Directors.

6. Fees/Expenses

Each party shall bear its own legal and accounting fees.

7. Confidentiality

All information concerning any party hereto that is provided to any other party hereto, other than publicly available information, will be kept in strict confidence by the party to whom such information is provided.

8. Binding Effect

The parties acknowledge and agree that this Letter of Intent to Lend is intended to be and shall be construed as binding upon the parties upon mutual execution. This Letter of Intent to Lend is intended to provide both guidance in the preparation of a more complete Line of Credit Agreement and evidence of a legally binding agreement between the parties, enforceable in accordance with the terms set forth above. The parties agree to use their best efforts to negotiate a more complete agreement that will supersede this agreement. However, failure to achieve a more complete agreement will not limit the enforceability of the agreement reflected in this Letter of Intent to Lend. This Letter of Intent to Lend will be binding upon the parties until terminated in accordance with the terms set forth herein or the parties execute a Line of Credit Agreement which shall supersede this Letter of Intent to Lend and all prior discussions, both written and oral, between the parties.

This Letter of Intent to Lend and Lender's commitment shall become effective as of the date of execution hereof by Borrower and upon receipt by Lender of a signed counterpart of this letter. This Letter of Intent to Lend shall be construed in accordance with the internal laws of the State of California.

The proposal outlined in this letter will automatically expire if not accepted and returned to Lender by 5:00 p.m. Pacific Standard Time on May 31, 2012.

Very truly yours,

/s/Roland S. Hinz

ROLAND S. HINZ

Agreed to and accepted this 21st day of May, 2012.

BORROWER: SALEM COMMUNICATIONS CORPORATION

By: /s/Evan D. Masyr
Name: Evan D. Masyr
Title: Chief Financial Officer

BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$10,000,000.00	05-21-2012	06-15-2014	20974	51 / 00		GLASS	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing "****" has been omitted due to text length limitations.

Borrower: Salem Communications Corporation
4880 Santa Rosa Road #300
Camarillo, CA 93012

Lender: First California Bank
Oxnard Branch
300 Esplanade Drive, Suite 102
Oxnard, CA 93036

THIS BUSINESS LOAN AGREEMENT dated May 21, 2012, is made and executed between Salem Communications Corporation ("Borrower") and First California Bank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of May 21, 2012, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) guaranties; (3) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a corporation for profit which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Delaware. Borrower is duly authorized to transact business in the State of California and all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign corporation in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 4880 Santa Rosa Road #300, Camarillo, CA 93012. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None**.

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of incorporation or organization, or bylaws, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with such financial statements and other related information at such frequencies and in such detail as Lender may reasonably request.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

**BUSINESS LOAN AGREEMENT
(Continued)**

Loan No: 20974

Page 3

Guaranties. Prior to disbursement of any Loan proceeds, furnish executed guaranties of the Loans in favor of Lender, executed by the guarantors named below, on Lender's forms, and in the amounts and under the conditions set forth in those guaranties.

<u>Names of Guarantors</u>	<u>Amounts</u>
Edward G. Atsinger III	\$10,000,000.00
Atsinger Family Trust	\$10,000,000.00
Stuart W. Epperson	\$10,000,000.00
The Stuart W. Epperson Revocable Living Trust under agreement dated January 14, 1993, as amended	\$10,000,000.00

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Compliance Certificates. Unless waived in writing by Lender, provide Lender at least annually, with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes and make estimated income tax payments to satisfy their liabilities under federal and state law which arise solely from their status as Shareholders of a Subchapter S Corporation because of their ownership of shares of Borrower's stock, or purchase or retire any of Borrower's outstanding shares or alter or amend Borrower's capital structure.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the debt against any and all such accounts.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Change in Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Right to Cure. If any default, other than a default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured if Borrower or Grantor, as the case may be, after Lender sends written notice to Borrower or Grantor, as the case may be, demanding cure of such default: (1) cure the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

FINANCIAL COVENANTS AND RATIOS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower shall comply at all times with the following financial covenants and ratios:

Debt Coverage Ratio/EBITDA. Borrower shall maintain a Debt Coverage Ratio of not greater than 6.25 to 1.00 to 12/31/2012, 6.00 to 1.00 from 1/1/2013 thru 12/31/2013 and 5.50 to 1.00 from 1/1/2014 until Note maturity. Total Debt/EBITDA (defined as the aggregated total debt divided by earnings before interest, taxes, depreciation, amortization, and other non-cash expenses).

Minimum Interest Coverage Ratio. Borrower shall maintain a Minimum Interest Coverage Ratio (defined as the aggregate earnings before interest, taxes, depreciation, amortization, other non-cash expenses divided by interest expense) of not less than 1.50 to 1.00.

Compliance with the foregoing financial covenants and ratios shall be determined as of the end of each fiscal quarter, except as otherwise specifically provided above. All calculations made to determine compliance with the requirements set forth above shall be made in accordance with GAAP consistently applied and used consistently with prior practices.

BORROWER'S FINANCIAL STATEMENTS. Borrower shall maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of the following financial statements in conformity with GAAP. Borrower covenants and agrees with Lender that while this Agreement is in effect, unless Lender shall otherwise give its prior written consent, Borrower shall provide to Lender the following financial statements, certified by Borrower as being true and correct:

Annual Statements. As soon as available, but in no event later than March 31st of each fiscal year, Borrower shall deliver to Lender Borrower's financial statements, audited by certified public accountants acceptable to Lender, including but not limited to a balance sheet, an income statement, a statement of cash flows, and appropriate footnotes and schedules.

Interim Statements. As soon as available, but in no event later than sixty (60) days after the end of each fiscal quarter, Borrower shall deliver to Lender Borrower's financial statements, audited by certified public accountants acceptable to Lender, including but not limited to a balance sheet, an income statement, and appropriate schedules.

VENUE AND JURISDICTION. The party(ies) and/or undersigned to this Agreement and Lender agree that all actions or proceedings arising in connection with this Agreement and the other agreements, instruments and documents executed and/or delivered by the party(ies)/undersigned and Lender in connection herewith shall be tried and litigated only in the State and Federal courts located in the county of Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and San Luis Obispo, State of California, as Lender may elect, provided, however, that any suit seeking enforcement against any collateral or other property may be brought, at Lender's option, in the courts of any jurisdiction where Lender elects to bring such action or where such collateral or other property may be found. The party(ies)/undersigned to this Agreement and Lender waive, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this paragraph. The undersigned consents to the full personal jurisdiction of any state or federal court in California.

FACSIMILE AND COUNTERPART. This Agreement may be executed in two or more counterparts, which, taken together, shall constitute the whole of the agreement as between the parties. Each executed counterpart may be delivered in the form of a photocopy, facsimile, or scanned document, each of which shall have the same legal force and effect as delivery of an original.

SMALL BUSINESS JOBS ACT CERTIFICATION. The following information is requested pursuant to Section 4107(d)(2) of the Small Business Jobs Act of 2010. The law requires an institution to obtain a certification from any business receiving a loan using funds received by the institution under the Small Business Lender Fund. As required by Section 4407(d)(2) of the Small Business Jobs Act of 2010, Borrower hereby certifies to Lender that the principals of Borrower and its affiliates have not been convicted of, or pleaded nolo contendere to, a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. 16911)). The term "principals" is defined as follows: if a sole proprietorship, the proprietor; if a partnership, each managing partner and each partner who is a natural person and holds a 20% or more ownership interest in the partnership; and if a corporation, limited liability company, association or a development company, each director, each of the five most highly compensated executives or officers of the entity, and each natural person who is a direct or indirect holder of 20% or more of the ownership stock or stock equivalent of the entity.

WELLS FARGO BANK & BOND NOTES DEFAULT. Notwithstanding anything of the foregoing, Borrower covenants and agrees with Lender that Loan and Note between Borrower and Lender shall be in Default upon occurrence of either of the following: (i) revolving line of credit facility between Borrower and Wells Fargo Bank; and (ii) the Sr. Debt as 9 5/8% Senior Secured Lien Notes due 2016. In the event the Sr. Debt as 9 5/8% Senior Secured Lien Notes due 2016 is refinanced, Borrower shall payoff Lender Note in full.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of California.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Salem Communications Corporation and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means First California Bank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

**BUSINESS LOAN AGREEMENT
(Continued)**

Loan No: 20974

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Note. The word "Note" means the Note executed by Salem Communications Corporation in the principal amount of \$10,000,000.00 dated May 21, 2012, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED MAY 21, 2012.

BORROWER:

SALEM COMMUNICATIONS CORPORATION

By: /s/ EVAN D. MASYR

Evan D. Masyr, Chief Financial Officer of Salem
Communications Corporation

LENDER:

FIRST CALIFORNIA BANK

By: /s/ RICHARD R. GLASS

Authorized Signer

PROMISSORY NOTE

Principal \$10,000,000.00	Loan Date 05-21-2012	Maturity 06-15-2014	Loan No 20974	Call / Coll 51 / 00	Account	Officer GLASS	Initials
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References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Salem Communications Corporation
4880 Santa Rosa Road #300
Camarillo, CA 93012

Lender: First California Bank
Oxnard Branch
300 Esplanade Drive, Suite 102
Oxnard, CA 93036

Principal Amount: \$10,000,000.00

Date of Note: May 21, 2012

PROMISE TO PAY. Salem Communications Corporation ("Borrower") promises to pay to First California Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of Ten Million & 00/100 Dollars (\$10,000,000.00), together with interest on the unpaid principal balance from May 21, 2012, until paid in full.

PAYMENT. Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in accordance with the following payment schedule, which calculates interest on the unpaid principal balances as described in the "INTEREST CALCULATION METHOD" paragraph using the interest rates described in this paragraph: 23 monthly consecutive interest payments, beginning July 15, 2012, with interest calculated on the unpaid principal balances using an interest rate based on the Wall Street Journal Prime Rate as published in the Wall Street Journal and announced by Lender (currently 3.250%), plus a margin of 1.000 percentage points, adjusted if necessary for the minimum and maximum rate limitations for this loan, resulting in an initial interest rate of 4.250%; 7 quarterly consecutive principal payments of \$1,250,000.00 each, beginning September 15, 2012, during which interest continues to accrue on the unpaid principal balances using an interest rate based on the Wall Street Journal Prime Rate as published in the Wall Street Journal and announced by Lender (currently 3.250%), plus a margin of 1.000 percentage points, adjusted if necessary for the minimum and maximum rate limitations for this loan, resulting in an initial interest rate of 4.250%; and one principal and interest payment of \$1,254,574.65 on June 15, 2014, with interest calculated on the unpaid principal balances using an interest rate based on the Wall Street Journal Prime Rate as published in the Wall Street Journal and announced by Lender (currently 3.250%), plus a margin of 1.000 percentage points, adjusted if necessary for the minimum and maximum rate limitations for this loan, resulting in an initial interest rate of 4.250%. This estimated final payment is based on the assumption that all payments will be made exactly as scheduled and that the Index does not change; the actual final payment will be for all principal and accrued interest not yet paid, together with any other unpaid amounts under this Note. Notwithstanding the foregoing, the rate of interest accrual described for the principal only payment stream applies only to the extent that no other interest rate for any other payment stream applies. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any unpaid collection costs; and then to any late charges. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the Wall Street Journal Prime Rate as published in the Wall Street Journal and announced by Lender (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notifying Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. Borrower understands that Lender may make loans based on other rates as well. **The Index currently is 3.250% per annum.** The interest rate or rates to be applied to the unpaid principal balance during this Note will be the rate or rates set forth herein in the "Payment" section. Notwithstanding any other provision of this Note, after the first payment stream, the interest rate for each subsequent payment stream will be effective as of the due date of the last payment in the just-ending payment stream. NOTICE: Under no circumstances will the interest rate on this Note be less than 4.250% per annum or more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (A) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (B) increase Borrower's payments to cover accruing interest, (C) increase the number of Borrower's payments, and (D) continue Borrower's payments at the same amount and increase Borrower's final payment.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method. This calculation method results in a higher effective interest rate than the numeric interest rates stated in this Note.

PREPAYMENT; MINIMUM INTEREST CHARGE. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. In any event, even upon full prepayment of this Note, Borrower understands that Lender is entitled to a **minimum interest charge of \$50.00.** Other than Borrower's obligation to pay any minimum interest charge, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: First California Bank, 2200 Sepulveda Boulevard Torrance, CA 90501.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged **6.000% of the unpaid portion of the regularly scheduled payment or \$5.00, whichever is greater.**

INTEREST AFTER DEFAULT. Upon default, the interest rate on this Note shall, if permitted under applicable law, immediately increase by adding an additional 5.000 percentage point margin ("Default Rate Margin"). The Default Rate Margin shall also apply to each succeeding interest rate change that would have applied had there been no default. After maturity, or after this Note would have matured had there been no default, the Default Rate Margin will continue to apply to the final interest rate described in this Note.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Change In Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount which is deemed reasonable. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. Borrower also will pay any court costs, in addition to all other sums provided by law.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of California.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the debt against any and all such accounts.

COLLATERAL. This loan is unsecured.

VENUE AND JURISDICTION. The party(ies) and/or undersigned to this Agreement and Lender agree that all actions or proceedings arising in connection with this Agreement and the other agreements, instruments and documents executed and/or delivered by the party(ies)/undersigned and Lender in connection herewith shall be tried and litigated only in the State and Federal courts located in the county of Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and San Luis Obispo, State of California, as Lender may elect, provided, however, that any suit seeking enforcement against any collateral or other property may be brought, at Lender's option, in the courts of any jurisdiction where Lender elects to bring such action or where such collateral or other property may be found. The party(ies)/undersigned to this Agreement and Lender waive, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this paragraph. The undersigned consents to the full personal jurisdiction of any state or federal court in California.

BUSINESS LOAN AGREEMENT. Reference is made to that certain Business Loan Agreement dated May 21, 2012, for additional terms and conditions.

**PROMISSORY NOTE
(Continued)**

Loan No. 20974

Page 3

COMMERCIAL GUARANTY. This Note is supported by four (4) Commercial Guaranties, dated as of May 21, 2012.

FACSIMILE AND COUNTERPART. This Agreement may be executed in two or more counterparts, which, taken together, shall constitute the whole of the agreement as between the parties. Each executed counterpart may be delivered in the form of a photocopy, facsimile, or scanned document, each of which shall have the same legal force and effect as delivery of an original.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

SALEM COMMUNICATIONS CORPORATION

By: /s/ EVAN D. MASYR

**Evan D. Masyr, Chief Financial Officer of Salem
Communications Corporation**

SUBORDINATION AGREEMENT

THIS AGREEMENT is entered into by and among SALEM COMMUNICATIONS CORPORATION (“Borrower”), FIRST CALIFORNIA BANK (“Creditor”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Agent”), in its capacity as administrative agent for itself, the swing line lender, L/C issuer and each lender from time to time (collectively, the “Senior Parties”) under the Credit Agreement dated as of December 1, 2009, as amended from time to time (the “Senior Credit Agreement,” together with all of the Loan Documents as defined therein, the “Senior Debt Documents”), by and among the Borrower, the Agent and the other Senior Parties thereto.

RECITALS

A. Borrower is indebted to Creditor, and Borrower proposes to obtain credit or has obtained credit from Senior Parties; and

B. Senior Parties have indicated that they will extend or continue credit to Borrower if certain conditions are met, including without limitation, the requirement that Creditor execute this Agreement.

NOW, THEREFORE, as an inducement to Senior Parties to extend or continue credit and for other valuable consideration, the parties hereto agree as follows:

1. **INDEBTEDNESS SUBORDINATED.** Creditor subordinates all Indebtedness now or at any time hereafter owing under that certain Business Loan Agreement dated as of May __, 2012 between Borrower and Creditor (as amended, modified, renewed, extended or replaced, the “Junior Loan Agreement” and “Junior Debt”) to all Indebtedness now or at any time hereafter owing from Borrower to Senior Parties under the Senior Debt Documents (“Senior Debt”). Creditor irrevocably consents and directs that all Senior Debt shall be paid in full in cash or other immediately available funds prior to Borrower making any payment on any Junior Debt, except such payments as are expressly permitted by this Agreement. As long as this Agreement is in effect, Creditor will not, except to the extent permitted herein, take any action or initiate any proceedings, judicial or otherwise, to enforce Creditor’s rights or remedies with respect to any Junior Debt. Nothing contained in this Agreement shall restrict Creditor’s rights and remedies against any guarantors of the Junior Debt. Creditor may receive payments from such guarantors and may enforce its rights and remedies against such guarantors without regard to any restrictions set forth in this Agreement. Such rights and remedies include the right of Creditor to accelerate the Junior Debt in connection with enforcement actions against the guarantors even though Creditor may be precluded from acceleration of the Junior Debt as against Borrower.

2. **INDEBTEDNESS DEFINED.** The word “Indebtedness” is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, including without limitation, obligations and liabilities arising from notes, repurchase agreements and trust receipts, and any and all interest and other amounts thereon which may accrue subsequent to Borrower becoming subject to any state or federal debtor-relief statute.

3. RESTRICTION OF PAYMENT OF JUNIOR DEBT; DISPOSITION OF PAYMENTS RECEIVED BY CREDITOR. Borrower will not make, and Creditor will not accept or receive, any payment or benefit in cash, by setoff or otherwise, directly or indirectly, on account of principal, interest or any other amounts owing on any Junior Debt, except such payments as are expressly permitted herein. Borrower is permitted to make and Creditor to receive all regularly scheduled principal payments not to exceed \$1,250,000 per quarter and accrued interest at the non-default interest rate thereon ("Permitted Subordinated Debt Payments") under that certain Junior Loan Agreement existing on the date hereof; provided however, that:

(a) Borrower shall not make, nor Creditor receive, any prepayment or accelerated payment under the Junior Loan Agreement, and

(b) no Permitted Subordinated Debt Payment shall be made by Borrower or accepted by Creditor if, at the time of such payment after Creditor has received written notice from Agent that a Senior Payment Default has occurred and is continuing.

Such notice shall be sent to Creditor by overnight delivery addressed to Mr. Matthew D. Fuhr, Senior Vice President / Deputy Chief Credit Officer, First California Bank, 15622 Arrow Highway, Irwindale, CA 91706.

A "Senior Payment Default" means any "Event of Default" under the Senior Debt Documents resulting from the failure of Borrower or any other loan party to pay, on a timely basis, any principal, interest, fees or other obligations under such Senior Debt Documents including, without limitation, any default in payment of Senior Debt after acceleration thereof.

If any payment is made in violation of this Agreement, Creditor shall promptly deliver the same to Agent in the form received, with any endorsement or assignment necessary for the transfer of such payment or amounts setoff from Creditor to Agent, to be either (in Agent's sole discretion) held as cash collateral securing the Senior Debt or applied in reduction of the Senior Debt in such order as Agent shall determine, and until so delivered, Creditor shall hold such payment in trust for and on behalf of, and as the property of, Agent.

(c) Notwithstanding any provision in Section 3(b) to the contrary, if the Senior Payment Default has been cured and/or waived in accordance with the Senior Debt Documents and no other Senior Payment Default has occurred and is continuing, then Creditor shall be permitted to receive the Permitted Subordinated Debt Payments it would have been paid had no such payment blockage been in effect.

4. DISPOSITION OF EVIDENCE OF INDEBTEDNESS. If there is any existing promissory note or other evidence of any of the Junior Debt, including the Junior Loan Agreement, or if any promissory note or other evidence of Indebtedness is executed at any time hereafter with respect thereto, then Borrower and Creditor will mark the same with a legend stating that it is subject to this Agreement.

5. AGREEMENT TO BE CONTINUING; APPLIES TO BORROWER'S EXISTING INDEBTEDNESS AND ANY INDEBTEDNESS HEREAFTER ARISING. This Agreement shall be a continuing agreement and shall apply to any and all Senior Debt or Junior Debt now existing or hereafter arising.

6. TERMINATION BY CREDITOR. Creditor may, to the extent provided herein, terminate this Agreement by delivering written notice to Agent. Any such notice must be sent to

Agent by registered U.S. mail, postage prepaid, addressed to its Ventura/Santa Barbara Commercial Banking Office at 601 E. Daily Drive, Suite 110, Camarillo, California 93010, or at such other address as Agent shall from time to time designate. If such notice is received by Agent, this Agreement shall terminate as of the date of receipt, except that the obligations of Creditor and the rights of Senior Parties hereunder shall continue with respect to all Senior Debt which existed at the time of Agent's receipt of such notice, or thereafter arose pursuant to any agreement to extend credit by which Senior Parties are bound at the time of its receipt of such notice, and any extensions, renewals or modifications of any such then existing or committed Senior Debt, including without limitation, modifications to the amount of principal or interest payable on any Senior Debt and the release of any security for or any guarantors of all or any portion of any Senior Debt. Senior Party (to Senior Party's knowledge) and Borrower severally represent and warrant to Creditor that no default or breach exists under the Senior Debt and the Senior Debt Documents and that no event, act, or omission has occurred which with the giving of notice or the passage of time would constitute a default or breach under the Senior Debt and the Senior Debt Documents.

7. REPRESENTATIONS AND WARRANTIES; INFORMATION. Borrower and Creditor represent and warrant to Agent that: (a) no interest in the Junior Debt has been assigned or otherwise transferred to any person or entity; (b) payment of the Junior Debt has not been heretofore subordinated to any other creditor of Borrower; and (c) Creditor has the requisite power and authority to enter into and perform its obligations under this Agreement. Creditor further represents and warrants to Agent that Creditor has established adequate, independent means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Creditor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Creditor's risks hereunder, and Creditor agrees that no Senior Party shall have any obligation to disclose to Creditor information or material about Borrower which is acquired by such Senior Party in any manner. Any Senior Party may, at such Senior Party's sole option and without obligation to do so, disclose to Creditor any information or material relating to Borrower which is acquired by such Senior Party by any means, and Borrower hereby agrees to and authorizes any such disclosure by such Senior Party.

8. TRANSFER OF ASSETS OR REORGANIZATION OF BORROWER. If any petition is filed or any proceeding is instituted by or against Borrower under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, or any other or similar law relating to bankruptcy, insolvency, reorganization or other relief for debtors, or generally affecting creditors' rights, or seeking the appointment of a receiver, trustee, custodian or liquidator of or for Borrower or any of its assets, any payment or distribution of any of Borrower's assets, whether in cash, securities or any other property, which would be payable or deliverable with respect to any Junior Debt, shall be paid or delivered to Agent until all Senior Debt is paid in full in cash or other immediately available funds.

9. OTHER AGREEMENTS; NO THIRD PARTY BENEFICIARIES. Agent shall have no direct or indirect obligations to Creditor of any kind with respect to the manner or time in which Agent exercises (or refrains from exercising) any of its rights or remedies with respect to the Senior Debt, Borrower or any of Borrower's assets. Creditor understands that there may be various agreements between Senior Parties and Borrower evidencing and governing the Senior Debt, and Creditor acknowledges and agrees that such agreements are not intended to confer any benefits on Creditor. Creditor further acknowledges that Agent may administer the Senior Debt and any of Senior Parties' agreements with Borrower in any way Agent deems appropriate, without regard to Creditor or the Junior Debt. Creditor waives any right Creditor might otherwise have to require a marshalling of any security held by Agent for all or any part of

the Senior Debt or to direct or affect the manner or timing with which Agent enforces any of its security. Nothing in this Agreement shall impair or adversely affect any right, privilege, power or remedy of Agent with respect to the Senior Debt, Borrower or any assets of Borrower, including without limitation, Agent's right to: (a) waive, release or subordinate any of Agent's security or rights; (b) waive or ignore any defaults by Borrower; and/or (c) restructure, renew, modify or supplement the Senior Debt, or any portion thereof, or any agreement with Borrower relating to any Senior Debt. All rights, privileges, powers and remedies of Agent may be exercised from time to time by Agent without notice to or consent of Creditor.

10. BREACH OF AGREEMENT BY BORROWER OR CREDITOR. In the event of any breach of this Agreement by Borrower or Creditor, then and at any time thereafter Agent shall have the right to declare immediately due and payable all or any portion of the Senior Debt without presentment, demand, notice of nonperformance, protest, notice of protest or notice of dishonor, all of which are hereby expressly waived by Borrower and Creditor. No delay, failure or discontinuance of Agent in exercising any right, privilege, power or remedy hereunder shall be deemed a waiver of such right, privilege, power or remedy; nor shall any single or partial exercise of any such right, privilege, power or remedy preclude, waive or otherwise affect the further exercise thereof or the exercise of any other right, privilege, power or remedy. Any waiver, permit, consent or approval of any kind by Agent with respect to this Agreement must be in writing and shall be effective only to the extent set forth in such writing.

11. LIQUIDATED DAMAGES. Inasmuch as the actual damages which could result from a breach by Creditor of its duties under this Agreement are uncertain and would be impractical or extremely difficult to fix, Creditor shall pay to Agent, in the event of any such breach by Creditor, as liquidated and agreed damages, and not as a penalty, all sums received by Creditor in violation of this Agreement on account of the Junior Debt, which sums represent a reasonable endeavor to estimate a fair compensation for the foreseeable losses that might result from such a breach.

12. COSTS, EXPENSES AND ATTORNEYS' FEES. If any party hereto institutes any arbitration or judicial or administrative action or proceeding to enforce any provisions of this Agreement, or alleging any breach of any provision hereof or seeking damages or any remedy, the losing party or parties shall pay to the prevailing party or parties all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of such prevailing party's in-house counsel), expended or incurred by the prevailing party or parties in connection therewith, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Agent or any other person) relating to Borrower, Creditor or any other person or entity.

13. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties. This Agreement may be amended or modified only in writing signed by all parties hereto.

14. OBLIGATIONS JOINT AND SEVERAL; CONSTRUCTION. If this Agreement is executed by more than one Creditor, it shall bind them jointly and severally. All words used herein in the singular shall be deemed to have been used in the plural where the context so requires.

15. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the

extent of such prohibition or invalidity, without invalidating the remainder of such waiver or other provision or any remaining provisions of this Agreement.

16. **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

17. **ARBITRATION.**

(a) **Arbitration.** The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise, in any way arising out of or relating to this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) **Governing Rules.** Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) **No Waiver of Provisional Remedies, Self-Help and Foreclosure** The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) **Arbitrator Qualifications and Powers.** Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an

issue is arbitrable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed this Agreement or any other contract, instrument or document relating to any Indebtedness, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral: Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a

party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of May 18, 2012.

BORROWER:

SALEM COMMUNICATIONS CORPORATION

By: /s/ EVAN D. MASYR

Name: EVAN D. MASYR

Title: SVP & CFO

AGENT:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ PATRICK BISHOP

Name: PATRICK BISHOP

Title: VICE PRESIDENT

CREDITOR:

FIRST CALIFORNIA BANK

By: /s/ RICHARD R. GLASS

Name: RICHARD R. GLASS

Title: SVP

SUBORDINATION AGREEMENT

THIS AGREEMENT is entered into by and among SALEM COMMUNICATIONS CORPORATION (“Borrower”), EDWARD G. ATSINGER III (“Creditor”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Agent”), in its capacity as administrative agent for itself, the swing line lender, L/C issuer and each lender from time to time (collectively, the “Senior Parties”) under the Credit Agreement dated as of December 1, 2009, as amended from time to time (the “Senior Credit Agreement,” together with all of the Loan Documents as defined therein, the “Senior Debt Documents”), by and among the Borrower, the Agent and the other Senior Parties thereto.

RECITALS

A. Borrower is indebted to Creditor, and Borrower proposes to obtain credit or has obtained credit from Senior Parties; and

B. Senior Parties have indicated that they will extend or continue credit to Borrower if certain conditions are met, including without limitation, the requirement that Creditor execute this Agreement.

NOW, THEREFORE, as an inducement to Senior Parties to extend or continue credit and for other valuable consideration, the parties hereto agree as follows:

1. **INDEBTEDNESS SUBORDINATED.** Creditor subordinates all Indebtedness now or at any time hereafter owing from Borrower to Creditor (“Junior Debt”) to all Indebtedness now or at any time hereafter owing from Borrower to any of the Senior Parties (“Senior Debt”). Creditor irrevocably consents and directs that all Senior Debt shall be paid in full in cash or other immediately available funds prior to Borrower making any payment on any Junior Debt, except such payments as are expressly permitted by this Agreement. Creditor will, and Agent is authorized in the name of Creditor from time to time to, execute and file such financing statements and other documents as Agent may require in order to give notice to other persons and entities of the terms and provisions of this Agreement. As long as this Agreement is in effect, Creditor will not take any action or initiate any proceedings, judicial or otherwise, to enforce Creditor’s rights or remedies with respect to any Junior Debt, including without limitation, any action to enforce remedies with respect to any collateral securing any Junior Debt or to obtain any judgment or prejudgment remedy against Borrower or any such collateral.

2. **INDEBTEDNESS DEFINED.** The word “Indebtedness” is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, including without limitation, obligations and liabilities arising from notes, repurchase agreements and trust receipts, and any and all interest and other amounts thereon which may accrue subsequent to Borrower becoming subject to any state or federal debtor-relief statute. Notwithstanding the foregoing or anything in this Subordination Agreement to the contrary, the definition of Junior Debt shall not include and this Subordination Agreement shall not apply to any salary, wages, bonuses, stock options, employee benefits, employment contract obligations, split dollar life insurance programs, board fees and other similar compensation paid or owing by Borrower to

Creditor in his capacity as an employee or director of Borrower and any reimbursements in the ordinary course related thereto.

3. RESTRICTION OF PAYMENT OF JUNIOR DEBT; DISPOSITION OF PAYMENTS RECEIVED BY CREDITOR. Borrower will not make, and Creditor will not accept or receive, any payment or benefit in cash, by setoff or otherwise, directly or indirectly, on account of principal, interest or any other amounts owing on any Junior Debt, except such payments as are expressly permitted herein. Borrower is permitted to make and Creditor to receive any payments of principal and interest on that certain Letter of Intent to Lend dated as of November 17, 2011 between Borrower and Creditor, in the principal amount of \$6,000,000 (as existing on the date hereof, the "Note"); provided however, that no payment of principal or interest on the Note shall be made by Borrower, or received by Creditor, after notice from Agent to Creditor that a Default (as such term is defined in the Senior Debt Documents), or any condition, event or act which with the giving of notice or the passage of time or both would constitute a Default, has occurred under the terms of any Senior Debt. If any payment is made in violation of this Agreement, Creditor shall promptly deliver the same to Agent in the form received, with any endorsement or assignment necessary for the transfer of such payment or amounts setoff from Creditor to Agent, to be either (in Agent's sole discretion) held as cash collateral securing the Senior Debt or applied in reduction of the Senior Debt in such order as Agent shall determine, and until so delivered, Creditor shall hold such payment in trust for and on behalf of, and as the property of, Agent.

4. DISPOSITION OF EVIDENCE OF INDEBTEDNESS. If there is any existing promissory note or other evidence of any of the Junior Debt, including the Note, or if any promissory note or other evidence of Indebtedness is executed at any time hereafter with respect thereto, then Borrower and Creditor will mark the same with a legend stating that it is subject to this Agreement, and if asked to do so, will deliver the same to Agent. Creditor shall not, without Agent's prior written consent, assign, transfer, hypothecate or otherwise dispose of any claim it now has or may at any time hereafter have against Borrower at any time that any Senior Debt remains outstanding and/or any Senior Party remains committed to extend any credit to Borrower.

5. AGREEMENT TO BE CONTINUING; APPLIES TO BORROWER'S EXISTING INDEBTEDNESS AND ANY INDEBTEDNESS HEREAFTER ARISING. This Agreement shall be a continuing agreement and shall apply to any and all Indebtedness of Borrower to any Senior Party or Creditor now existing or hereafter arising, including any Indebtedness arising under successive transactions, related or unrelated, and notwithstanding that from time to time all Indebtedness theretofore existing may have been paid in full.

6. TERMINATION BY CREDITOR. Creditor may, to the extent provided herein, terminate this Agreement by delivering written notice to Agent. Any such notice must be sent to Agent by registered U.S. mail, postage prepaid, addressed to its Ventura/Santa Barbara Commercial Banking Office at 601 E. Daily Drive, Suite 110, Camarillo, California 93010, or at such other address as Agent shall from time to time designate. If such notice is received by Agent, this Agreement shall terminate as of the date of receipt, except that the obligations of Creditor and the rights of Senior Parties hereunder shall continue with respect to all Senior Debt which existed at the time of Agent's receipt of such notice, or thereafter arose pursuant to any agreement to extend credit by which any Senior Party is bound at the time of its receipt of such notice, and any extensions, renewals or modifications of any such then existing or committed Senior Debt, including without limitation, modifications to the amount of principal or interest payable on any Senior Debt and the release of any security for or any guarantors of all or any portion of any Senior Debt.

7. REPRESENTATIONS AND WARRANTIES; INFORMATION. Borrower and Creditor represent and warrant to Senior Parties that: (a) no interest in the Junior Debt has been assigned or otherwise transferred to any person or entity; (b) payment of the Junior Debt has not been heretofore subordinated to any other creditor of Borrower; and (c) Creditor has the requisite power and authority to enter into and perform its obligations under this Agreement. Creditor further represents and warrants to Senior Parties that Creditor has established adequate, independent means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Creditor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Creditor's risks hereunder, and Creditor agrees that no Senior Party shall have any obligation to disclose to Creditor information or material about Borrower which is acquired by any Senior Party in any manner. Any Senior Party may, at such Senior Party's sole option and without obligation to do so, disclose to Creditor any information or material relating to Borrower which is acquired by such Senior Party by any means, and Borrower hereby agrees to and authorizes any such disclosure by such Senior Party.

8. TRANSFER OF ASSETS OR REORGANIZATION OF BORROWER. If any petition is filed or any proceeding is instituted by or against Borrower under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, or any other or similar law relating to bankruptcy, insolvency, reorganization or other relief for debtors, or generally affecting creditors' rights, or seeking the appointment of a receiver, trustee, custodian or liquidator of or for Borrower or any of its assets, any payment or distribution of any of Borrower's assets, whether in cash, securities or any other property, which would be payable or deliverable with respect to any Junior Debt, shall be paid or delivered to Agent until all Senior Debt is paid in full in cash or other immediately available funds. Creditor grants to Agent the right to enforce, collect and receive any such payment or distribution and to give releases or acquittances therefor, and Creditor authorizes Agent as its attorney-in-fact to vote and prove the Junior Debt in any of the above-described proceedings or in any meeting of creditors of Borrower relating thereto.

9. OTHER AGREEMENTS; NO THIRD PARTY BENEFICIARIES. Agent shall have no direct or indirect obligations to Creditor of any kind with respect to the manner or time in which Agent exercises (or refrains from exercising) any of its rights or remedies with respect to the Senior Debt, Borrower or any of Borrower's assets. Creditor understands that there may be various agreements among Senior Parties and Borrower evidencing and governing the Senior Debt, and Creditor acknowledges and agrees that such agreements are not intended to confer any benefits on Creditor. Creditor further acknowledges that Agent may administer the Senior Debt and any of Senior Parties' agreements with Borrower in any way Agent deems appropriate, without regard to Creditor or the Junior Debt. Creditor waives any right Creditor might otherwise have to require a marshalling of any security held by Agent for all or any part of the Senior Debt or to direct or affect the manner or timing with which Agent enforces any of its security. Nothing in this Agreement shall impair or adversely affect any right, privilege, power or remedy of Agent with respect to the Senior Debt, Borrower or any assets of Borrower, including without limitation, Agent's right to: (a) waive, release or subordinate any of Agent's security or rights; (b) waive or ignore any defaults by Borrower; and/or (c) restructure, renew, modify or supplement the Senior Debt, or any portion thereof, or any agreement with Borrower relating to any Senior Debt. All rights, privileges, powers and remedies of Agent may be exercised from time to time by Agent without notice to or consent of Creditor.

10. BREACH OF AGREEMENT BY BORROWER OR CREDITOR. In the event of any breach of this Agreement by Borrower or Creditor, then and at any time thereafter Agent shall have the right to declare immediately due and payable all or any portion of the Senior Debt

without presentment, demand, notice of nonperformance, protest, notice of protest or notice of dishonor, all of which are hereby expressly waived by Borrower and Creditor. No delay, failure or discontinuance of Agent in exercising any right, privilege, power or remedy hereunder shall be deemed a waiver of such right, privilege, power or remedy; nor shall any single or partial exercise of any such right, privilege, power or remedy preclude, waive or otherwise affect the further exercise thereof or the exercise of any other right, privilege, power or remedy. Any waiver, permit, consent or approval of any kind by Agent with respect to this Agreement must be in writing and shall be effective only to the extent set forth in such writing.

11. LIQUIDATED DAMAGES. Inasmuch as the actual damages which could result from a breach by Creditor of its duties under this Agreement are uncertain and would be impractical or extremely difficult to fix, Creditor shall pay to Agent, in the event of any such breach by Creditor, as liquidated and agreed damages, and not as a penalty, all sums received by Creditor in violation of this Agreement on account of the Junior Debt, which sums represent a reasonable endeavor to estimate a fair compensation for the foreseeable losses that might result from such a breach.

12. COSTS, EXPENSES AND ATTORNEYS' FEES. If any party hereto institutes any arbitration or judicial or administrative action or proceeding to enforce any provisions of this Agreement, or alleging any breach of any provision hereof or seeking damages or any remedy, the losing party or parties shall pay to the prevailing party or parties all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of such prevailing party's in-house counsel), expended or incurred by the prevailing party or parties in connection therewith, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Agent or any other person) relating to Borrower, Creditor or any other person or entity.

13. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties. This Agreement may be amended or modified only in writing signed by all parties hereto.

14. OBLIGATIONS JOINT AND SEVERAL; CONSTRUCTION. If this Agreement is executed by more than one Creditor, it shall bind them jointly and severally. All words used herein in the singular shall be deemed to have been used in the plural where the context so requires.

15. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such waiver or other provision or any remaining provisions of this Agreement.

16. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

17. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract

or otherwise, in any way arising out of or relating to this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator’s discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The

institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed this Agreement or any other contract, instrument or document relating to any Indebtedness, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral: Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of May 21, 2012.

BORROWER:

SALEM COMMUNICATIONS CORPORATION

By: /s/ EVAN D. MASYR

Title: SVP & CFO

AGENT:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ PATRICK BISHOP

Title: VICE PRESIDENT

CREDITOR:

EDWARD G. ATSINGER III

By: /s/ EDWARD G. ATSINGER III

Name:

Title:

SUBORDINATION AGREEMENT

THIS AGREEMENT is entered into by and among SALEM COMMUNICATIONS CORPORATION (“Borrower”), STUART W. EPPERSON (“Creditor”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Agent”), in its capacity as administrative agent for itself, the swing line lender, L/C issuer and each lender from time to time (collectively, the “Senior Parties”) under the Credit Agreement dated as of December 1, 2009, as amended from time to time (the “Senior Credit Agreement,” together with all of the Loan Documents as defined therein, the “Senior Debt Documents”), by and among the Borrower, the Agent and the other Senior Parties thereto.

RECITALS

A. Borrower is indebted to Creditor, and Borrower proposes to obtain credit or has obtained credit from Senior Parties; and

B. Senior Parties have indicated that they will extend or continue credit to Borrower if certain conditions are met, including without limitation, the requirement that Creditor execute this Agreement.

NOW, THEREFORE, as an inducement to Senior Parties to extend or continue credit and for other valuable consideration, the parties hereto agree as follows:

1. INDEBTEDNESS SUBORDINATED. Creditor subordinates all Indebtedness now or at any time hereafter owing from Borrower to Creditor (“Junior Debt”) to all Indebtedness now or at any time hereafter owing from Borrower to any of the Senior Parties (“Senior Debt”). Creditor irrevocably consents and directs that all Senior Debt shall be paid in full in cash or other immediately available funds prior to Borrower making any payment on any Junior Debt, except such payments as are expressly permitted by this Agreement. Creditor will, and Agent is authorized in the name of Creditor from time to time to, execute and file such financing statements and other documents as Agent may require in order to give notice to other persons and entities of the terms and provisions of this Agreement. As long as this Agreement is in effect, Creditor will not take any action or initiate any proceedings, judicial or otherwise, to enforce Creditor’s rights or remedies with respect to any Junior Debt, including without limitation, any action to enforce remedies with respect to any collateral securing any Junior Debt or to obtain any judgment or prejudgment remedy against Borrower or any such collateral.

2. INDEBTEDNESS DEFINED. The word “Indebtedness” is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, including without limitation, obligations and liabilities arising from notes, repurchase agreements and trust receipts, and any and all interest and other amounts thereon which may accrue subsequent to Borrower becoming subject to any state or federal debtor-relief statute. Notwithstanding the foregoing or anything in this Subordination Agreement to the contrary, the definition of Junior Debt shall not include and this Subordination Agreement shall not apply to any salary, wages, bonuses, stock options, employee benefits, employment contract obligations, split dollar life insurance programs, board fees and other similar compensation paid or owing by Borrower to

Creditor in his capacity as an employee or director of Borrower and any reimbursements in the ordinary course related thereto.

3. RESTRICTION OF PAYMENT OF JUNIOR DEBT; DISPOSITION OF PAYMENTS RECEIVED BY CREDITOR. Borrower will not make, and Creditor will not accept or receive, any payment or benefit in cash, by setoff or otherwise, directly or indirectly, on account of principal, interest or any other amounts owing on any Junior Debt, except such payments as are expressly permitted herein. Borrower is permitted to make and Creditor to receive any payments of principal and interest on that certain Letter of Intent to Lend dated as of November 17, 2011 between Borrower and Creditor, in the principal amount of \$3,000,000 (as existing on the date hereof, the "Note"); provided however, that no payment of principal or interest on the Note shall be made by Borrower, or received by Creditor, after notice from Agent to Creditor that a Default (as such term is defined in the Senior Debt Documents), or any condition, event or act which with the giving of notice or the passage of time or both would constitute a Default, has occurred under the terms of any Senior Debt. If any payment is made in violation of this Agreement, Creditor shall promptly deliver the same to Agent in the form received, with any endorsement or assignment necessary for the transfer of such payment or amounts setoff from Creditor to Agent, to be either (in Agent's sole discretion) held as cash collateral securing the Senior Debt or applied in reduction of the Senior Debt in such order as Agent shall determine, and until so delivered, Creditor shall hold such payment in trust for and on behalf of, and as the property of, Agent.

4. DISPOSITION OF EVIDENCE OF INDEBTEDNESS. If there is any existing promissory note or other evidence of any of the Junior Debt, including the Note, or if any promissory note or other evidence of Indebtedness is executed at any time hereafter with respect thereto, then Borrower and Creditor will mark the same with a legend stating that it is subject to this Agreement, and if asked to do so, will deliver the same to Agent. Creditor shall not, without Agent's prior written consent, assign, transfer, hypothecate or otherwise dispose of any claim it now has or may at any time hereafter have against Borrower at any time that any Senior Debt remains outstanding and/or any Senior Party remains committed to extend any credit to Borrower.

5. AGREEMENT TO BE CONTINUING; APPLIES TO BORROWER'S EXISTING INDEBTEDNESS AND ANY INDEBTEDNESS HEREAFTER ARISING. This Agreement shall be a continuing agreement and shall apply to any and all Indebtedness of Borrower to any Senior Party or Creditor now existing or hereafter arising, including any Indebtedness arising under successive transactions, related or unrelated, and notwithstanding that from time to time all Indebtedness theretofore existing may have been paid in full.

6. TERMINATION BY CREDITOR. Creditor may, to the extent provided herein, terminate this Agreement by delivering written notice to Agent. Any such notice must be sent to Agent by registered U.S. mail, postage prepaid, addressed to its Ventura/Santa Barbara Commercial Banking Office at 601 E. Daily Drive, Suite 110, Camarillo, California 93010, or at such other address as Agent shall from time to time designate. If such notice is received by Agent, this Agreement shall terminate as of the date of receipt, except that the obligations of Creditor and the rights of Senior Parties hereunder shall continue with respect to all Senior Debt which existed at the time of Agent's receipt of such notice, or thereafter arose pursuant to any agreement to extend credit by which any Senior Party is bound at the time of its receipt of such notice, and any extensions, renewals or modifications of any such then existing or committed Senior Debt, including without limitation, modifications to the amount of principal or interest payable on any Senior Debt and the release of any security for or any guarantors of all or any portion of any Senior Debt.

7. REPRESENTATIONS AND WARRANTIES; INFORMATION. Borrower and Creditor represent and warrant to Senior Parties that: (a) no interest in the Junior Debt has been assigned or otherwise transferred to any person or entity; (b) payment of the Junior Debt has not been heretofore subordinated to any other creditor of Borrower; and (c) Creditor has the requisite power and authority to enter into and perform its obligations under this Agreement. Creditor further represents and warrants to Senior Parties that Creditor has established adequate, independent means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Creditor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Creditor's risks hereunder, and Creditor agrees that no Senior Party shall have any obligation to disclose to Creditor information or material about Borrower which is acquired by any Senior Party in any manner. Any Senior Party may, at such Senior Party's sole option and without obligation to do so, disclose to Creditor any information or material relating to Borrower which is acquired by such Senior Party by any means, and Borrower hereby agrees to and authorizes any such disclosure by such Senior Party.

8. TRANSFER OF ASSETS OR REORGANIZATION OF BORROWER. If any petition is filed or any proceeding is instituted by or against Borrower under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, or any other or similar law relating to bankruptcy, insolvency, reorganization or other relief for debtors, or generally affecting creditors' rights, or seeking the appointment of a receiver, trustee, custodian or liquidator of or for Borrower or any of its assets, any payment or distribution of any of Borrower's assets, whether in cash, securities or any other property, which would be payable or deliverable with respect to any Junior Debt, shall be paid or delivered to Agent until all Senior Debt is paid in full in cash or other immediately available funds. Creditor grants to Agent the right to enforce, collect and receive any such payment or distribution and to give releases or acquittances therefor, and Creditor authorizes Agent as its attorney-in-fact to vote and prove the Junior Debt in any of the above-described proceedings or in any meeting of creditors of Borrower relating thereto.

9. OTHER AGREEMENTS; NO THIRD PARTY BENEFICIARIES. Agent shall have no direct or indirect obligations to Creditor of any kind with respect to the manner or time in which Agent exercises (or refrains from exercising) any of its rights or remedies with respect to the Senior Debt, Borrower or any of Borrower's assets. Creditor understands that there may be various agreements among Senior Parties and Borrower evidencing and governing the Senior Debt, and Creditor acknowledges and agrees that such agreements are not intended to confer any benefits on Creditor. Creditor further acknowledges that Agent may administer the Senior Debt and any of Senior Parties' agreements with Borrower in any way Agent deems appropriate, without regard to Creditor or the Junior Debt. Creditor waives any right Creditor might otherwise have to require a marshalling of any security held by Agent for all or any part of the Senior Debt or to direct or affect the manner or timing with which Agent enforces any of its security. Nothing in this Agreement shall impair or adversely affect any right, privilege, power or remedy of Agent with respect to the Senior Debt, Borrower or any assets of Borrower, including without limitation, Agent's right to: (a) waive, release or subordinate any of Agent's security or rights; (b) waive or ignore any defaults by Borrower; and/or (c) restructure, renew, modify or supplement the Senior Debt, or any portion thereof, or any agreement with Borrower relating to any Senior Debt. All rights, privileges, powers and remedies of Agent may be exercised from time to time by Agent without notice to or consent of Creditor.

10. BREACH OF AGREEMENT BY BORROWER OR CREDITOR. In the event of any breach of this Agreement by Borrower or Creditor, then and at any time thereafter Agent shall have the right to declare immediately due and payable all or any portion of the Senior Debt

without presentment, demand, notice of nonperformance, protest, notice of protest or notice of dishonor, all of which are hereby expressly waived by Borrower and Creditor. No delay, failure or discontinuance of Agent in exercising any right, privilege, power or remedy hereunder shall be deemed a waiver of such right, privilege, power or remedy; nor shall any single or partial exercise of any such right, privilege, power or remedy preclude, waive or otherwise affect the further exercise thereof or the exercise of any other right, privilege, power or remedy. Any waiver, permit, consent or approval of any kind by Agent with respect to this Agreement must be in writing and shall be effective only to the extent set forth in such writing.

11. LIQUIDATED DAMAGES. Inasmuch as the actual damages which could result from a breach by Creditor of its duties under this Agreement are uncertain and would be impractical or extremely difficult to fix, Creditor shall pay to Agent, in the event of any such breach by Creditor, as liquidated and agreed damages, and not as a penalty, all sums received by Creditor in violation of this Agreement on account of the Junior Debt, which sums represent a reasonable endeavor to estimate a fair compensation for the foreseeable losses that might result from such a breach.

12. COSTS, EXPENSES AND ATTORNEYS' FEES. If any party hereto institutes any arbitration or judicial or administrative action or proceeding to enforce any provisions of this Agreement, or alleging any breach of any provision hereof or seeking damages or any remedy, the losing party or parties shall pay to the prevailing party or parties all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of such prevailing party's in-house counsel), expended or incurred by the prevailing party or parties in connection therewith, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Agent or any other person) relating to Borrower, Creditor or any other person or entity.

13. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties. This Agreement may be amended or modified only in writing signed by all parties hereto.

14. OBLIGATIONS JOINT AND SEVERAL; CONSTRUCTION. If this Agreement is executed by more than one Creditor, it shall bind them jointly and severally. All words used herein in the singular shall be deemed to have been used in the plural where the context so requires.

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(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract

or otherwise, in any way arising out of or relating to this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator’s discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The

institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed this Agreement or any other contract, instrument or document relating to any Indebtedness, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral: Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of May 21, 2012.

BORROWER:

SALEM COMMUNICATIONS CORPORATION

By: Name: /s/ EVAN D. MASYR
Title: SVP & CFO

AGENT:

WELLS FARGO BANK,NATIONAL ASSOCIATION

By: Name: /s/ PATRICK BISHOP
Title: VICE PRESIDENT

CREDITOR:

STUART W. EPPERSON

By: /s/ STUART W. EPPERSON
Name:
Title:

SUBORDINATION AGREEMENT

THIS AGREEMENT is entered into by and among SALEM COMMUNICATIONS CORPORATION (“Borrower”), ROLAND HINZ (“Creditor”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“Agent”), in its capacity as administrative agent for itself, the swing line lender, L/C issuer and each lender from time to time (collectively, the “Senior Parties”) under the Credit Agreement dated as of December 1, 2009, as amended from time to time (the “Senior Credit Agreement,” together with all of the Loan Documents as defined therein, the “Senior Debt Documents”), by and among the Borrower, the Agent and the other Senior Parties thereto.

RECITALS

A. Borrower is indebted to Creditor, and Borrower proposes to obtain credit or has obtained credit from Senior Parties; and

B. Senior Parties have indicated that they will extend or continue credit to Borrower if certain conditions are met, including without limitation, the requirement that Creditor execute this Agreement.

NOW, THEREFORE, as an inducement to Senior Parties to extend or continue credit and for other valuable consideration, the parties hereto agree as follows:

1. INDEBTEDNESS SUBORDINATED. Creditor subordinates all Indebtedness now or at any time hereafter owing from Borrower to Creditor (“Junior Debt”) to all Indebtedness now or at any time hereafter owing from Borrower to any of the Senior Parties (“Senior Debt”). Creditor irrevocably consents and directs that all Senior Debt shall be paid in full in cash or other immediately available funds prior to Borrower making any payment on any Junior Debt, except such payments as are expressly permitted by this Agreement. Creditor will, and Agent is authorized in the name of Creditor from time to time to, execute and file such financing statements and other documents as Agent may require in order to give notice to other persons and entities of the terms and provisions of this Agreement. As long as this Agreement is in effect, Creditor will not take any action or initiate any proceedings, judicial or otherwise, to enforce Creditor’s rights or remedies with respect to any Junior Debt, including without limitation, any action to enforce remedies with respect to any collateral securing any Junior Debt or to obtain any judgment or prejudgment remedy against Borrower or any such collateral.

2. INDEBTEDNESS DEFINED. The word “Indebtedness” is used herein in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of Borrower heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement, and whether Borrower may be liable individually or jointly with others, including without limitation, obligations and liabilities arising from notes, repurchase agreements and trust receipts, and any and all interest and other amounts thereon which may accrue subsequent to Borrower becoming subject to any state or federal debtor-relief statute. Notwithstanding the foregoing or anything in this Subordination Agreement to the contrary, the definition of Junior Debt shall not include and this Subordination Agreement shall not apply to any salary, wages, bonuses, stock options, employee benefits, employment contract obligations, split dollar life insurance programs, board fees and other similar compensation paid or owing by Borrower to

Creditor in his capacity as an employee or director of Borrower and any reimbursements in the ordinary course related thereto.

3. RESTRICTION OF PAYMENT OF JUNIOR DEBT; DISPOSITION OF PAYMENTS RECEIVED BY CREDITOR. Borrower will not make, and Creditor will not accept or receive, any payment or benefit in cash, by setoff or otherwise, directly or indirectly, on account of principal, interest or any other amounts owing on any Junior Debt, except such payments as are expressly permitted herein. Borrower is permitted to make and Creditor to receive any payments of principal and interest on that certain Letter of Intent to Lend dated as of May 21, 2012 between Borrower and Creditor, in the principal amount of \$6,000,000 (as existing on the date hereof, the "Note"); provided however, that no payment of principal or interest on the Note shall be made by Borrower, or received by Creditor, after notice from Agent to Creditor that a Default (as such term is defined in the Senior Debt Documents), or any condition, event or act which with the giving of notice or the passage of time or both would constitute a Default, has occurred under the terms of any Senior Debt. If any payment is made in violation of this Agreement, Creditor shall promptly deliver the same to Agent in the form received, with any endorsement or assignment necessary for the transfer of such payment or amounts setoff from Creditor to Agent, to be either (in Agent's sole discretion) held as cash collateral securing the Senior Debt or applied in reduction of the Senior Debt in such order as Agent shall determine, and until so delivered, Creditor shall hold such payment in trust for and on behalf of, and as the property of, Agent.

4. DISPOSITION OF EVIDENCE OF INDEBTEDNESS. If there is any existing promissory note or other evidence of any of the Junior Debt, including the Note, or if any promissory note or other evidence of Indebtedness is executed at any time hereafter with respect thereto, then Borrower and Creditor will mark the same with a legend stating that it is subject to this Agreement, and if asked to do so, will deliver the same to Agent. Creditor shall not, without Agent's prior written consent, assign, transfer, hypothecate or otherwise dispose of any claim it now has or may at any time hereafter have against Borrower at any time that any Senior Debt remains outstanding and/or any Senior Party remains committed to extend any credit to Borrower.

5. AGREEMENT TO BE CONTINUING; APPLIES TO BORROWER'S EXISTING INDEBTEDNESS AND ANY INDEBTEDNESS HEREAFTER ARISING. This Agreement shall be a continuing agreement and shall apply to any and all Indebtedness of Borrower to any Senior Party or Creditor now existing or hereafter arising, including any Indebtedness arising under successive transactions, related or unrelated, and notwithstanding that from time to time all Indebtedness theretofore existing may have been paid in full.

6. TERMINATION BY CREDITOR. Creditor may, to the extent provided herein, terminate this Agreement by delivering written notice to Agent. Any such notice must be sent to Agent by registered U.S. mail, postage prepaid, addressed to its Ventura/Santa Barbara Commercial Banking Office at 601 E. Daily Drive, Suite 110, Camarillo, California 93010, or at such other address as Agent shall from time to time designate. If such notice is received by Agent, this Agreement shall terminate as of the date of receipt, except that the obligations of Creditor and the rights of Senior Parties hereunder shall continue with respect to all Senior Debt which existed at the time of Agent's receipt of such notice, or thereafter arose pursuant to any agreement to extend credit by which any Senior Party is bound at the time of its receipt of such notice, and any extensions, renewals or modifications of any such then existing or committed Senior Debt, including without limitation, modifications to the amount of principal or interest payable on any Senior Debt and the release of any security for or any guarantors of all or any portion of any Senior Debt.

7. REPRESENTATIONS AND WARRANTIES; INFORMATION. Borrower and Creditor represent and warrant to Senior Parties that: (a) no interest in the Junior Debt has been assigned or otherwise transferred to any person or entity; (b) payment of the Junior Debt has not been heretofore subordinated to any other creditor of Borrower; and (c) Creditor has the requisite power and authority to enter into and perform its obligations under this Agreement. Creditor further represents and warrants to Senior Parties that Creditor has established adequate, independent means of obtaining from Borrower on a continuing basis financial and other information pertaining to Borrower's financial condition. Creditor agrees to keep adequately informed from such means of any facts, events or circumstances which might in any way affect Creditor's risks hereunder, and Creditor agrees that no Senior Party shall have any obligation to disclose to Creditor information or material about Borrower which is acquired by any Senior Party in any manner. Any Senior Party may, at such Senior Party's sole option and without obligation to do so, disclose to Creditor any information or material relating to Borrower which is acquired by such Senior Party by any means, and Borrower hereby agrees to and authorizes any such disclosure by such Senior Party.

8. TRANSFER OF ASSETS OR REORGANIZATION OF BORROWER. If any petition is filed or any proceeding is instituted by or against Borrower under any provisions of the Bankruptcy Reform Act, Title 11 of the United States Code, or any other or similar law relating to bankruptcy, insolvency, reorganization or other relief for debtors, or generally affecting creditors' rights, or seeking the appointment of a receiver, trustee, custodian or liquidator of or for Borrower or any of its assets, any payment or distribution of any of Borrower's assets, whether in cash, securities or any other property, which would be payable or deliverable with respect to any Junior Debt, shall be paid or delivered to Agent until all Senior Debt is paid in full in cash or other immediately available funds. Creditor grants to Agent the right to enforce, collect and receive any such payment or distribution and to give releases or acquittances therefor, and Creditor authorizes Agent as its attorney-in-fact to vote and prove the Junior Debt in any of the above-described proceedings or in any meeting of creditors of Borrower relating thereto.

9. OTHER AGREEMENTS; NO THIRD PARTY BENEFICIARIES. Agent shall have no direct or indirect obligations to Creditor of any kind with respect to the manner or time in which Agent exercises (or refrains from exercising) any of its rights or remedies with respect to the Senior Debt, Borrower or any of Borrower's assets. Creditor understands that there may be various agreements among Senior Parties and Borrower evidencing and governing the Senior Debt, and Creditor acknowledges and agrees that such agreements are not intended to confer any benefits on Creditor. Creditor further acknowledges that Agent may administer the Senior Debt and any of Senior Parties' agreements with Borrower in any way Agent deems appropriate, without regard to Creditor or the Junior Debt. Creditor waives any right Creditor might otherwise have to require a marshalling of any security held by Agent for all or any part of the Senior Debt or to direct or affect the manner or timing with which Agent enforces any of its security. Nothing in this Agreement shall impair or adversely affect any right, privilege, power or remedy of Agent with respect to the Senior Debt, Borrower or any assets of Borrower, including without limitation, Agent's right to: (a) waive, release or subordinate any of Agent's security or rights; (b) waive or ignore any defaults by Borrower; and/or (c) restructure, renew, modify or supplement the Senior Debt, or any portion thereof, or any agreement with Borrower relating to any Senior Debt. All rights, privileges, powers and remedies of Agent may be exercised from time to time by Agent without notice to or consent of Creditor.

10. BREACH OF AGREEMENT BY BORROWER OR CREDITOR. In the event of any breach of this Agreement by Borrower or Creditor, then and at any time thereafter Agent shall have the right to declare immediately due and payable all or any portion of the Senior Debt

without presentment, demand, notice of nonperformance, protest, notice of protest or notice of dishonor, all of which are hereby expressly waived by Borrower and Creditor. No delay, failure or discontinuance of Agent in exercising any right, privilege, power or remedy hereunder shall be deemed a waiver of such right, privilege, power or remedy; nor shall any single or partial exercise of any such right, privilege, power or remedy preclude, waive or otherwise affect the further exercise thereof or the exercise of any other right, privilege, power or remedy. Any waiver, permit, consent or approval of any kind by Agent with respect to this Agreement must be in writing and shall be effective only to the extent set forth in such writing.

11. LIQUIDATED DAMAGES. Inasmuch as the actual damages which could result from a breach by Creditor of its duties under this Agreement are uncertain and would be impractical or extremely difficult to fix, Creditor shall pay to Agent, in the event of any such breach by Creditor, as liquidated and agreed damages, and not as a penalty, all sums received by Creditor in violation of this Agreement on account of the Junior Debt, which sums represent a reasonable endeavor to estimate a fair compensation for the foreseeable losses that might result from such a breach.

12. COSTS, EXPENSES AND ATTORNEYS' FEES. If any party hereto institutes any arbitration or judicial or administrative action or proceeding to enforce any provisions of this Agreement, or alleging any breach of any provision hereof or seeking damages or any remedy, the losing party or parties shall pay to the prevailing party or parties all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of such prevailing party's in-house counsel), expended or incurred by the prevailing party or parties in connection therewith, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Agent or any other person) relating to Borrower, Creditor or any other person or entity.

13. SUCCESSORS; ASSIGNS; AMENDMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties. This Agreement may be amended or modified only in writing signed by all parties hereto.

14. OBLIGATIONS JOINT AND SEVERAL; CONSTRUCTION. If this Agreement is executed by more than one Creditor, it shall bind them jointly and severally. All words used herein in the singular shall be deemed to have been used in the plural where the context so requires.

15. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such waiver or other provision or any remaining provisions of this Agreement.

16. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

17. ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract

or otherwise, in any way arising out of or relating to this Agreement and its negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the “Rules”). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator’s discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The

institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed this Agreement or any other contract, instrument or document relating to any Indebtedness, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral: Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of May 21, 2012.

BORROWER:

SALEM COMMUNICATIONS CORPORATION

By: /s/ EVAN D. MASYR
Title: SVP & CFO

AGENT:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ PATRICK BISHOP
Title: VICE PRESIDENT

CREDITOR:

ROLAND HINZ

By: /s/ ROLAND HINZ
Name:
Title:

COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll 51 / 00	Account	Officer GLASS	Initials
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References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Salem Communications Corporation
4880 Santa Rosa Road #300
Camarillo, CA 93012

Lender: First California Bank
Oxnard Branch
300 Esplanade Drive, Suite 102
Oxnard, CA 93036

Guarantor: Atsinger Family Trust
4880 Santa Rosa Road, #300
Camarillo, CA 93012

GUARANTEE OF PAYMENT AND PERFORMANCE. For good and valuable consideration, Guarantor absolutely and unconditionally guarantees full and punctual payment and satisfaction of Guarantor's Share of the Indebtedness of Borrower to Lender, and the performance and discharge of all Borrower's obligations under the Note and the Related Documents. This is a guaranty of payment and performance and not of collection, so Lender can enforce this Guaranty against Guarantor even when Lender has not exhausted Lender's remedies against anyone else obligated to pay the Indebtedness or against any collateral securing the Indebtedness, this Guaranty or any other guaranty of the Indebtedness. Guarantor will make any payments to Lender or its order, on demand, in legal tender of the United States of America, in same-day funds, without set-off or deduction or counterclaim, and will otherwise perform Borrower's obligations under the Note and Related Documents.

INDEBTEDNESS. The word "Indebtedness" as used in this Guaranty means all of the principal amount outstanding from time to time and at any one or more times, accrued unpaid interest thereon and all collection costs and legal expenses related thereto permitted by law, attorneys' fees, arising from any and all debts, liabilities and obligations that Borrower individually or collectively or interchangeably with others, owes or will owe Lender under the Note and Related Documents and any renewals, extensions, modifications, refinancings, consolidations and substitutions of the Note and Related Documents.

If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender's rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor's liability will be Guarantor's aggregate liability under the terms of this Guaranty and any such other unexpired guaranties.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" as used in this Guaranty mean an amount not to exceed Ten Million & 00/100 Dollars (\$10,000,000.00) of the principal amount of the Indebtedness that is outstanding from time to time and at any one or more times. "Guarantor's Share of the Indebtedness" also includes all accrued unpaid interest on the Indebtedness and all collection costs, expenses and attorneys' fees whether or not there is a lawsuit, and if there is a lawsuit, any fees and costs for trial and appeals paid or incurred by Lender for the collection of the Indebtedness, the realization on any collateral securing the Indebtedness or any guaranty of the Indebtedness (including this Guaranty), or the enforcement of this Guaranty.

Guarantor's Share of the Indebtedness will only be reduced by sums actually paid by Guarantor under this Guaranty, but will not be reduced by sums from any other source including, but not limited to, sums realized from any collateral securing the Indebtedness or this Guaranty, or payments by anyone other than Guarantor, or reductions by operation of law, judicial order or equitable principles. Lender has the sole and absolute discretion to determine how sums shall be applied among guaranties of the Indebtedness.

The above limitation on liability is not a restriction on the amount of the Note of Borrower to Lender either in the aggregate or at any one time.

DURATION OF GUARANTY. This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all the Indebtedness shall have been fully and finally paid and satisfied and all of Guarantor's other obligations under this Guaranty shall have been performed in full. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty.

GUARANTOR'S AUTHORIZATION TO LENDER. Guarantor authorizes Lender, **without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time:** (A) to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (F) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

GUARANTOR'S REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower's request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease,

assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition as of the dates the financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

GUARANTOR'S WAIVERS. Except as prohibited by applicable law, Guarantor waives any right to require Lender to (A) make any presentment, protest, demand, or notice of any kind, including notice of change of any terms of repayment of the Indebtedness, default by Borrower or any other guarantor or surety, any action or nonaction taken by Borrower, Lender, or any other guarantor or surety of Borrower, or the creation of new or additional Indebtedness; (B) proceed against any person, including Borrower, before proceeding against Guarantor; (C) proceed against any collateral for the Indebtedness, including Borrower's collateral, before proceeding against Guarantor; (D) apply any payments or proceeds received against the Indebtedness in any order; (E) give notice of the terms, time, and place of any sale of the collateral pursuant to the Uniform Commercial Code or any other law governing such sale; (F) disclose any information about the Indebtedness, the Borrower, the collateral, or any other guarantor or surety, or about any action or nonaction of Lender; or (G) pursue any remedy or course of action in Lender's power whatsoever.

Guarantor also waives any and all rights or defenses arising by reason of (H) any disability or other defense of Borrower, any other guarantor or surety or any other person; (I) the cessation from any cause whatsoever, other than payment in full, of the Indebtedness; (J) the application of proceeds of the Indebtedness by Borrower for purposes other than the purposes understood and intended by Guarantor and Lender; (K) any act of omission or commission by Lender which directly or indirectly results in or contributes to the discharge of Borrower or any other guarantor or surety, or the Indebtedness, or the loss or release of any collateral by operation of law or otherwise; (L) any statute of limitations in any action under this Guaranty or on the Indebtedness; or (M) any modification or change in terms of the Indebtedness, whatsoever, including without limitation, the renewal, extension, acceleration, or other change in the time payment of the Indebtedness is due and any change in the interest rate.

Guarantor waives all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of California Civil Code Sections 2787 to 2855, inclusive.

Guarantor waives all rights and any defenses arising out of an election of remedies by Lender even though that the election of remedies, such as a non-judicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against Borrower by operation of Section 580d of the California Code of Civil Procedure or otherwise.

Guarantor waives all rights and defenses that Guarantor may have because Borrower's obligation is secured by real property. This means among other things: (N) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower. (O) If Lender forecloses on any real property collateral pledged by Borrower: (1) the amount of Borrower's obligation may be reduced only by the price for which the collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price. (2) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's obligation is secured by real property. These rights and defenses include, but are not limited to, any rights and defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.

Guarantor understands and agrees that the foregoing waivers are unconditional and irrevocable waivers of substantive rights and defenses to which Guarantor might otherwise be entitled under state and federal law. The rights and defenses waived include, without limitation, those provided by California laws of suretyship and guaranty, anti-deficiency laws, and the Uniform Commercial Code. Guarantor acknowledges that Guarantor has provided these waivers of rights and defenses with the intention that they be fully relied upon by Lender. Guarantor further understands and agrees that this Guaranty is a separate and independent contract between Guarantor and Lender, given for full and ample consideration, and is enforceable on its own terms. Until all of the Indebtedness is paid in full, Guarantor waives any right to enforce any remedy Guarantor may have against the Borrower or any other guarantor, surety, or other person, and further, Guarantor waives any right to participate in any collateral for the Indebtedness now or hereafter held by Lender.

Guarantor's Understanding With Respect To Waivers. Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

Subordination of Borrower's Debts to Guarantor. Guarantor agrees that the Indebtedness, whether now existing or hereafter created, shall be superior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness. Guarantor does hereby assign to Lender all claims which it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to file financing statements and continuation statements and to execute documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

Miscellaneous Provisions. The following miscellaneous provisions are a part of this Guaranty:

AMENDMENTS. This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration of or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

CAPTION HEADINGS. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

GOVERNING LAW. This Guaranty will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions.

INTEGRATION. Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

NOTICES. Any notice required to be given under this Guaranty shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

NO WAIVER BY LENDER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

SUCCESSORS AND ASSIGNS. Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

CALIFORNIA VEHICLE CODE ACKNOWLEDGMENT. Guarantor (if an individual) agrees to waive their rights under the California Vehicle Code Sections 1808.21, 1808.22 or 1808.23, regarding the disclosure of Guarantors residential address.

VENUE AND JURISDICTION. The party(ies) and/or undersigned to this Agreement and Lender agree that all actions or proceedings arising in connection with this Agreement and the other agreements, instruments and documents executed and/or delivered by the party(ies)/undersigned and Lender in connection herewith shall be tried and litigated only in the State and Federal courts located in the county of Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and San Luis Obispo, State of California, as Lender may elect, provided, however, that any suit seeking enforcement against any collateral or other property may be brought, at Lender's option, in the courts of any jurisdiction where Lender elects to bring such action or where such collateral or other property may be found. The party(ies)/undersigned to this Agreement and Lender waive, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this paragraph. The undersigned consents to the full personal jurisdiction of any state or federal court in California.

FACSIMILE AND COUNTERPART. This Agreement may be executed in two or more counterparts, which, taken together, shall constitute the whole of the agreement as between the parties. Each executed counterpart may be delivered in the form of a photocopy, facsimile, or scanned document, each of which shall have the same legal force and effect as delivery of an original.

Definitions. The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall

**COMMERCIAL GUARANTY
(Continued)**

Loan No: 20974

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include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

BORROWER. The word "Borrower" means Salem Communications Corporation and includes all co-signers and co-makers signing the Note and all their successors and assigns.

GUARANTOR. The word "Guarantor" means everyone signing this Guaranty, including without limitation Atsinger Family Trust, and in each case, any signer's successors and assigns.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" mean Guarantor's indebtedness to Lender as more particularly described in this Guaranty.

GUARANTY. The word "Guaranty" means this guaranty from Guarantor to Lender.

INDEBTEDNESS. The word "Indebtedness" means Borrower's indebtedness to Lender as more particularly described in this Guaranty.

LENDER. The word "Lender" means First California Bank, its successors and assigns.

NOTE. The word "Note" means the promissory note dated May 21, 2012, in the original principal amount of \$10,000,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the promissory note or agreement.

RELATED DOCUMENTS. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED MAY 21, 2012.

GUARANTOR:

ATSINGER FAMILY TRUST

By: /s/ EDWARD G. ATSINGER III, TRUSTEE

Edward G. Atsinger III, Trustee of Atsinger
Family Trust

COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll 51 / 00	Account	Officer GLASS	Initials
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References in the boxes above are for Lender’s use only and do not limit the applicability of this document to any particular loan or item. Any item above containing “****” has been omitted due to text length limitations.

Borrower: Salem Communications Corporation
4880 Santa Rosa Road #300
Camarillo, CA 93012

Lender: First California Bank
Oxnard Branch
300 Esplanade Drive, Suite 102
Oxnard, CA 93036

Guarantor: Edward G. Atsinger III
4880 Santa Rosa Road, #300
Camarillo, CA 93012

GUARANTEE OF PAYMENT AND PERFORMANCE. For good and valuable consideration, Guarantor absolutely and unconditionally guarantees full and punctual payment and satisfaction of Guarantor’s Share of the Indebtedness of Borrower to Lender, and the performance and discharge of all Borrower’s obligations under the Note and the Related Documents. This is a guaranty of payment and performance and not of collection, so Lender can enforce this Guaranty against Guarantor even when Lender has not exhausted Lender’s remedies against anyone else obligated to pay the Indebtedness or against any collateral securing the Indebtedness, this Guaranty or any other guaranty of the Indebtedness. Guarantor will make any payments to Lender or its order, on demand, in legal tender of the United States of America, in same-day funds, without set-off or deduction or counterclaim, and will otherwise perform Borrower’s obligations under the Note and Related Documents.

INDEBTEDNESS. The word “Indebtedness” as used in this Guaranty means all of the principal amount outstanding from time to time and at any one or more times, accrued unpaid interest thereon and all collection costs and legal expenses related thereto permitted by law, attorneys’ fees, arising from any and all debts, liabilities and obligations that Borrower individually or collectively or interchangeably with others, owes or will owe Lender under the Note and Related Documents and any renewals, extensions, modifications, refinancings, consolidations and substitutions of the Note and Related Documents.

If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender’s rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor’s liability will be Guarantor’s aggregate liability under the terms of this Guaranty and any such other unexpired guaranties.

GUARANTOR’S SHARE OF THE INDEBTEDNESS. The words “Guarantor’s Share of the Indebtedness” as used in this Guaranty mean an amount not to exceed Ten Million & 00/100 Dollars (\$10,000,000.00) of the principal amount of the Indebtedness that is outstanding from time to time and at any one or more times. “Guarantor’s Share of the Indebtedness” also includes all accrued unpaid interest on the Indebtedness and all collection costs, expenses and attorneys’ fees whether or not there is a lawsuit, and if there is a lawsuit, any fees and costs for trial and appeals paid or incurred by Lender for the collection of the Indebtedness, the realization on any collateral securing the Indebtedness or any guaranty of the Indebtedness (including this Guaranty), or the enforcement of this Guaranty.

Guarantor’s Share of the Indebtedness will only be reduced by sums actually paid by Guarantor under this Guaranty, but will not be reduced by sums from any other source including, but not limited to, sums realized from any collateral securing the Indebtedness or this Guaranty, or payments by anyone other than Guarantor, or reductions by operation of law, judicial order or equitable principles. Lender has the sole and absolute discretion to determine how sums shall be applied among guaranties of the Indebtedness.

The above limitation on liability is not a restriction on the amount of the Note of Borrower to Lender either in the aggregate or at any one time.

DURATION OF GUARANTY. This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all the Indebtedness shall have been fully and finally paid and satisfied and all of Guarantor’s other obligations under this Guaranty shall have been performed in full. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty.

OBLIGATIONS OF MARRIED PERSONS. Any married person who signs this Guaranty hereby expressly agrees that recourse under this Guaranty may be had against both his or her separate property and community property.

GUARANTOR’S AUTHORIZATION TO LENDER. Guarantor authorizes Lender, **without notice or demand and without lessening Guarantor’s liability under this Guaranty, from time to time:** (A) to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower’s sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (F) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

GUARANTOR’S REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower’s request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this

Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition as of the dates the financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

GUARANTOR'S FINANCIAL STATEMENTS. Guarantor agrees to furnish Lender with the following:

Additional Requirements. Guarantor shall deliver to Lender (A) as soon as available, but in no event later than March 31st of each year, copies of Guarantor's annual financial statements, prepared by Guarantor, including a balance sheet for the year ended, which shall present fairly and thoroughly the financial condition of Guarantor for such period; and (B) as soon as available, but in no event later than thirty (30) days after the applicable filing date for the tax reporting period ended, copies of Guarantor's federal tax returns, prepared by certified public accountants acceptable to Lender, including Schedule K-1s (if applicable); and (C) as soon as available, but in no event later than thirty (30) days after the end of each semi-annual period, copies of Guarantor's statements from depository institutions or brokerage firms, or other evidence acceptable to Lender of Guarantor's liquid assets.

Liquid Assets. Together all Guarantors to the Note and Related Documents shall maintain combined Liquid Assets (defined as the following property which must all be held by Guarantors outside of retirement accounts: cash and equivalents, money market instruments at an SIPC insured institution or bank, savings accounts or checking accounts, readily marketable securities such as stocks traded on the NYSE, AMEX or NASDAQ, (exclusive of any Salem Communications Corporation stock), bonds rated AAA or better by Standard & Poors [listed on national exchanges], U.S. Treasury instruments and cash surrender value of life insurance) net of any margin debt in the aggregate amount of not less than \$2,500,000.00. Compliance with the foregoing covenant shall be determined semi-annually.

All financial reports required to be provided under this Guaranty shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Guarantor as being true and correct.

GUARANTOR'S WAIVERS. Except as prohibited by applicable law, Guarantor waives any right to require Lender to (A) make any presentment, protest, demand, or notice of any kind, including notice of change of any terms of repayment of the Indebtedness, default by Borrower or any other guarantor or surety, any action or nonaction taken by Borrower, Lender, or any other guarantor or surety of Borrower, or the creation of new or additional Indebtedness; (B) proceed against any person, including Borrower, before proceeding against Guarantor; (C) proceed against any collateral for the Indebtedness, including Borrower's collateral, before proceeding against Guarantor; (D) apply any payments or proceeds received against the Indebtedness in any order; (E) give notice of the terms, time, and place of any sale of the collateral pursuant to the Uniform Commercial Code or any other law governing such sale; (F) disclose any information about the Indebtedness, the Borrower, the collateral, or any other guarantor or surety, or about any action or nonaction of Lender; or (G) pursue any remedy or course of action in Lender's power whatsoever.

Guarantor also waives any and all rights or defenses arising by reason of (H) any disability or other defense of Borrower, any other guarantor or surety or any other person; (I) the cessation from any cause whatsoever, other than payment in full, of the Indebtedness; (J) the application of proceeds of the Indebtedness by Borrower for purposes other than the purposes understood and intended by Guarantor and Lender; (K) any act of omission or commission by Lender which directly or indirectly results in or contributes to the discharge of Borrower or any other guarantor or surety, or the Indebtedness, or the loss or release of any collateral by operation of law or otherwise; (L) any statute of limitations in any action under this Guaranty or on the Indebtedness; or (M) any modification or change in terms of the Indebtedness, whatsoever, including without limitation, the renewal, extension, acceleration, or other change in the time payment of the Indebtedness is due and any change in the interest rate.

Guarantor waives all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of California Civil Code Sections 2787 to 2855, inclusive.

Guarantor waives all rights and any defenses arising out of an election of remedies by Lender even though that the election of remedies, such as a non-judicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against Borrower by operation of Section 580d of the California Code of Civil Procedure or otherwise.

Guarantor waives all rights and defenses that Guarantor may have because Borrower's obligation is secured by real property. This means among other things: (N) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower. (O) If Lender forecloses on any real property collateral pledged by Borrower: (1) the amount of Borrower's obligation may be reduced only by the price for which the collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price. (2) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's obligation is secured by real property. These rights and defenses include, but are not limited to, any rights and defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.

Guarantor understands and agrees that the foregoing waivers are unconditional and irrevocable waivers of substantive rights and defenses to which Guarantor might otherwise be entitled under state and federal law. The rights and defenses waived include, without limitation, those provided by California laws of suretyship and guaranty, anti-deficiency laws, and the Uniform Commercial Code. Guarantor acknowledges that Guarantor has provided these waivers of rights and defenses with the intention that they be fully relied upon by Lender. Guarantor further understands and agrees that this Guaranty is a separate and independent contract between Guarantor and Lender, given for full and ample consideration, and is enforceable on its own terms. Until all of

the Indebtedness is paid in full, Guarantor waives any right to enforce any remedy Guarantor may have against the Borrower or any other guarantor, surety, or other person, and further, Guarantor waives any right to participate in any collateral for the Indebtedness now or hereafter held by Lender.

Guarantor's Understanding With Respect To Waivers. Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

Subordination of Borrower's Debts to Guarantor. Guarantor agrees that the Indebtedness, whether now existing or hereafter created, shall be superior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness. Guarantor does hereby assign to Lender all claims which it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to file financing statements and continuation statements and to execute documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

Miscellaneous Provisions. The following miscellaneous provisions are a part of this Guaranty:

AMENDMENTS. This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration of or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

CAPTION HEADINGS. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

GOVERNING LAW. This Guaranty will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions.

INTEGRATION. Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

NOTICES. Any notice required to be given under this Guaranty shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

NO WAIVER BY LENDER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**COMMERCIAL GUARANTY
(Continued)**

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SUCCESSORS AND ASSIGNS. Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

CALIFORNIA VEHICLE CODE ACKNOWLEDGMENT. Guarantor (if an individual) agrees to waive their rights under the California Vehicle Code Sections 1808.21, 1808.22 or 1808.23, regarding the disclosure of Guarantors residential address.

VENUE AND JURISDICTION. The party(ies) and/or undersigned to this Agreement and Lender agree that all actions or proceedings arising in connection with this Agreement and the other agreements, instruments and documents executed and/or delivered by the party(ies)/undersigned and Lender in connection herewith shall be tried and litigated only in the State and Federal courts located in the county of Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and San Luis Obispo, State of California, as Lender may elect, provided, however, that any suit seeking enforcement against any collateral or other property may be brought, at Lender's option, in the courts of any jurisdiction where Lender elects to bring such action or where such collateral or other property may be found. The party(ies)/undersigned to this Agreement and Lender waive, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this paragraph. The undersigned consents to the full personal jurisdiction of any state or federal court in California.

FACSIMILE AND COUNTERPART. This Agreement may be executed in two or more counterparts, which, taken together, shall constitute the whole of the agreement as between the parties. Each executed counterpart may be delivered in the form of a photocopy, facsimile, or scanned document, each of which shall have the same legal force and effect as delivery of an original.

Definitions. The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

BORROWER. The word "Borrower" means Salem Communications Corporation and includes all co-signers and co-makers signing the Note and all their successors and assigns.

GAAP. The word "GAAP" means generally accepted accounting principles.

GUARANTOR. The word "Guarantor" means everyone signing this Guaranty, including without limitation Edward G. Atsinger III, and in each case, any signer's successors and assigns.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" mean Guarantor's indebtedness to Lender as more particularly described in this Guaranty.

GUARANTY. The word "Guaranty" means this guaranty from Guarantor to Lender.

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NOTE. The word "Note" means the promissory note dated May 21, 2012, in the original principal amount of \$10,000,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the promissory note or agreement.

RELATED DOCUMENTS. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED MAY 21, 2012.

GUARANTOR:

X /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll 51 / 00	Account	Officer GLASS	Initials
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References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Salem Communications Corporation
4880 Santa Rosa Road #300
Camarillo, CA 93012

Lender: First California Bank
Oxnard Branch
300 Esplanade Drive, Suite 102
Oxnard, CA 93036

Guarantor: The Stuart W. Epperson Revocable Living Trust under
agreement dated January 14, 1993, as amended
1407 Ponte Vedra Boulevard
Ponte Vedra Beach, FL 32082

GUARANTEE OF PAYMENT AND PERFORMANCE. For good and valuable consideration, Guarantor absolutely and unconditionally guarantees full and punctual payment and satisfaction of Guarantor's Share of the Indebtedness of Borrower to Lender, and the performance and discharge of all Borrower's obligations under the Note and the Related Documents. This is a guaranty of payment and performance and not of collection, so Lender can enforce this Guaranty against Guarantor even when Lender has not exhausted Lender's remedies against anyone else obligated to pay the Indebtedness or against any collateral securing the Indebtedness, this Guaranty or any other guaranty of the Indebtedness. Guarantor will make any payments to Lender or its order, on demand, in legal tender of the United States of America, in same-day funds, without set-off or deduction or counterclaim, and will otherwise perform Borrower's obligations under the Note and Related Documents.

INDEBTEDNESS. The word "Indebtedness" as used in this Guaranty means all of the principal amount outstanding from time to time and at any one or more times, accrued unpaid interest thereon and all collection costs and legal expenses related thereto permitted by law, attorneys' fees, arising from any and all debts, liabilities and obligations that Borrower individually or collectively or interchangeably with others, owes or will owe Lender under the Note and Related Documents and any renewals, extensions, modifications, refinancings, consolidations and substitutions of the Note and Related Documents.

If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender's rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor's liability will be Guarantor's aggregate liability under the terms of this Guaranty and any such other unexpired guaranties.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" as used in this Guaranty mean an amount not to exceed Ten Million & 00/100 Dollars (\$10,000,000.00) of the principal amount of the Indebtedness that is outstanding from time to time and at any one or more times. "Guarantor's Share of the Indebtedness" also includes all accrued unpaid interest on the Indebtedness and all collection costs, expenses and attorneys' fees whether or not there is a lawsuit, and if there is a lawsuit, any fees and costs for trial and appeals paid or incurred by Lender for the collection of the Indebtedness, the realization on any collateral securing the Indebtedness or any guaranty of the Indebtedness (including this Guaranty), or the enforcement of this Guaranty.

Guarantor's Share of the Indebtedness will only be reduced by sums actually paid by Guarantor under this Guaranty, but will not be reduced by sums from any other source including, but not limited to, sums realized from any collateral securing the Indebtedness or this Guaranty, or payments by anyone other than Guarantor, or reductions by operation of law, judicial order or equitable principles. Lender has the sole and absolute discretion to determine how sums shall be applied among guaranties of the Indebtedness.

The above limitation on liability is not a restriction on the amount of the Note of Borrower to Lender either in the aggregate or at any one time.

DURATION OF GUARANTY. This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all the Indebtedness shall have been fully and finally paid and satisfied and all of Guarantor's other obligations under this Guaranty shall have been performed in full. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty.

GUARANTOR'S AUTHORIZATION TO LENDER. Guarantor authorizes Lender, **without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time:** (A) to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (F) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

GUARANTOR'S REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower's request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this

Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition as of the dates the financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

GUARANTOR'S WAIVERS. Except as prohibited by applicable law, Guarantor waives any right to require Lender to (A) make any presentment, protest, demand, or notice of any kind, including notice of change of any terms of repayment of the Indebtedness, default by Borrower or any other guarantor or surety, any action or nonaction taken by Borrower, Lender, or any other guarantor or surety of Borrower, or the creation of new or additional Indebtedness; (B) proceed against any person, including Borrower, before proceeding against Guarantor; (C) proceed against any collateral for the Indebtedness, including Borrower's collateral, before proceeding against Guarantor; (D) apply any payments or proceeds received against the Indebtedness in any order; (E) give notice of the terms, time, and place of any sale of the collateral pursuant to the Uniform Commercial Code or any other law governing such sale; (F) disclose any information about the Indebtedness, the Borrower, the collateral, or any other guarantor or surety, or about any action or nonaction of Lender; or (G) pursue any remedy or course of action in Lender's power whatsoever.

Guarantor also waives any and all rights or defenses arising by reason of (H) any disability or other defense of Borrower, any other guarantor or surety or any other person; (I) the cessation from any cause whatsoever, other than payment in full, of the Indebtedness; (J) the application of proceeds of the Indebtedness by Borrower for purposes other than the purposes understood and intended by Guarantor and Lender; (K) any act of omission or commission by Lender which directly or indirectly results in or contributes to the discharge of Borrower or any other guarantor or surety, or the Indebtedness, or the loss or release of any collateral by operation of law or otherwise; (L) any statute of limitations in any action under this Guaranty or on the Indebtedness; or (M) any modification or change in terms of the Indebtedness, whatsoever, including without limitation, the renewal, extension, acceleration, or other change in the time payment of the Indebtedness is due and any change in the interest rate.

Guarantor waives all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of California Civil Code Sections 2787 to 2855, inclusive.

Guarantor waives all rights and any defenses arising out of an election of remedies by Lender even though that the election of remedies, such as a non-judicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against Borrower by operation of Section 580d of the California Code of Civil Procedure or otherwise.

Guarantor waives all rights and defenses that Guarantor may have because Borrower's obligation is secured by real property. This means among other things: (N) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower. (O) If Lender forecloses on any real property collateral pledged by Borrower: (1) the amount of Borrower's obligation may be reduced only by the price for which the collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price. (2) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's obligation is secured by real property. These rights and defenses include, but are not limited to, any rights and defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.

Guarantor understands and agrees that the foregoing waivers are unconditional and irrevocable waivers of substantive rights and defenses to which Guarantor might otherwise be entitled under state and federal law. The rights and defenses waived include, without limitation, those provided by California laws of suretyship and guaranty, anti-deficiency laws, and the Uniform Commercial Code. Guarantor acknowledges that Guarantor has provided these waivers of rights and defenses with the intention that they be fully relied upon by Lender. Guarantor further understands and agrees that this Guaranty is a separate and independent contract between Guarantor and Lender, given for full and ample consideration, and is enforceable on its own terms. Until all of the Indebtedness is paid in full, Guarantor waives any right to enforce any remedy Guarantor may have against the Borrower or any other guarantor, surety, or other person, and further, Guarantor waives any right to participate in any collateral for the Indebtedness now or hereafter held by Lender.

Guarantor's Understanding With Respect To Waivers. Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

Subordination of Borrower's Debts to Guarantor. Guarantor agrees that the Indebtedness, whether now existing or hereafter created, shall be superior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness. Guarantor does hereby assign to Lender all claims which it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to file financing statements and

continuation statements and to execute documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

Miscellaneous Provisions. The following miscellaneous provisions are a part of this Guaranty:

AMENDMENTS. This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration of or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

CAPTION HEADINGS. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

GOVERNING LAW. This Guaranty will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions.

INTEGRATION. Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

NOTICES. Any notice required to be given under this Guaranty shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

NO WAIVER BY LENDER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

SUCCESSORS AND ASSIGNS. Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

CALIFORNIA VEHICLE CODE ACKNOWLEDGMENT. Guarantor (if an individual) agrees to waive their rights under the California Vehicle Code Sections 1808.21, 1808.22 or 1808.23, regarding the disclosure of Guarantors residential address.

VENUE AND JURISDICTION. The party(ies) and/or undersigned to this Agreement and Lender agree that all actions or proceedings arising in connection with this Agreement and the other agreements, instruments and documents executed and/or delivered by the party(ies)/undersigned and Lender in connection herewith shall be tried and litigated only in the State and Federal courts located in the county of Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and San Luis Obispo, State of California, as Lender may elect, provided, however, that any suit seeking enforcement against any collateral or other property may be brought, at Lender's option, in the courts of any jurisdiction where Lender elects to bring such action or where such collateral or other property may be found. The party(ies)/undersigned to this Agreement and Lender waive, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this paragraph. The undersigned consents to the full personal jurisdiction of any state or federal court in California.

FACSIMILE AND COUNTERPART. This Agreement may be executed in two or more counterparts, which, taken together, shall constitute the whole of the agreement as between the parties. Each executed counterpart may be delivered in the form of a photocopy, facsimile, or scanned document, each of which shall have the same legal force and effect as delivery of an original.

**COMMERCIAL GUARANTY
(Continued)**

Loan No: 20974

Page 4

Definitions. The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

BORROWER. The word "Borrower" means Salem Communications Corporation and includes all co-signers and co-makers signing the Note and all their successors and assigns.

GUARANTOR. The word "Guarantor" means everyone signing this Guaranty, including without limitation The Stuart W. Epperson Revocable Living Trust under agreement dated January 14, 1993, as amended, and in each case, any signer's successors and assigns.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" mean Guarantor's indebtedness to Lender as more particularly described in this Guaranty.

GUARANTY. The word "Guaranty" means this guaranty from Guarantor to Lender.

INDEBTEDNESS. The word "Indebtedness" means Borrower's indebtedness to Lender as more particularly described in this Guaranty.

LENDER. The word "Lender" means First California Bank, its successors and assigns.

NOTE. The word "Note" means the promissory note dated May 21, 2012, in the original principal amount of \$10,000,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the promissory note or agreement.

RELATED DOCUMENTS. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED MAY 21, 2012.

GUARANTOR:

THE STUART W. EPPERSON REVOCABLE LIVING TRUST UNDER AGREEMENT DATED JANUARY 14, 1993, AS AMENDED

By: /s/ STUART W. EPPERSON
Stuart W. Epperson, Trustee of The Stuart W.
Epperson Revocable Living Trust under
agreement dated January 14, 1993, as amended

By: /s/ NANCY A. EPPERSON
Nancy A. Epperson, Trustee of The Stuart W.
Epperson Revocable Living Trust under
agreement dated January 14, 1993, as amended

COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll 51 / 00	Account	Officer GLASS	Initials
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References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Salem Communications Corporation
4880 Santa Rosa Road #300
Camarillo, CA 93012

Lender: First California Bank
Oxnard Branch
300 Esplanade Drive, Suite 102
Oxnard, CA 93036

Guarantor: Stuart W. Epperson
1407 Ponte Vedra Boulevard
Ponte Vedra Beach, FL 32082

GUARANTEE OF PAYMENT AND PERFORMANCE. For good and valuable consideration, Guarantor absolutely and unconditionally guarantees full and punctual payment and satisfaction of Guarantor's Share of the Indebtedness of Borrower to Lender, and the performance and discharge of all Borrower's obligations under the Note and the Related Documents. This is a guaranty of payment and performance and not of collection, so Lender can enforce this Guaranty against Guarantor even when Lender has not exhausted Lender's remedies against anyone else obligated to pay the Indebtedness or against any collateral securing the Indebtedness, this Guaranty or any other guaranty of the Indebtedness. Guarantor will make any payments to Lender or its order, on demand, in legal tender of the United States of America, in same-day funds, without set-off or deduction or counterclaim, and will otherwise perform Borrower's obligations under the Note and Related Documents.

INDEBTEDNESS. The word "Indebtedness" as used in this Guaranty means all of the principal amount outstanding from time to time and at any one or more times, accrued unpaid interest thereon and all collection costs and legal expenses related thereto permitted by law, attorneys' fees, arising from any and all debts, liabilities and obligations that Borrower individually or collectively or interchangeably with others, owes or will owe Lender under the Note and Related Documents and any renewals, extensions, modifications, refinancings, consolidations and substitutions of the Note and Related Documents.

If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender's rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor's liability will be Guarantor's aggregate liability under the terms of this Guaranty and any such other unexpired guaranties.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" as used in this Guaranty mean an amount not to exceed Ten Million & 00/100 Dollars (\$10,000,000.00) of the principal amount of the Indebtedness that is outstanding from time to time and at any one or more times. "Guarantor's Share of the Indebtedness" also includes all accrued unpaid interest on the Indebtedness and all collection costs, expenses and attorneys' fees whether or not there is a lawsuit, and if there is a lawsuit, any fees and costs for trial and appeals paid or incurred by Lender for the collection of the Indebtedness, the realization on any collateral securing the Indebtedness or any guaranty of the Indebtedness (including this Guaranty), or the enforcement of this Guaranty.

Guarantor's Share of the Indebtedness will only be reduced by sums actually paid by Guarantor under this Guaranty, but will not be reduced by sums from any other source including, but not limited to, sums realized from any collateral securing the Indebtedness or this Guaranty, or payments by anyone other than Guarantor, or reductions by operation of law, judicial order or equitable principles. Lender has the sole and absolute discretion to determine how sums shall be applied among guaranties of the Indebtedness.

The above limitation on liability is not a restriction on the amount of the Note of Borrower to Lender either in the aggregate or at any one time.

DURATION OF GUARANTY. This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all the Indebtedness shall have been fully and finally paid and satisfied and all of Guarantor's other obligations under this Guaranty shall have been performed in full. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty.

OBLIGATIONS OF MARRIED PERSONS. Any married person who signs this Guaranty hereby expressly agrees that recourse under this Guaranty may be had against both his or her separate property and community property.

GUARANTOR'S AUTHORIZATION TO LENDER. Guarantor authorizes Lender, **without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time:** (A) to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (F) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

GUARANTOR'S REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower's request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this

Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition as of the dates the financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

GUARANTOR'S FINANCIAL STATEMENTS. Guarantor agrees to furnish Lender with the following:

Additional Requirements. Guarantor shall deliver to Lender (A) as soon as available, but in no event later than March 31st of each year, copies of Guarantor's annual financial statements, prepared by Guarantor, including a balance sheet for the year ended, which shall present fairly and thoroughly the financial condition of Guarantor for such period; and (B) as soon as available, but in no event later than thirty (30) days after the applicable filing date for the tax reporting period ended, copies of Guarantor's federal tax returns, prepared by certified public accountants acceptable to Lender, including Schedule K-1s (if applicable); and (C) as soon as available, but in no event later than thirty (30) days after the end of each semi-annual period, copies of Guarantor's statements from depository institutions or brokerage firms, or other evidence acceptable to Lender of Guarantor's liquid assets.

Liquid Assets. Together all Guarantors to the Note and Related Documents shall maintain combined Liquid Assets (defined as the following property which must all be held by Guarantors outside of retirement accounts: cash and equivalents, money market instruments at an SIPC insured institution or bank, savings accounts or checking accounts, readily marketable securities such as stocks traded on the NYSE, AMEX or NASDAQ, (exclusive of any Salem Communications Corporation stock), bonds rated AAA or better by Standard & Poors [listed on national exchanges], U.S. Treasury instruments and cash surrender value of life insurance) net of any margin debt in the aggregate amount of not less than \$2,500,000.00. Compliance with the foregoing covenant shall be determined semi-annually.

All financial reports required to be provided under this Guaranty shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Guarantor as being true and correct.

GUARANTOR'S WAIVERS. Except as prohibited by applicable law, Guarantor waives any right to require Lender to (A) make any presentment, protest, demand, or notice of any kind, including notice of change of any terms of repayment of the Indebtedness, default by Borrower or any other guarantor or surety, any action or nonaction taken by Borrower, Lender, or any other guarantor or surety of Borrower, or the creation of new or additional Indebtedness; (B) proceed against any person, including Borrower, before proceeding against Guarantor; (C) proceed against any collateral for the Indebtedness, including Borrower's collateral, before proceeding against Guarantor; (D) apply any payments or proceeds received against the Indebtedness in any order; (E) give notice of the terms, time, and place of any sale of the collateral pursuant to the Uniform Commercial Code or any other law governing such sale; (F) disclose any information about the Indebtedness, the Borrower, the collateral, or any other guarantor or surety, or about any action or nonaction of Lender; or (G) pursue any remedy or course of action in Lender's power whatsoever.

Guarantor also waives any and all rights or defenses arising by reason of (H) any disability or other defense of Borrower, any other guarantor or surety or any other person; (I) the cessation from any cause whatsoever, other than payment in full, of the Indebtedness; (J) the application of proceeds of the Indebtedness by Borrower for purposes other than the purposes understood and intended by Guarantor and Lender; (K) any act of omission or commission by Lender which directly or indirectly results in or contributes to the discharge of Borrower or any other guarantor or surety, or the Indebtedness, or the loss or release of any collateral by operation of law or otherwise; (L) any statute of limitations in any action under this Guaranty or on the Indebtedness; or (M) any modification or change in terms of the Indebtedness, whatsoever, including without limitation, the renewal, extension, acceleration, or other change in the time payment of the Indebtedness is due and any change in the interest rate.

Guarantor waives all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of California Civil Code Sections 2787 to 2855, inclusive.

Guarantor waives all rights and any defenses arising out of an election of remedies by Lender even though that the election of remedies, such as a non-judicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against Borrower by operation of Section 580d of the California Code of Civil Procedure or otherwise.

Guarantor waives all rights and defenses that Guarantor may have because Borrower's obligation is secured by real property. This means among other things: (N) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower. (O) If Lender forecloses on any real property collateral pledged by Borrower: (1) the amount of Borrower's obligation may be reduced only by the price for which the collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price. (2) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's obligation is secured by real property. These rights and defenses include, but are not limited to, any rights and defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.

Guarantor understands and agrees that the foregoing waivers are unconditional and irrevocable waivers of substantive rights and defenses to which Guarantor might otherwise be entitled under state and federal law. The rights and defenses waived include, without limitation, those provided by California laws of suretyship and guaranty, anti-deficiency laws, and the Uniform Commercial Code. Guarantor acknowledges that Guarantor has provided these waivers of rights and defenses with the intention that they be fully relied upon by Lender. Guarantor further understands and agrees that this Guaranty is a separate and independent contract between Guarantor and Lender, given for full and ample consideration, and is enforceable on its own terms. Until all of

the Indebtedness is paid in full, Guarantor waives any right to enforce any remedy Guarantor may have against the Borrower or any other guarantor, surety, or other person, and further, Guarantor waives any right to participate in any collateral for the Indebtedness now or hereafter held by Lender.

Guarantor's Understanding With Respect To Waivers. Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

Subordination of Borrower's Debts to Guarantor. Guarantor agrees that the Indebtedness, whether now existing or hereafter created, shall be superior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness. Guarantor does hereby assign to Lender all claims which it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to file financing statements and continuation statements and to execute documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

Miscellaneous Provisions. The following miscellaneous provisions are a part of this Guaranty:

AMENDMENTS. This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration of or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

CAPTION HEADINGS. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

GOVERNING LAW. This Guaranty will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions.

INTEGRATION. Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

NOTICES. Any notice required to be given under this Guaranty shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

NO WAIVER BY LENDER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**COMMERCIAL GUARANTY
(Continued)**

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SUCCESSORS AND ASSIGNS. Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

CALIFORNIA VEHICLE CODE ACKNOWLEDGMENT. Guarantor (if an individual) agrees to waive their rights under the California Vehicle Code Sections 1808.21, 1808.22 or 1808.23, regarding the disclosure of Guarantors residential address.

VENUE AND JURISDICTION. The party(ies) and/or undersigned to this Agreement and Lender agree that all actions or proceedings arising in connection with this Agreement and the other agreements, instruments and documents executed and/or delivered by the party(ies)/undersigned and Lender in connection herewith shall be tried and litigated only in the State and Federal courts located in the county of Ventura, Los Angeles, Orange, San Bernardino, Riverside, San Diego and San Luis Obispo, State of California, as Lender may elect, provided, however, that any suit seeking enforcement against any collateral or other property may be brought, at Lender's option, in the courts of any jurisdiction where Lender elects to bring such action or where such collateral or other property may be found. The party(ies)/undersigned to this Agreement and Lender waive, to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this paragraph. The undersigned consents to the full personal jurisdiction of any state or federal court in California.

FACSIMILE AND COUNTERPART. This Agreement may be executed in two or more counterparts, which, taken together, shall constitute the whole of the agreement as between the parties. Each executed counterpart may be delivered in the form of a photocopy, facsimile, or scanned document, each of which shall have the same legal force and effect as delivery of an original.

Definitions. The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

BORROWER. The word "Borrower" means Salem Communications Corporation and includes all co-signers and co-makers signing the Note and all their successors and assigns.

GAAP. The word "GAAP" means generally accepted accounting principles.

GUARANTOR. The word "Guarantor" means everyone signing this Guaranty, including without limitation Stuart W. Epperson, and in each case, any signer's successors and assigns.

GUARANTOR'S SHARE OF THE INDEBTEDNESS. The words "Guarantor's Share of the Indebtedness" mean Guarantor's indebtedness to Lender as more particularly described in this Guaranty.

GUARANTY. The word "Guaranty" means this guaranty from Guarantor to Lender.

INDEBTEDNESS. The word "Indebtedness" means Borrower's indebtedness to Lender as more particularly described in this Guaranty.

LENDER. The word "Lender" means First California Bank, its successors and assigns.

NOTE. The word "Note" means the promissory note dated May 21, 2012, in the original principal amount of \$10,000,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the promissory note or agreement.

RELATED DOCUMENTS. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED MAY 21, 2012.

GUARANTOR:

X /s/ **STUART W. EPPERSON**

Stuart W. Epperson

I, Edward G. Atsinger III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Salem Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2012

/s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
President and Chief Executive Officer

I, Evan D. Masyr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Salem Communications Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2012

/s/ EVAN D. MASYR

Evan D. Masyr
Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as Chief Executive Officer of Salem Communications Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2012

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as Senior Vice President and Chief Financial Officer of Salem Communications Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Quarterly report of the Company on Form 10-Q for the period ended June 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2012

By: /s/ EVAN D. MASYR

Evan D. Masyr

Senior Vice President and Chief Financial Officer