

**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
AND EXCHANGE ACT OF 1934

FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 000-26497

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



DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

77-0121400
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

4880 SANTA ROSA ROAD, SUITE 300
CAMARILLO, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

93012
(ZIP CODE)

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

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

As of November 14, 2001 there were 17,904,692 shares of Class A common stock and 5,553,696 shares of Class B common stock of Salem Communications Corporation outstanding.

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

PART I — FINANCIAL INFORMATION

SALEM COMMUNICATIONS CORPORATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	December 31, 2000	September 30, 2001
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,928	\$ 33,849
Accounts receivable (less allowance for doubtful accounts of \$3,550 in 2000 and \$4,943 in 2001)	25,129	26,318
Other receivables	1,230	1,221
Prepaid expenses	1,558	1,509
Due from stockholders	450	354
Deferred income taxes	2,250	1,265
Total current assets	34,545	64,516
Property, plant and equipment, net	69,004	87,020
Intangible assets, net	358,482	335,884
Bond issue costs	2,396	7,615
Due from stockholders	198	490
Other assets	6,043	7,746
Total assets	\$ 470,668	\$ 503,271
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,031	\$ 5,486
Accrued compensation and related	3,361	4,285
Accrued interest	3,299	8,890
Deferred subscription revenue	1,509	1,441
Income taxes	300	144
Current portion of long-term debt and capital lease obligations	93	655
Total current liabilities	14,593	20,901
Long-term debt	286,050	308,225
Deferred income taxes	15,279	15,916
Other liabilities	1,798	1,897
Stockholders' equity:		
Class A common stock, \$.01 par value; authorized 80,000,000 shares; issued and outstanding 17,902,392 shares and 17,904,692 in 2000 and 2001, respectively	179	179
Class B common stock, \$.01 par value; authorized 20,000,000 shares; issued and outstanding 5,553,696 shares	56	56
Additional paid-in capital	147,380	147,413
Retained earnings	5,333	8,684
Total stockholders' equity	152,948	156,332
Total liabilities and stockholders' equity	\$ 470,668	\$ 503,271

See accompanying notes

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
Gross broadcasting revenue	\$ 30,227	\$ 36,966	\$ 81,989	\$ 106,885
Less agency commissions	2,567	3,033	6,902	8,977
Net broadcasting revenue	27,660	33,933	75,087	97,908
Other media revenue	2,151	1,973	5,948	6,041
Total revenue	29,811	35,906	81,035	103,949
Operating expenses:				
Broadcasting operating expenses (including \$341 and \$287 for the quarter ended September 30, 2000 and 2001 and \$1,024 and \$862 for the nine months ended September 30, 2000 and 2001 paid to related parties)	15,671	21,665	41,882	62,756
Other media operating expenses	3,398	2,274	11,513	7,290
Corporate expenses (including \$57 and \$53 for the quarter ended September 30, 2000 and 2001 and \$120 and \$161 for the nine months ended September 30, 2000 and 2001 paid to related parties)	2,518	3,249	7,790	10,484
Depreciation and amortization (including \$689 and \$387 for the quarter ended September 30, 2000 and 2001 and \$1,928 and \$1,338 for the nine months ended September 30, 2000 and 2001 for other media businesses)	6,655	7,857	16,993	23,090
Total operating expenses	28,242	35,045	78,178	103,620
Net operating income	1,569	861	2,857	329
Other income (expense):				
Interest income	75	290	426	1,844
Gain (loss) on sale of assets	(3,386)	20,554	1,022	23,072
Gain on sale of assets to related party	28,963	—	28,963	—
Interest expense	(4,797)	(6,970)	(10,016)	(19,719)
Other expense, net	(355)	(102)	(775)	(264)
Income before income taxes	22,069	14,633	22,477	5,262
Provision for income taxes	8,283	5,273	8,747	1,911
Net income	\$ 13,786	\$ 9,360	\$ 13,730	\$ 3,351
Basic earnings per share	\$ 0.59	\$ 0.40	\$ 0.59	\$ 0.14
Diluted earnings per share	\$ 0.59	\$ 0.40	\$ 0.59	\$ 0.14
Basic weighted average shares outstanding	23,456,088	23,548,673	23,456,088	23,456,225
Diluted weighted average shares outstanding	23,456,088	23,548,673	23,456,088	23,515,801

See accompanying notes

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

	Nine Months Ended September 30,	
	2000	2001
OPERATING ACTIVITIES		
Net income	\$ 13,730	\$ 3,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,993	23,090
Amortization of bond issue costs and bank loan fees	600	714
Deferred income taxes	8,161	1,622
Gain on sale of assets	(29,985)	(23,072)
Changes in operating assets and liabilities:		
Accounts receivable	(3,028)	(985)
Prepaid expenses and other current assets	(5,717)	(145)
Accounts payable and accrued expenses	(222)	5,587
Deferred subscription revenue	(176)	(68)
Other liabilities	337	479

Income taxes	95	(156)
Net cash provided by operating activities	788	10,417
INVESTING ACTIVITIES		
Capital expenditures	(11,404)	(22,638)
Deposits on radio station acquisitions	—	(925)
Purchases of radio stations	(227,436)	(102,953)
Proceeds from sale of property, plant and equipment and intangible assets	30,030	131,581
Other assets	213	(1,094)
Net cash provided by (used in) investing activities	(208,597)	3,971
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt and notes payable	188,750	169,516
Payments of long-term debt and notes payable	(2,810)	(147,966)
Proceeds from exercise of stock options	—	33
Payments on capital lease obligations	(210)	(63)
Payments of costs related to bank credit facility	(3,947)	(744)
Payments of bond issue costs	—	(5,243)
Net cash provided by financing activities	181,783	15,533
Net increase (decrease) in cash and cash equivalents	(26,026)	29,921
Cash and cash equivalents at beginning of period	34,124	3,928
Cash and cash equivalents at end of period	\$ 8,098	\$ 33,849
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 10,622	\$ 13,324
Income taxes	490	407

See accompanying notes

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

NOTE 1. BASIS OF PRESENTATION

Information with respect to the three months and the nine months ended September 30, 2001 and 2000 is unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of Salem Communications Corporation and Subsidiaries ("Salem," or "company"), for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2000.

NOTE 2. ACQUISITIONS AND OTHER SIGNIFICANT TRANSACTIONS

We purchased the assets (principally intangibles) of the following radio stations during the nine months ended September 30, 2001:

Acquisition Date	Station	Market Served	Allocated Purchase Price	Format Changed
<i>(in thousands)</i>				
February 2, 2001	WXRT-AM (now WYLL-AM)	Chicago, IL	\$ 29,000	Yes
February 16, 2001	WWTC-AM	Minneapolis, MN	4,882	Yes
February 16, 2001	WZER-AM (now WYLO-AM)	Milwaukee, WI	2,018	Yes
March 9, 2001	WRBP-AM (now WHKW-AM)	Youngstown-Warren, OH	500	Yes
March 16, 2001	WFIA-AM	Louisville, KY	1,750	No
April 1, 2001	WROL-AM	Boston, MA	10,930	No
July 2, 2001	WCLV-FM (now WFHM-FM)	Cleveland, OH	40,500	Yes
July 13, 2001	WVBB-AM (now WBTK-AM)	Richmond, VA	737	Yes
July 16, 2001	KBZS-AM (now KSFB-AM)	San Francisco, CA	8,500	Yes
			\$ 98,817	

On January 17, 2001, the company sold the assets of radio station KALC-FM, Denver, Colorado for approximately \$100 million. The net proceeds were placed in an account with a qualified intermediary under a like-kind exchange agreement in order to preserve our ability to effect a tax-deferred exchange, which was completed on July 16, 2001.

On May 21, 2001, the company acquired the assets of the Dame-Gallagher Networks, LLC, including the syndicated radio program *The Mike Gallagher Show*, for \$3.0 million in cash and \$1.3 million in a non-interest bearing promissory note payable in two equal installments due January 2002 and January 2003.

On May 17, 2001, the company entered into a local marketing agreement whereby the company operates KLNA-FM (now KKFS-FM), Sacramento, California, and has an option to acquire the assets of the radio station for \$8.7 million by or before March 2002.

On June 14, 2001, the company entered into an agreement to acquire the assets of radio station KSZZ-AM, San Bernardino, California, for \$7.0 million. We anticipate this transaction to close in the fourth quarter of 2001.

On June 26, 2001, the company entered into an agreement to sell the assets of radio station KEZY-AM, San Bernardino, California, for \$4.0 million to a corporation owned by one of our Board members. On September 14, 2001, the company entered into a local marketing agreement whereby the acquiring corporation operates the radio station. We anticipate this transaction to close in the fourth quarter of 2001.

In June 2001, Salem Communications Holding Corporation ("HoldCo"), a wholly-owned subsidiary of Salem, completed an offering of \$150.0 million 9% senior subordinated notes and used the net proceeds of the offering to repay approximately \$145.5 million of borrowings under the credit facility.

On July 2, 2001, we sold the assets of radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Canton, Ohio, for \$30.0 million. The net proceeds have been placed in an account with a qualified intermediary under a like-kind exchange agreement in order to preserve our ability to effect a tax-deferred exchange.

In July 2001, we agreed to acquire the assets of radio station KJUN-FM, Portland, Oregon, for \$35.8 million. We anticipate this transaction to close in 2002.

On August 1, 2001, we purchased the property and building housing our corporate headquarters for \$6.6 million.

On September 18, 2001, the company entered into an agreement to sell the assets of radio station WHLO-AM, Akron, Ohio for \$4.5 million. We anticipate this transaction to close by the third quarter of 2002.

Pro Forma Financial Statements

The following pro forma consolidated results of operations give effect to the acquisitions of in-format radio stations made since January 1, 2000 as if the acquisitions occurred on January 1, 2000 and was prepared based upon the historical statements of operations of the acquired radio stations. The Company does not provide any pro forma information with respect to radio stations in which the format was changed, as the historical results would not be meaningful. The pro forma results also give effect to the disposition of radio station KLTX-AM as if it occurred January 1, 2000. The pro forma results of operations include certain adjustments such as increased interest and amortization expense associated with the borrowings to fund the acquisitions and FCC licenses acquired and are not necessarily indicative of actual operations results.

	Nine Months Ended September 30,	
	2000	2001
	<i>(in thousands, except per share)</i>	
Total revenue	\$ 95,434	\$ 104,880
Net income (loss)	(11,386)	3,185
Basic and diluted earnings (loss) per share	\$ (0.49)	\$ 0.14

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 establishes accounting and reporting standards requiring that all derivatives be recorded in the balance sheet as either an asset or liability measured at fair value and that changes in fair value be recognized currently in earnings, unless specific hedge accounting criteria are met. Certain provisions of SFAS No. 133, including its required implementation date, were subsequently amended. We adopted SFAS No. 133, as amended, in the first quarter of 2001 and its adoption did not have a material effect on our results of operations or our financial position.

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

The company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of SFAS No. 142 is expected to result in an increase in net income of approximately \$23 million (\$0.98 per share) per year based on the company's intangible assets currently included in the September 30, 2001 balance sheet. During 2002, the company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the company.

NOTE 4. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common stock shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common stock shares and when dilutive, common stock share equivalents outstanding. Options to purchase 354,500 and 492,380 shares of common stock were outstanding as of September 30, 2000 and 2001, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
Numerator:				
Net income	\$ 13,786,000	\$ 9,360,000	\$ 13,730,000	\$ 3,351,000
Denominator for basic earnings per share:				
Weighted average shares	23,456,088	23,456,499	23,456,088	23,456,225
Effect of dilutive securities — stock options	—	92,174	—	59,576

Denominator for diluted earnings per share					
Weighted average shares adjusted for dilutive securities		23,456,088	23,548,673	23,456,088	23,515,801
Basic earnings per share	\$	0.59	\$ 0.40	\$ 0.59	\$ 0.14
Diluted earnings per share	\$	0.59	\$ 0.40	\$ 0.59	\$ 0.14

NOTE 5. CONTINGENCIES

Incident to our business activities, we are a party to a number of legal proceedings, lawsuits, arbitration and other claims, including the Gospel Communications International, Inc. ("GCI") matter described in more detail below. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Also, we maintain insurance which may provide coverage for such matters. Consequently, our management is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters as of September 30, 2001. However, our management believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our financial position, results of operations or cash flows.

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

NOTE 6. SUBSEQUENT EVENTS

On October 17, 2001, the company acquired the assets of radio station WTNB-AM, Tampa, Florida, for \$6.8 million. We began to operate this station under a local marketing agreement on July 16, 2001.

On October 22, 2001, the company acquired a construction permit to build a new radio station in Milwaukee, Wisconsin for \$6.5 million.

NOTE 7. CONSOLIDATING FINANCIAL STATEMENTS

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

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

As of September 30, 2001

	Guarantors			Issuer		Salem Consolidated
	Parent	AcqCo	Other Media	HoldCo	Adjustments	
Current assets:						
Cash and cash equivalents	\$ 47	\$ 1,361	\$ (174)	\$ 32,615	\$ —	\$ 33,849
Accounts receivable	—	1,397	1,508	23,413	—	26,318
Other receivables	—	304	134	1,138	—	1,576
Prepaid expenses	5	36	214	1,253	—	1,508
Due from stockholders	—	—	—	—	—	—
Deferred income taxes	988	172	5	893	(793)	1,265
Total current assets	1,040	3,270	1,687	59,312	(793)	64,516
Property, plant, equipment and software, net	—	4,137	1,927	80,956	—	87,020
Intangible assets, net	—	94,184	6,677	235,023	—	335,884
Bond issue costs	—	—	—	7,615	—	7,615
Deferred income taxes	—	—	276	—	(276)	—
Other assets	254,127	8,939	(1,125)	99,807	(353,512)	8,236
Total assets	\$ 255,167	\$ 110,530	\$ 9,442	\$ 482,713	\$ (354,581)	\$ 503,271
Current liabilities:						
Accounts payable and accrued expenses	\$ —	\$ 229	\$ 857	\$ 4,400	\$ —	\$ 5,486
Accrued compensation and other	—	199	225	3,861	—	4,285
Accrued interest	—	—	—	8,890	—	8,890
Deferred subscription revenue	—	—	1,441	—	—	1,441
Income taxes payable	(4)	913	5	157	(927)	144
Current maturities of long-term debt	—	—	30	625	—	655
Total current liabilities	(4)	1,341	2,558	17,933	(927)	20,901
Long-term debt	109,217	10,240	25,650	308,225	(145,107)	308,225
Deferred income taxes	7,680	19,594	—	12,829	(24,187)	15,916

Other liabilities	143	—	5,404	1,754	(5,404)	1,897
Stockholders' equity	138,131	79,355	(24,170)	141,972	(178,956)	156,332
Total liabilities and stockholders' equity	\$ 255,167	\$ 110,530	\$ 9,442	\$ 482,713	\$ (354,581)	\$ 503,271

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

Nine Months Ended September 30, 2001

	Guarantors			Issuer		Salem Consolidated
	Parent	AcqCo	Other Media	HoldCo	Adjustments	
Gross broadcasting revenue	\$ —	\$ 4,413	\$ —	\$ 102,948	\$ (476)	\$ 106,885
Less agency commissions	—	(332)	—	(8,645)	—	(8,977)
Net broadcasting revenue	—	4,081	—	94,303	(476)	97,908
Other media revenue	—	—	6,328	—	(287)	6,041
Total revenue	—	4,081	6,328	94,303	(763)	103,949
Operating expenses:						
Broadcasting operating expenses	—	2,812	—	60,350	(406)	62,756
Other media operating expenses	—	—	7,248	—	42	7,290
Corporate expenses	—	403	—	10,480	(399)	10,484
Depreciation and amortization	—	1,985	1,338	19,767	—	23,090
Total operating expenses	—	5,200	8,586	90,597	(763)	103,620
Net operating income (loss)	—	(1,119)	(2,258)	3,706	—	329
Other income (expense):						
Interest income	1	1,450	85	8,421	(8,113)	1,844
Gain (loss) on sale of assets	—	(102)	(76)	23,250	—	23,072
Interest expense	(6,267)	—	(1,849)	(19,716)	8,113	(19,719)
Other expense	3	(48)	(35)	(184)	—	(264)
Income (loss) before income taxes	(6,263)	181	(4,133)	15,477	—	5,262
Provision (benefit) for income taxes	—	932	(1,730)	8,817	(6,108)	1,911
Net income (loss)	\$ (6,263)	\$ (751)	\$ (2,403)	\$ 6,660	\$ 6,108	\$ 3,351

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

We believe that we are the largest U.S. radio broadcasting company, measured by number of stations and audience coverage, providing programming targeted at audiences interested in religious and family issues. Our core business, developed over the last 25 years, is the ownership and operation of radio stations in large metropolitan markets. After completing our pending transactions, we will own or operate 81 radio stations, including 56 stations which broadcast to 22 of the top 25 U.S. markets. In addition, management believes that we are the seventeenth largest radio broadcaster measured by net broadcasting revenues for the year ended December 31, 2000. We also operate Salem Radio Network, which we believe to be a leading developer, producer and syndicator of religious and family issues oriented talk, news and music, but not of general broadcast programming, with over 1,600 affiliated radio stations. In addition, we own complimentary Internet and publishing businesses.

Historically, our principal sources of revenue have been:

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

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

times of the day.

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

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

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

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services (such as other media advertising, travel or lodging), in lieu of cash. In order to preserve the sale of our advertising time for cash, we generally enter into trade agreements only if the goods or services bartered to us will be used in our business. We have minimized our use of trade agreements and have generally sold most of our advertising time for cash. In 2000, we sold 94% of our advertising time for cash. In addition, it is our general policy not to preempt advertising paid for in cash with advertising paid for in trade.

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

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

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

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

In the following discussion of our results of operations, we compare our results between periods on an as reported basis (that is, the results of operations of all radio stations and network formats owned or operated at any time during either period) and on a "same station" basis. We include in our same station comparisons the results of operations of radio stations and networks that we own or operate in the same format during the current period compared with the results of the same stations for the corresponding period of the prior year. We do not include a station or a network in the comparison unless it has been owned or operated for at least an entire quarter included in each of the current and corresponding prior year periods.

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RESULTS OF OPERATIONS

Quarter ended September 30, 2001 compared to quarter ended September 30, 2000

NET BROADCASTING REVENUE. Net broadcasting revenue increased \$6.2 million or 22.4% to \$33.9 million for the quarter ended September 30, 2001 from \$27.7 million for the same quarter of the prior year. The growth is attributable to the increase in same station revenue and the acquisitions of radio stations and a network during 2000 and 2001, partially offset by the sales of radio stations during 2000 and 2001. On a same station basis, net revenue improved \$0.9 million or 6.2% to \$15.4 million for the quarter ended September 30, 2001 from \$14.5 million for the same quarter of the prior year. The improvement was primarily due to an increase in network revenue due to increased network affiliations and quality programming, an increase in net revenue at radio stations we acquired in 1999 that previously operated with formats other than their current format, an increase in program rates and increases in advertising time and improved selling efforts at both the national and local level. Revenue from advertising as a percentage of our gross broadcasting revenue increased to 45.9% for the quarter ended September 30, 2001 from 41.4% for the same quarter of the prior year. Revenue from block program time as a percentage of our gross broadcasting revenue decreased to 40.7% for the quarter ended September 30, 2001 from 45.6% for the same quarter of the prior year. This change in our revenue mix is primarily due to our continued efforts to develop more advertising revenue in all of our markets as well as the launch of our contemporary Christian music format in several markets.

OTHER MEDIA REVENUE. Other media revenue decreased \$0.2 million or 9.1% to \$2.0 million for the quarter ended September 30, 2001 from \$2.2 million for the same quarter in the prior year. The decrease is due primarily to the loss of revenues from the sale of certain assets which generated revenue from the sale of advertising in print and online catalogs and product sales, partially offset by increased revenue from banner advertising and streaming services.

BROADCASTING OPERATING EXPENSES. Broadcasting operating expenses increased \$6.0 million or 38.2% to \$21.7 million for the quarter ended September 30, 2001 from \$15.7 million for the same quarter of the prior year. The increase is attributable to operating expenses associated with the acquisitions of radio stations and a network during 2000 and 2001, and promotional expenses associated with the launch of the contemporary Christian music format in several markets, partially offset by the operating expenses associated with three radio stations sold during 2000. On a same station basis, broadcasting operating expenses increased \$0.5 million or 5.9% to \$9.0 million for the quarter ended September 30, 2001 from \$8.5 million for the same quarter of the prior year. The increase is primarily due to incremental selling and production expenses incurred to produce the increased revenue in the period.

OTHER MEDIA OPERATING EXPENSES. Other media operating expenses decreased \$1.1 million or 32.4% to \$2.3 million for the quarter ended September 30, 2001 from \$3.4 million for the same quarter in the prior year. The decrease is attributable primarily to the reduction of operating expenses incurred due to the sale of certain software products, assets and contracts.

BROADCAST CASH FLOW. Broadcast cash flow increased \$0.2 million or 1.7% to \$12.2 million for the quarter ended September 30, 2001 from \$12.0 million for the same quarter of the prior year. As a percentage of net broadcasting revenue, broadcast cash flow decreased to 36.0% for the quarter ended September 30, 2001 from 43.3% for

the same quarter of the prior year. The decrease is primarily attributable to the effect of radio stations acquired during 2000 and 2001 that previously operated with formats other than their current format and the effect of the launch of the contemporary Christian music format in several markets. Acquired and reformatted radio stations typically produce low margins during the first few years following conversion. Broadcast cash flow margins improve as we implement scheduled program rate increases and increase advertising revenue on our stations. On a same station basis, broadcast cash flow improved \$0.4 million or 6.7% to \$6.4 million for the quarter ended September 30, 2001 from \$6.0 million for the same quarter of the prior year.

CORPORATE EXPENSES. Corporate expenses increased \$0.7 million or 28.0% to \$3.2 million in the quarter ended September 30, 2001 from \$2.5 million in the same quarter of the prior year, primarily due to additional overhead costs associated with the acquisitions of radio stations and a network during 2000 and 2001.

EBITDA. EBITDA increased \$0.5 million or 6.1% to \$8.7 million for the quarter ended September 30, 2001 from \$8.2 million for the same quarter of the prior year. As a percentage of total revenue, EBITDA decreased to 24.2% for the quarter ended September 30, 2001 from 27.5% for the same quarter of the prior year. EBITDA was negatively impacted by the results of operations of our other media businesses, which generated a net loss before depreciation and amortization of \$0.3 million for the quarter ended September 30, 2001; for the same quarter of the prior year the loss was \$1.2 million. Broadcast EBITDA excluding the other media businesses decreased \$0.5 million or 5.3% to \$9.0 million for the quarter ended September 30, 2001 from \$9.5 million for the same quarter in the prior year. As a percentage of net broadcasting revenue, broadcast EBITDA excluding the other media business decreased to 26.5% for the quarter ended September 30, 2001 from 34.3% for the same quarter of the prior year. The decrease is primarily attributable to the effect of stations acquired during 2000 and 2001 that previously operated with formats other than their current format and the effect of the launch of the contemporary Christian music format in several markets.

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DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased \$1.1 million or 16.4% to \$7.8 million for the quarter ended September 30, 2001 from \$6.7 million for the same quarter of the prior year. The increase is primarily due to depreciation and amortization expense associated with the acquisitions of radio stations and a network in 2000 and 2001.

OTHER INCOME (EXPENSE). Interest income increased \$0.2 million to \$0.3 million for the quarter ended September 30, 2001 from \$0.1 million for the same quarter of the prior year, primarily due to interest earned on the investment of the proceeds from the sale of the assets of radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Akron, Ohio for \$30.0 million in July 2001. Gain on disposal of assets of \$20.6 million for the quarter ended September 30, 2001 is primarily due to a gain recognized on the sale of the assets of radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Akron, Ohio. Gain on disposal of assets of \$25.6 million for the quarter ended September 30, 2000 is primarily due to a gain recognized on the sale of the assets of radio station KLTX-AM, Los Angeles, California, partially offset by the loss on sale of certain assets of our other media businesses. Interest expense increased \$2.2 million or 45.8% to \$7.0 million for the quarter ended September 30, 2001 from \$4.8 million for the same quarter of the prior year. The increase is due to interest expense associated with borrowings on the credit facility to fund acquisitions in 2000 and the issuance of \$150 million 9% senior subordinated notes in June 2001. Other expense, net decreased to \$0.1 million for the quarter ended September 30, 2001 from \$0.4 million for the same quarter of the prior year due primarily to a decrease in bank commitment fees.

PROVISION (BENEFIT) FOR INCOME TAXES. Provision (benefit) for income taxes as a percentage of income (loss) before income taxes and extraordinary item (that is, the effective tax rate) was 36.1% for the quarter ended September 30, 2001 and 37.6% for the same quarter of the prior year. For the quarter ended September 30, 2001 and 2000 the effective tax rate differs from the federal statutory income rate of 34.0% primarily due to the effect of state income taxes and certain expenses that are not deductible for tax purposes.

NET INCOME (LOSS). We recognized net income of \$9.4 million for the quarter ended September 30, 2001 as compared to a net income of \$13.8 million for the same quarter of the prior year.

AFTER-TAX CASH FLOW. After-tax cash flow increased \$0.1 million or 2.4% to \$4.9 million for the quarter ended September 30, 2001 from \$4.8 million for the same quarter of the prior year. After-tax cash flow was negatively impacted by the after-tax cash flow of our other media businesses. After-tax cash flow excluding our other media losses (net of income tax) decreased \$0.5 million or 9.0% to \$5.1 million for the quarter ended September 30, 2001 from \$5.6 million for the same quarter of the prior year. The decrease is primarily due to increases in interest expense and corporate expenses, partially offset by an increase in broadcasting cash flow.

Nine months ended September 30, 2001 compared to nine months ended September 30, 2001

NET BROADCASTING REVENUE. Net broadcasting revenue increased \$22.8 million or 30.4% to \$97.9 million for the nine months ended September 30, 2001 from \$75.1 million for the same period of the prior year. The growth is attributable to the increase in same station revenue and the acquisitions of radio stations and a network during 2000 and 2001, partially offset by the sales of radio stations during 2000 and 2001. On a same station basis, net revenue improved \$4.2 million or 9.4% to \$48.8 million for the nine months ended September 30, 2001 from \$44.6 million for the same period of the prior year. The improvement was primarily due to an increase in network revenue due to increased network affiliations and quality programming, an increase in net revenue at radio stations we acquired in 1998 and 1999 that previously operated with formats other than their current format, an increase in program rates and increases in advertising time and improved selling efforts at both the national and local level. Revenue from advertising as a percentage of our gross broadcasting revenue increased to 43.8% for the nine months ended September 30, 2001 from 38.0% for the same period of the prior year. Revenue from block program time as a percentage of our gross broadcasting revenue decreased to 41.2% for the nine months ended September 30, 2001 from 48.6% for the same period of the prior year. This change in our revenue mix is primarily due to our continued efforts to develop more advertising revenue in all of our markets as well as the launch of our contemporary Christian music format in several markets.

OTHER MEDIA REVENUE. Other media revenue increased \$0.1 million or 1.7% to \$6.0 million for the nine months ended September 30, 2001 from \$5.9 million for the same period in the prior year. The increase is due primarily to our increased revenue from banner advertising and streaming services, partially offset by the loss of revenues from the sale of certain assets which generated revenue from the sale of advertising in print and online catalogs and product sales.

BROADCASTING OPERATING EXPENSES. Broadcasting operating expenses increased \$20.9 million or 49.9% to \$62.8 million for the nine months ended September 30, 2001 from \$41.9 million for the same period of the prior year. The increase is attributable to operating expenses associated with the acquisitions of radio stations and a network during 2000 and 2001, promotional expenses associated with the launch of the contemporary Christian music format in several markets, and an increase in music license fees, partially offset by the operating expenses associated with three radio stations sold during 2000. On a same station basis, broadcasting operating expenses increased \$2.6 million or 10.3% to \$27.8 million for the nine months ended September 30, 2001 from \$25.2 million for the same period of the prior year. The increase is primarily due to incremental selling and production expenses incurred to produce the increased revenue in the period.

OTHER MEDIA OPERATING EXPENSES. Other media operating expenses decreased \$4.2 million or 36.5% to \$7.3 million for the nine months ended September 30, 2001 from \$11.5 million for the same period in the prior year. The decrease is attributable primarily to the reduction of operating expenses incurred due to the sale of certain software products, assets and contracts.

BROADCAST CASH FLOW. Broadcast cash flow increased \$2.0 million or 6.0% to \$35.2 million for the nine months ended September 30, 2001 from \$33.2 million for the same period of the prior year. As a percentage of net broadcasting revenue, broadcast cash flow decreased to 36.0% for the nine months ended September 30, 2001 from 44.2% for the same period of the prior year. The decrease is primarily attributable to the effect of radio stations acquired during 2000 and 2001 that previously operated with formats other than their current format and the effect of the launch of the contemporary Christian music format in several markets. Acquired and reformatted radio stations typically produce low margins during the first few years following conversion. Broadcast cash flow margins improve as we implement scheduled program rate increases and increase advertising revenue on our stations. On a same station basis, broadcast cash flow improved \$1.6 million or 8.2% to \$21.0 million for the nine months ended September 30, 2001 from \$19.4 million for the same period of the prior year.

CORPORATE EXPENSES. Corporate expenses increased \$2.7 million or 34.6% to \$10.5 million in the nine months ended September 30, 2001 from \$7.8 million in the same period of the prior year, primarily due to additional overhead costs associated with the acquisitions of radio stations and a network during 2000 and 2001.

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EBITDA. EBITDA increased \$3.5 million or 17.6% to \$23.4 million for the nine months ended September 30, 2001 from \$19.9 million for the same period of the prior year. As a percentage of total revenue, EBITDA decreased to 22.5% for the nine months ended September 30, 2001 from 24.6% for the same period of the prior year. EBITDA was negatively impacted by the results of operations of our other media businesses, which generated a net loss before depreciation and amortization of \$1.3 million for the nine months ended September 30, 2001; for the same period of the prior year the loss was \$5.6 million. Broadcast EBITDA excluding the other media businesses decreased \$0.7 million or 2.8% to \$24.7 million for the nine months ended September 30, 2001 from \$25.4 million for the same period in the prior year. As a percentage of net broadcasting revenue, broadcast EBITDA excluding the other media business decreased to 25.2% for the nine months ended September 30, 2001 from 34.0% for the same period of the prior year. The decrease is primarily attributable to the effect of stations acquired during 2000 and 2001 that previously operated with formats other than their current format, the effect of the launch of the contemporary Christian music format in several markets and increased corporate expenses.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased \$6.0 million or 35.3% to \$23.0 million for the nine months ended September 30, 2001 from \$17.0 million for the same period of the prior year. The increase is primarily due to depreciation and amortization expense associated with the acquisitions of radio stations and a network in 2000 and 2001.

OTHER INCOME (EXPENSE). Interest income increased \$1.4 million to \$1.8 million for the nine months ended September 30, 2001 from \$0.4 million for the same period of the prior year, primarily due to interest earned on the investment of the proceeds from the sale of radio station KALC-FM, Denver, Colorado for \$100 million in January 2001 and radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Akron, Ohio for \$30.0 million in July 2001. Gain on disposal of assets of \$23.1 million for the nine months ended September 30, 2001 is primarily due to gain recognized on the condemnation of certain real property in Seattle, Washington and gain recognized on the sale of the assets of radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Akron, Ohio. Gain on disposal of assets of \$30.0 million for the nine months ended September 30, 2000 is primarily due to a gain recognized on the sale of the assets of radio station KPRZ-FM, Colorado Springs, Colorado, and gain recognized on the sale of the assets of radio station KLTX-AM, Los Angeles, California, partially offset by the loss on sale of certain assets of our other media businesses. Interest expense increased \$9.7 million or 97.0% to \$19.7 million for the quarter nine months September 30, 2001 from \$10.0 million for the same period of the prior year. The increase is due to interest expense associated with borrowings on the credit facility to fund acquisitions in 2000 and the issuance of \$150 million 9% senior subordinated notes in June 2001. Other expense, net decreased \$0.6 million to \$0.2 million for the nine months ended September 30, 2001 from \$0.8 million for the same period of the prior year, primarily due to decreased bank commitment fees.

PROVISION (BENEFIT) FOR INCOME TAXES. Provision (benefit) for income taxes as a percentage of income (loss) before income taxes (that is, the effective tax rate) was 35.8% for the nine months ended September 30, 2001 and 38.7% for the same period of the prior year. For the nine months ended September 30, 2001 and 2000 the effective tax rate differs from the federal statutory income rate of 34.0% primarily due to the effect of state income taxes and certain expenses that are not deductible for tax purposes.

NET INCOME (LOSS). We recognized net income of \$3.4 million for the nine months ended September 30, 2001 as compared to net income of \$13.7 million for the same period of the prior year.

AFTER-TAX CASH FLOW. After-tax cash flow decreased \$0.1 million or 0.8% to \$12.6 million for the nine months ended September 30, 2001 from \$12.7 million for the same period in the prior year. After-tax cash flow was negatively impacted by the after-tax cash flow of our other media businesses. After-tax cash flow excluding our other media losses (net of income tax) decreased \$2.7 million or 16.6% to \$13.4 million for the nine months ended September 30, 2001 from \$16.1 million for the same period of the prior year. The decrease is primarily due to an increase in interest expense and corporate expenses.

RECENT DEVELOPMENTS

Following the terrorist attacks on the United States on September 11, 2001, we increased the news and community service programming on our radio stations, reducing the amount of broadcast time available for commercial advertising. In addition, certain advertisers cancelled their advertising time. As a consequence of these events, our financial results were adversely affected and the results for the quarter ended September 30, 2001.

Further acts of war or terrorism against the United States as well as the United States' response to the attacks and future security threats may continue to affect our business operations and those of our advertisers and other customers. We cannot predict the further negative effects these events may have on our business operations.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed acquisitions of radio stations through borrowings, including borrowings under HoldCo's credit facility and, to a lesser extent, from operating cash flow and selected asset dispositions. We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, capital expenditures and debt service required by the credit facility, the 9½% senior subordinated notes and the 9% senior subordinated notes from operating cash flow.

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

Cash. Cash and cash equivalents was \$33.8 million at September 30, 2001 including \$30.4 million held by a qualified intermediary under a like-kind exchange agreement to preserve our ability to effect a tax-deferred exchange. Working capital was \$43.6 million at September 30, 2001. Cash and cash equivalents was \$3.9 million at December 31, 2000. The increase in cash and cash equivalents is due to cash provided by operating activities and cash provided by investing activities primarily related to the net proceeds received from the sale of the assets of radio station KALC-FM, Denver, Colorado for approximately \$100 million, and the sales of the assets of radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Akron, Ohio for \$30.0 million, offset by \$102.9 million of the proceeds used to acquire the assets of nine radio stations and a network during the nine months ended September 30, 2001.

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Net cash provided by operating activities increased to \$10.4 million for the nine months ended September 30, 2001 compared to \$0.8 million in the same period of the prior year, primarily due to an increase in EBITDA and due to the increase in accrued interest at September 30, 2001.

Net cash provided by investing activities was \$4.0 million for the nine months ended September 30, 2001, compared to net cash used in investing activities of \$208.6 million for the same period of the prior year. The increase is due to cash received for the sale of the assets of radio station KALC-FM, Denver, Colorado, and the sales of the assets of radio stations WHKK-AM, Cleveland, Ohio, and WHK-FM, Akron, Ohio for \$30.0 million, partially offset by cash used for acquisitions (cash used of \$102.9 million to purchase the assets of nine radio stations and a network during the nine months ended September 30, 2001 as compared to cash used of \$227.4 million to purchase the assets of 23 radio stations and a network for the same period of the prior year) and offset by an increase in capital expenditures.

Net cash provided by financing activities decreased to \$15.5 million for the nine months ended September 30, 2001, compared to \$181.8 million for the same period of the

prior year. The decrease was primarily due to increased borrowings for acquisitions during the nine months ended September 30, 2000.

Credit Facility. HoldCo is the borrower under our credit facility. At September 30, 2001, \$57.6 million was outstanding under the credit facility. The maximum amount that HoldCo may borrow under the credit facility is limited by a ratio of Parent's consolidated existing total adjusted debt to pro forma twelve-month cash flow (the "Total Adjusted Funded Debt to Cash Flow Ratio"). The credit facility will allow us to adjust our total debt as used in such calculation by the lesser of 50% of the aggregate purchase price of acquisitions of newly acquired non-religious formatted radio stations that we reformat to a religious talk, conservative talk or religious music format or \$30.0 million and the cash flow from such stations will not be considered in the calculation of the ratio. The maximum Total Adjusted Funded Debt to Cash Flow Ratio allowed under the credit facility is 6.5 to 1 through December 30, 2002. Thereafter, the maximum ratio will decline periodically until December 31, 2006, at which point it will remain at 4.25 to 1 through June 2007. The Total Adjusted Funded Debt to Cash Flow Ratio under the credit facility at September 30, 2001, on a pro forma basis, was 5.86 to 1, resulting in a borrowing availability of approximately \$27.4 million.

9% Senior Subordinated Notes due 2011. In June 2001, Salem Holding issued \$150.0 million principal amount of 9% senior subordinated notes due 2011. Salem Holdings used the net proceeds to repay approximately \$145.5 million in borrowings under the credit facility.

The indentures for these 9% notes and the existing 9 1/2% notes contain restrictive covenants limiting indebtedness of Salem Holding and its subsidiaries. The issuance of these 9% notes places Salem Holding and its subsidiaries close to the maximum indebtedness allowed under the indentures, thus limiting future available indebtedness including additional borrowings under the credit facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative Instruments.

During the nine months ended September 30, 2001 and 2000, we did not invest in market risk sensitive instruments.

Market Risk.

Borrowings under the credit facility are subject to market risk exposure, specifically to changes in LIBOR and in the "prime rate" in the United States. As of September 30, 2001, on a pro forma basis, we could borrow up to an additional \$27.4 million under the credit facility. At September 30, 2001, we had borrowed \$57.6 million under the credit facility. Amounts outstanding under the credit facility bear interest at a base rate, at our option, of the bank's prime rate or LIBOR, plus a spread. For purposes of determining the interest rate under the credit facility, the prime rate spread ranges from 0% to 1.5%, and the LIBOR spread ranges from 0.875% to 2.75%. At September 30, 2001, the blended interest rate on amounts outstanding under our credit facility was 6.15%. At September 30, 2001, a hypothetical 100 basis point increase in the prime rate would result in additional interest expense of \$0.6 million on an annualized basis.

In addition to the variable rate debt disclosed above, we have fixed rate debt with a carrying value of \$100.0 million (relating to the 9 1/2% senior subordinated notes due 2007) and \$250.0 million (relating to the 9 1/2% senior subordinated notes due 2007 as well as the 9% senior subordinated notes due 2011) as of December 31, 2000 and September 30, 2001, respectively, with an aggregate fair value of \$255.0 million as of September 30, 2001. We are exposed to changes in the fair value of these financial instruments based on changes in the market rate of interest on this debt. Although the ultimate value of these notes will be determined by actual market prices, since all of these notes will be tradeable upon completion of the exchange for the 9% senior subordinated notes. Using mathematical formulas we estimate that a hypothetical 1% increase in market interest rates would result in a decrease in the aggregate fair value of the notes to approximately \$241.2 million and a hypothetical 1% decrease in the market interest rates would result in the increase of the fair value of the notes to approximately \$270.3 million.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Incident to our business activities, we are a party to a number of legal proceedings, lawsuits, arbitration and other claims, including the Gospel Communications International, Inc. ("GCI") matter described in more detail below. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Also, we maintain insurance which may provide coverage for such matters. Consequently, our management is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters as of September 30, 2001. However, our management believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our financial position, results of operations or cash flows.

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

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

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

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

Exhibit Number	Description of Exhibits
10.04.01	Employment Agreement, dated September 15, 2000, between Salem Communications Holding Corporation and David A.R. Evans
10.08.13	Local Marketing Agreement dated September 14, 2001 between Inland Radio, Inc. and Hi-Favor Broadcasting, L.L.C.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 2001.

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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.

SALEM COMMUNICATIONS CORPORATION

November 14, 2001

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
President and Chief Executive Officer

November 14, 2001

By: /s/ DAVID A. R. EVANS

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

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EXHIBIT INDEX

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EXHIBIT 10.04.01

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 15th day of September, 2000, by and between Mr. David Evans ("Executive") and Salem Communications Holding Corporation ("Salem"), a Delaware corporation.

Background Statement

Salem desires to employ Executive to serve as its "Senior Vice President & Chief Financial Officer," and Executive desires to accept that position with Salem. This Agreement sets forth the terms and conditions of Executive's employment by Salem and represents the entire agreement of the parties with respect to that subject.

Terms of Agreement

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. Salem hereby employs Executive, and Executive hereby accepts such employment, upon the terms and conditions set forth herein.

2. Position and Duties.

(a) Duties. Executive is employed by Salem as Chief Financial Officer. As such, Executive shall perform all duties incident to such position and consistent with his area of expertise, together with such duties as the CEO or Board of Directors of Salem may prescribe. Executive shall report directly to the Chief Executive Officer of Salem.

(b) Engaging in Other Employment. While employed by Salem, Executive shall not be

employed by any other person or entity. With the written consent of the Board of Directors, Executive may accept paid board or trustee positions for other entities and may accept fees for public speaking and published writings. Executive may reasonably participate as a member in community, civic, or similar organizations and may pursue personal investments that do not interfere with the normal business activities of Salem.

(c) Loyal and Conscientious Performance. Executive shall devote all of his business time, attention, skills and efforts to the business of Salem and the faithful performance of his duties hereunder, and agrees to abide by all by-laws, policies, practices, procedures or rules of Salem. In the performance of his duties, Executive shall at all times be subject to the control and supervision of the CEO and Board of Directors of Salem and shall carry out the duties of the position to the best of his abilities. Executive also agrees that he shall not take personal advantage of any business opportunities which arise during his employment and which may benefit Salem. All material facts regarding such opportunities must be promptly reported by the Executive to his supervisor for consideration by Salem.

3. Term of Employment. The term of the employment pursuant to this Agreement shall commence on the date first written above and end three (3) years from said date unless terminated earlier pursuant to the provisions of this Agreement.

4. Compensation.

(a) Annual Base Salary. Executive's annual base salary shall be as follows:

(i) In the first year of employment, Executive shall be paid Two Hundred Fifty Thousand Dollars (\$250,000),

(ii) In the second year of employment, Executive shall be paid Two Hundred Seventy Thousand Dollars (\$270,000),

(iii) In the third year of employment, Executive shall be paid Two Hundred Ninety Thousand Dollars (\$290,000), and,

(iv) Each such amount shall be payable in equal installments on the 5th and 20th days of each month, subject to applicable state, local and federal income tax and social security tax withholding requirements and other amounts as permitted or required pursuant to law, rule or regulation.

(b) Stock Options. Executive shall be entitled an option to purchase up to 25,000 shares of Salem stock at a price equal to the market price for Salem stock as measured at the close of trading on the first date of Executive's employment, subject to Salem's customary terms and restrictions regarding options, including the requirement of vesting, and further provided that 1/4 of such options shall vest on each anniversary of the first date of Executive's employment.

(c) Annual Bonus. In addition to the annual base salary Executive shall be eligible for an annual merit bonus in an amount to be determined at the discretion of the Board of Directors of Salem; provided (i) that such merit bonus may be paid in cash, options or a combination thereof and (ii) that in the first year of employment such bonus shall not, in any event, be less than \$15,000 cash.

(d) Signing Bonus. Executive shall be entitled to a one-time bonus of Ten Thousand Dollars (\$10,000) upon commencement of employment.

(e) Professional License Fees. Salem will pay the reasonable expenses associated with maintaining Executive's CPA License as well as the reasonable expenses associated with any Continuing Professional Education required to maintain the license.

(f) Expenses. Salem shall reimburse Executive for all reasonable and necessary business expenses, including travel, incurred by Executive in the course of performing Executive's duties hereunder.

5. Fringe Benefits. Except as set forth below in this Section, Executive shall be eligible to participate in all benefit plans that are available to all executive level Salem employees from time to time pursuant to the terms of such plans. The availability and terms of such fringe benefits shall be set by the Board of Directors and may change from time-to-time. Executive shall be required to comply with all conditions attendant to coverage by the fringe benefit plans hereunder and shall be entitled to benefits only in accordance with the terms and conditions of such plans as they may be enumerated from time to time.

(a) Vacation. Notwithstanding such vacation time as allocated in Salem's Employee Handbook, Executive shall accrue three (3) weeks of vacation annually during the first full year of employment and shall accrue four (4) weeks of vacation annually thereafter.

(b) Health Insurance. Notwithstanding the foregoing, Executive shall be entitled to health care coverage for himself and his dependents in accordance with any health plan available to executive level employees of Salem.

6. Confidential Information. Executive acknowledges that during Executive's employment with Salem, Executive will acquire, be exposed to and have access to material, data, and information of Salem, Company Affiliates and Related Entities that is confidential, proprietary, and/or a trade secret (collectively, "Confidential Information"). At all times, both during and after the termination of employment, Executive shall keep and retain in confidence and shall not disclose, except as required in the course of Executive's employment with Salem or as required by law, to any person, firm, or corporation, or use for his own purposes, any of this Confidential Information. For purposes of this Agreement, Confidential Information shall include, but shall not be limited to: information of Salem, Company Affiliates and Related Entities concerning principals, customers or prospective customers, and employees; advertising and sales methods; proprietary information; computer code and processes; trade secrets; financial affairs or methods of procurement; marketing and business plans; strategies; projections; business opportunities; research; development; Executives' compensation; products; processes; client lists; sales and cost information; and financial results and performance. Executive acknowledges that the obligations pertaining to the confidentiality and non-disclosure of Confidential Information shall remain in effect until the such information has been voluntarily disclosed to the public or has become generally known to

the public (except where such public disclosure has been made by or through Executive or by a third person or entity with knowledge of Executive without authorization of Salem), in which case Executive's obligation hereunder shall cease with respect only to such information so disclosed or generally known. Executive's obligations under this Section 6 shall survive any termination of his employment.

7. Termination.

(a) In the event of Executive's resignation or termination for Cause, Executive shall be entitled only to the compensation earned through the date of termination. In the event of Executive's termination without Cause, in addition to Executive's base salary earned through the date of termination, and upon execution of a separation agreement, Executive shall be entitled to receive: (1) severance in an amount equal to (i) the base salary Executive would otherwise have received for six (6) months, if such termination occurs in the first full year of employment, and (ii) the lesser of (a) the base salary Executive would otherwise have received for the remaining term of this Agreement had Salem not terminated this Agreement or (b) the base salary Executive would otherwise have received for nine (9) months had Salem not terminated this Agreement, if such termination occurs after the first full year of employment; and (2) professional outplacement assistance for twelve (12) consecutive months. Termination, with or without cause, or resignation, shall not affect any rights of Executive that have become vested under any benefit plan, stock option plan or arrangement.

(b) For the purposes of this Agreement, "Cause" shall mean, without limitation, the following: (i) the death of Executive; (ii) any mental or physical impairment which prevents Executive from performing the essential functions of his full duties for a period of 90 days at anytime during the term of this Agreement ("Disability"); (iii) continued gross neglect, malfeasance or gross insubordination in performing duties assigned to Executive; (iv) a conviction for a crime involving moral turpitude; (v) an egregious act of dishonesty (including without limitation theft or embezzlement) in connection with employment, or a malicious action by Executive toward Salem, Company Affiliates or Related Entities; (vi) a violation of the provisions of Sections 6 hereof; (vii) a willful breach of this Agreement; (viii) disloyalty; and (ix) material and repeated failure to carry out reasonably assigned duties or instructions consistent with Executive's position.

8. Additional Post-Employment Obligations.

(a) Company Property. All records (including computer generated records), files (including computer generated files), lists (including computer generated lists), computer code, drawings, documents, equipment, Inventions, and similar items relating to the Business which Executive shall prepare or receive from Salem, Company Affiliates or Related Entities shall remain Salem's sole and exclusive property. Upon termination of this Agreement, Executive shall promptly return to Salem all property of Salem in his possession. Executive further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to Salem. Executive additionally represents that, upon termination of his employment with Salem, he will not retain in his possession any such software, documents, or other materials.

(b) Cooperation. Executive agrees to reasonably cooperate with and provide assistance to Salem and its legal counsel in connection with any litigation (including arbitration or administrative hearings) or investigation affecting Salem, in which, in the reasonable judgment of Salem's counsel, Executive's assistance or cooperation is needed. Executive shall, when requested by Salem, provide testimony or other assistance and shall travel at Salem's request in order to fulfill this obligation. All reasonable costs of the foregoing, including an amount to reasonably compensate Executive for any lost salary, shall be reimbursed by Salem.

9. Assignment of Inventions. Executive understands and agrees that Executive is performing work for hire for Salem and that any Inventions developed or conceived by Executive during Executive's employment with Salem are the sole property of Salem. Executive agrees to assign, and does hereby assign, to Salem or its nominees, all right, title and interest in and to Inventions made by Executive. Executive will, with reasonable reimbursement for expenses, but at no other expense to Salem, at any time during or after Executive's employment with Salem, sign and deliver all lawful papers and cooperate in such other lawful acts which may be reasonably necessary or desirable to protect or vest title in Inventions in Salem or its nominees, including applying for, obtaining, maintaining, and enforcing copyrights and/or patents on Inventions in all countries of the world. Provided, however, that nothing herein shall require Salem to accept or perfect any such assignment or other conveyance of any interest in any patent or Inventions or require Salem to prosecute such patent or other application. This provision does not apply to any Inventions for which Executive affirmatively proves that no equipment, supplies, facility, or trade secret information of Salem was used and which was developed entirely on Executive's own time unless (a) the Inventions relate (i) directly to the Business, or (ii) to Salem's actual research or development; or (b) the Inventions result directly from any work performed by Executive for Salem. For the purposes of this Agreement, "Inventions" shall mean any inventions, discoveries, programs, techniques, underlying designs, concepts, products, processes, and systems, as well as any other discoveries, concepts and ideas, whether capable of registration or not, relating to any present or prospective activities or business of Salem.

10. Notice. Any notice to be given hereunder by either party to the other may be effectuated either by personal delivery in writing or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notices shall be addressed to the parties at the following addresses:

If to Salem:

Edward G. Atsinger III
President & CEO
Salem Communications Corporation
4880 Santa Rosa Road, Suite 300
Camarillo, California 93012

If to Executive:

Mr. David Evans
23212 Oxnard Street
Woodland Hills, California 91367

11. Waiver of Breach. The waiver by any party to a breach of any provision in this Agreement cannot operate or be construed as a waiver of any subsequent breach by a party. Any waiver or consent from Salem with respect to any term or provision of this Agreement or any other aspect of Executive's conduct or employment shall be effective only in the specific instance and for the specific purpose for which given and shall not be

deemed, regardless of frequency given, to be a further or continuing waiver or consent. The failure or delay of Salem at any time or times to require performance of, or to exercise any of its powers, rights or remedies with respect to, any term or provision of this Agreement or any other aspect of Executive's conduct or employment in no manner (except as otherwise expressly provided herein) shall affect Salem's right at a later time to enforce any such term or provision.

12. Severability. The invalidity or unenforceability of any particular provision in this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if the invalid or unenforceable provision were omitted.

13. Entire Agreement. Except as otherwise provided herein, this Agreement covers the entire understanding of the parties as to the employment of Executive, superseding all prior understandings and agreements, and no modifications or amendments of the terms and conditions herein shall be effective unless in writing and signed by the parties or their respective duly authorized agents.

14. Governing Law. This Agreement shall be interpreted, construed and governed according to the laws of the State of California, without reference to conflicts of law principles thereof.

15. Successors and Assigns. Neither this Agreement, nor any of Executive's rights, powers, duties or obligations hereunder, may be assigned by Executive. This Agreement shall be binding upon and inure to the benefit of Executive and his heirs and legal representatives and Salem and its successors. Successors of Salem shall include, without limitation, any company or companies acquiring, directly or indirectly, all or substantially all of the assets of Salem, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "Salem" for the purpose hereof.

16. Forum Selection. Executive agrees that any dispute of any kind arising out of or relating to this Agreement or to Executive's employment (including without limitation any claim arising under the federal civil rights statutes), other than for the equitable enforcement of Sections 6 and 7 of this Agreement, shall be submitted to final, conclusive and binding arbitration before and according to the rules then prevailing of, at the election of Executive, Christian Conciliatory Services or the American Arbitration Association, in Ventura County, California. The results of any such arbitration proceeding shall be final and binding both upon Salem and upon Executive, and shall be subject to judicial confirmation as provided by the Federal Arbitration Act or other applicable law. Notwithstanding the foregoing, Executive agrees that Salem may seek equitable enforcement of Section 6 of this Agreement in any court with competent jurisdiction, without obligation to prove actual damages or to post bond or other security.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

SALEM COMMUNICATIONS HOLDING CORPORATION

EXECUTIVE

By: /s/ Edward G. Atsinger III

By: /s/ David Evans

Edward G. Atsinger III
President & CEO

David Evans

EXHIBIT 10.08.13

LOCAL PROGRAMMING AND MARKETING AGREEMENT
(KEZY-AM, San Bernardino, California)

This Local Programming and Marketing Agreement ("Agreement"), dated as of September 14, 2001, is entered into by and between Inland Radio, Inc. ("Licensee"), and Hi-Favor Broadcasting, L.L.C. ("Programmer").

WHEREAS, Licensee is the owner of certain assets relating to radio station KEZY-AM, San Bernardino, California (the "Station") and holds all of the licenses and authorizations issued by the FCC for the operation of the Station;

WHEREAS, Programmer desires to purchase substantially all of the assets of the Station, including, without limitation, the licenses and authorizations issued by the FCC for the operation of the Station, and Seller is willing to convey such assets to Buyer;

WHEREAS, on June 26, 2001, Licensee and Programmer entered into an agreement for the sale of the Station by Licensee to Programmer (the "Asset Purchase Agreement").

WHEREAS, on August 27, 2001, the FCC approved of the transfer of the Station's broadcast license to Programmer;

WHEREAS, the parties have agreed to postpone consummation of the transactions contemplated by the Asset Purchase Agreement until November 2, 2001;

WHEREAS, subject to the rules and regulations of the FCC, the provisions of this Agreement and the provisions of Schedule 2 hereof, the parties intend that Programmer shall be responsible for all costs and fees associated with the Station it otherwise would, had the parties consummated the transactions contemplated by the Asset Purchase Agreement;

WHEREAS, in accordance with procedures and policies approved by the FCC, Programmer desires to avail itself of Station's broadcast time for the presentation of a programming service, including the sale of program

and advertising time in contemplation of the potential sale of the Station to Programmer;

WHEREAS, in accordance with procedures and policies approved by the FCC, Licensee desires to provide to Programmer the Station's broadcast time for the presentation of a programming service, including the sale of program and advertising time in contemplation of the potential sale of the Station to Programmer;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Purchase of Air Time and Broadcast of the Programming. Subject to the provisions of Section 4 hereof, Licensee agrees to make the broadcasting transmission facilities of the Station available to the Programmer and to broadcast on the Station, or cause to be broadcast, the Programmer's programs (the "Programming") for up to twenty-four (24) hours a day, seven (7) days a week, except for the broadcast of Licensee's public service programming as provided in Section 10.1 of this Agreement ("Licensee Programming"). The facilities and the transmitting equipment of Licensee relating to the Station, including any equipment owned by Licensee not currently in service, reasonably shall be made available to the Programmer for its use during the term of this Agreement.

2. Consideration. The terms and conditions of payment ("Consideration") to Licensee for the broadcasting of the Programming during the term of this Agreement shall be as set forth in Schedule 2.

3. Term.

3.1 Commencement/Termination Date.

3.1.1. This Agreement shall commence upon the date (the "Commencement Date") agreed to between the parties that is within five (5) days of written notice from Programmer to Licensee that Programmer has use of functioning studios in San Bernardino, California to operate the Station

3.1.2. Unless earlier terminated as provided by this Agreement, the term of this Agreement shall end upon the earliest to occur of (i) the termination of the Asset Purchase Agreement; (ii) the Closing Date, as defined in the Asset Purchase Agreement; or (iii) termination pursuant to Section 17, Section 18, or Section 19 herein (the "Termination Date"). In the event that either party receives formal or informal notice from the FCC that this Agreement or any of its terms are contrary to the public interest or violative of any FCC statute, regulation, rule, or policy, either party shall, if and to the extent the substance of this Agreement cannot be maintained by the application of Section 31 of this Agreement, have the right to terminate this Agreement immediately by written notice to the other party.

3.2 Termination by FCC. In the event that either party receives formal or constructive notice from the FCC that this Agreement or any of its terms are contrary to the public interest or violative of any FCC statute, regulation, rule or policy, either party shall have the right to terminate this Agreement (except to the extent the provisions of Section 21 shall survive as provided therein) immediately by written notice to the other party.

4. The Programming. The Programmer shall furnish programming to Licensee for up to 24 hours a day, seven days a week, except for the broadcast of Licensee's Programming. The nature of the program service to be provided by the Programmer will be determined by Programmer subject to applicable FCC rules and regulations and subject further to the requirement that Programming will serve the public interest. Throughout the term of this Agreement Programmer shall provide sufficient programming at least to meet the minimum operational requirements for AM broadcast Stations as provided by Section 73.1740 of the FCC's Rules and Regulations. 47 C.F.R. § 73.1740. At the date of this Agreement, that minimum requires at least eight (8) hours of programming between the hours of 6:00 a.m. and 6:00 p.m., local time; and at least four (4) hours of programming between the hours of 6:00 p.m. and midnight.

4.1. Licensee's Programming. Licensee shall be entitled, but not obligated, to provide and broadcast four (4) hours per week of programming on the Station, including public affairs programming to address the issues and problems of San Bernardino, California, and the surrounding service area. Nothing herein shall be interpreted or construed to restrict to the hours set forth in this subsection the Licensee's general authority over programming under this Agreement. In all such cases, Licensee will use its best commercially reasonable efforts to give Programmer reasonable advance notice of its intention to broadcast pursuant to this section and, in the event of such broadcasts, Programmer shall receive a payment credit for any programming which would have been supplied by it during the time of such broadcasts by Licensee.

5. Station Facilities. Throughout the term of this Agreement, Licensee shall make the Station available to the Programmer as provided in this Agreement, except for Licensee's Programming and downtime occasioned by routine maintenance which will be performed between the hours of 12 midnight and 6:00 a.m. Except for maintenance work and other improvements to the Station or the Station's equipment performed by or at the direction of Programmer, any maintenance work affecting the operation of the Station at full power, except such emergency maintenance as is required to maintain compliance with the Station's license or FCC regulations, rules or policies, shall be scheduled upon at least 48 hours prior notice with the agreement of the Programmer, which agreement shall not be unreasonably delayed or withheld.

6. Handling of Mail. The Programmer shall provide to Licensee the original or a copy of any correspondence which it receives from a member of the public relating to the Programming to enable Licensee to comply with FCC rules and policies, including those regarding the maintenance of the public inspection file (which shall at all times remain the responsibility of Licensee).

7. Programming and Operations Standards. All programs supplied by the Programmer shall be in good taste and shall meet in all material respects all requirements of the Communications Act of 1934 and all applicable rules, regulations and policies of the FCC and the policies of the Station described in Schedule 7. All advertising spots and promotional material or announcements shall comply with all applicable federal, state and local regulations and Station policies. IF, in the reasonable judgment of Licensee or the Station's General Manager, any portion of the Programming presented by the Programmer does not meet such standards, Licensee may suspend or cancel any such portion of the Programming.

8. Responsibility for Employees and Related Expenses.

8.1 Programmer Employees. The Programmer shall furnish (or cause to be furnished) the personnel and material for the production of the Programming to be provided by this Agreement. The Programmer shall employ and be responsible for the salaries, taxes, insurance and related costs and benefits for all personnel used in the production of Programming (including sales people, traffic personnel and programming staff). The Programmer shall not pay or reimburse the salaries or other costs associated with any employees of Station that Licensee may be required to employ or may elect to employ on or after the date of commencement of this Agreement.

8.2 Licensee Employees. Licensee will provide and have responsibility for the Station personnel necessary for compliance with the requirements of Licensee as set forth by the FCC, and will be responsible for the salaries, taxes, insurance and related costs for all such Station personnel. The parties agree and acknowledge that Licensee's continued control of the Station is an essential element of the continuing validity and legality of this Agreement. Accordingly, the Manager of the Station shall be employed and paid by Licensee, report solely to, and be accountable solely to, Licensee and shall direct, subject to Licensee's exclusive oversight and control, the day-to-day operations of the Station. Licensee shall employ and pay such other full-time personnel, or equivalent thereof (not less than one), as Licensee determines may be necessary to fulfill its obligations as a licensee under the Communications Act and the rules and regulations of the FCC.

8.3 Employee Oversight. Whenever on the Station's premises, all personnel shall be subject to the supervision and the direction of the Station's General Manager and/or the Station's Chief Operator.

9. Advertising and Programming Revenues. During the Programming it delivers to the Station, the Programmer shall have full authority to sell for its own account commercial spot advertising and block programming time on the Station and to retain all revenues from the sale of such advertising and programming. The parties agree that the Programmer shall have complete discretion, reasonably exercised, to deal as it deems reasonably appropriate with all advertising and programming accounts relating to advertising and programming sold by it; provided, however, the Programmer shall deal with political candidate and supporter advertising as required by law and provide Licensee with requisite documentation for the Station's public file. Programmer shall prepare and supply to Licensee a Political Advertising Disclosure Statement setting forth the manner in which Programmer sells program and spot time and informing political advertisers of their rights and obligations. The Political Advertising Disclosure Statement shall be subject to the approval of Licensee, which approval shall not unreasonably be withheld.

10. Operation of the Station.

10.1 Verification of Licensee's Control and Rights of Licensee. Notwithstanding anything to the contrary in this Agreement, Licensee shall have full authority and power over the operation of the Station during the period of this Agreement. Licensee shall provide and pay for Licensee's employees, who shall report and be accountable solely to Licensee, shall be responsible for the direction of the day-to-day operation of the Station, and shall oversee the Station's studio and transmission equipment and facilities, including the tower, antenna, transmitter and transmission line, and Station's studio transmitter link. Licensee shall retain control over the policies, programming and operations of the Station, including, without limitation, the right to decide whether to reasonably accept or reject any programming or advertisements which Licensee deems unsuitable or contrary to the public interest; the right to preempt any programs in order to broadcast a program deemed by Licensee to be of greater national, regional, or local interest; and the right to take any other actions necessary for compliance with the laws of the United States, the State of California, the rules, regulations, and policies of the FCC (including the prohibition on unauthorized transfers of control), and the rules, regulations and policies of other federal governmental authorities, including the Federal Trade Commission and the Department of Justice. Licensee agrees that it shall carry its own public service programming at such times as the parties may agree based on the reasonable programming needs of the Programmer. With respect to the operation of the Station, Licensee shall at all times be solely responsible for meeting all of the FCC's requirements with respect to the broadcast and nature of any public service programming, for maintaining the political and public inspection files and the Station log, and for the preparation of all programs/issues lists. Licensee verifies that it shall maintain the ultimate control over the Station's facilities, including control over the finances with respect to its operation of the Station, over the personnel operating the Station, and over the programming to be broadcast by the Station.

10.2. Verification by Programmer and Obligations of Programmer. The Programmer will, during the term of this Agreement, provide local news and public affairs programming relevant to the Station's community to assist Licensee in satisfying its obligations to respond to the needs of its community. Programmer will also forward to Licensee within twenty-four (24) hours of receipt by Programmer, any correspondence from the FCC regarding the Station or letter from a member of the general public addressing Station programming or documentation which comes into its custody which is required to be included in the Station's public file or which is reasonably requested by Licensee. The Programmer shall furnish within the Programming on behalf of Licensee all station identification announcements required by the FCC rules, and shall, upon request by Licensee, provide monthly documentation with respect to such of the Programmer's programs which are responsive to the public needs and interests of the area served by the Station in order to assist Licensee in the preparation of any required programming reports. Programmer also will provide upon request other information to enable Licensee to prepare other records, reports and logs required by the FCC or other local, state or federal governmental agencies. Programmer shall cause the Station to transmit any required tests or announcements of the Emergency Alert System at such times as are required by FCC rule. Programmer shall maintain and deliver to Licensee copies of all operating and programming information, including without limitation EBS or EAS announcements and station operating logs, as necessary to maintain the records required to be kept by the FCC's rules or policies.

11. Station Call Letters. So long as it is the licensee of the Station, Licensee will retain all rights to the call letters KEZY-AM (the "Call Letters"). Programmer is specifically authorized to use the Call Letters in Programmer's Programming and, subject to the conditions and provisions of Section 7.2, in any promotional material in any media used in connection with the Programming.

12. Special Events. Licensee shall have the right, in its reasonable discretion, to preempt any of the broadcasts of the Programming referred to herein, and to use part or all of the hours of operation of the Station for the broadcast of events of special importance. In all such cases, Licensee will use its best, commercially reasonable, efforts to give the Programmer reasonable advance notice of its intention to preempt any

regularly scheduled programming, and, in the event of such preemption, the Programmer shall receive a payment credit for any programming which would have been supplied by it during the time of such broadcasts by Licensee.

13. Right to Use the Programming. The right to use the Programming produced by the Programmer and to authorize its use in any manner and in any media whatsoever shall be at all times be vested solely in the Programmer except as authorized by this Agreement.

14. Payola. The Programmer will provide to Licensee in advance of broadcast any information known to the Programmer regarding any money or other consideration which has been paid or accepted, or has been promised to be paid or to be accepted, for the inclusion of any matter as a part of any programming or commercial material to be supplied to Licensee by the Programmer for broadcast on the Station, unless the party making or accepting such payment is identified in the program as having paid for or furnished such consideration in accordance with FCC requirements. Should the Station determine that an announcement is required by Section 317 of the Communications Act of 1934 and related FCC rules, the Programmer will insert that announcement in the Programming. The Programmer will obtain from its employees responsible for the Programming appropriate anti-payola/plugola affidavits. Commercial matters with obvious sponsorship identification will not require disclosure beyond the sponsorship identification contained in the commercial copy. The Programmer will at all times comply, and seek to have its employees comply, in all material respects with the requirements of Sections 317 and 507 of the Communications Act of 1934, as amended, and the related rules and regulations of the FCC.

15. Compliance with Law. The Programmer will comply in all material respects with all laws and regulations applicable to the broadcast of programming by the Station.

16. Indemnification. Each party hereto shall indemnify and hold the other, its officers, directors, stockholders, partners, affiliates and employees harmless from and against any and all claims, damages, liability, forfeitures, costs and expenses, including reasonable attorneys' fees, arising out of: (i) any breach or non-performance by said party of any of its representations, warranties, covenants or agreements set forth in this Agreement; (ii) any libel, slander, illegal competition or trade practice, violation of rights of privacy, and infringement of copyrights or other proprietary rights; and (iii) any violations of the Communications Act of 1934 or FCC rules resulting from said party's operation of the Station or its programming broadcast thereon.

17. Events of Default; Cure Periods and Remedies.

17.1 Events of Default. The following shall constitute Events of Default under this Agreement:

17.1.1 Non-Payment. The Programmer's failure to pay the Consideration within ten (10) days after written notice of a failure to pay said amount when due.

17.1.2 Default in Covenants or Adverse Legal Action. The default by either party in the performance of any material covenant, condition or undertaking contained in this Agreement, and such default is not cured within thirty (30) days after receipt of notice of default, or if either party shall make a general assignment for the benefit of creditors, files or has filed against it a petition for bankruptcy, for reorganization, or for the appointment of a receiver, trustee or similar creditors' representative for the property or assets of such party under any federal or state insolvency law, which, if filed against such party, has not been dismissed or discharged within 30 days thereafter.

17.1.3 Breach of Representation. If any material representation or warranty made by either party in this Agreement, or in any certificate or document furnished by either party to the other pursuant to the provisions of this Agreement, shall prove to have been false or misleading in any material respect as of the time made or furnished, and such misrepresentation or breach of warranty is not cured within thirty (30) days after receipt of notice of misrepresentation or breach.

17.2 Termination Upon Default. Upon the occurrence of an Event of Default, the non-defaulting party may terminate this Agreement (except to the extent the provisions of Section 21 shall survive as provided therein), provided that it is not also in material default under this Agreement. If the Programmer has defaulted in the performance of its obligations, all amounts accrued or payable to Licensee up to the date of termination which have not been paid, less any payment credits outstanding in favor of the Programmer, shall immediately become due and payable, and Licensee shall be under no further obligation to make available to the Programmer any broadcast time or broadcast transmission facilities and Licensee shall not be required to return any portion of the Consideration, provided that Licensee agrees, for a period of time not to exceed ninety (90) days, to cooperate reasonably with the Programmer to discharge any remaining obligations of the Programmer in the form of air time following the effective date of termination. Licensee shall retain all revenue for programming, spots, announcements, or features broadcast on the Station after the termination of this Agreement pursuant to this Section 17.2. If Licensee has defaulted in the performance of its obligations, Programmer shall be entitled to cure the default of Licensee, at Licensee's sole cost for actual, reasonable costs and expenses incurred by Programmer relating to the cure of Licensee's default, and shall be entitled to deduct the cost of said cure from any Consideration which is or may become due; provided, however, that in the event Programmer shall elect to terminate this Agreement, all Consideration paid to Licensee which relates to periods after termination shall immediately become due and payable by Licensee to Programmer.

17.3 Liabilities Upon Termination. The Programmer shall be responsible for all of its liabilities, debts and obligations accrued from the purchase of broadcast time and transmission facilities of the Station, including, without limitation, indemnification pursuant to Section 16 hereof, accounts payable, barter agreements and unaired advertisements, but not for Licensee's federal, state, and local tax liabilities associated with Programmer's payments to Licensee as provided for herein, or for any other obligations or liabilities of Licensee or the Station unless specifically assumed by the Programmer under this Agreement. Upon termination, the Programmer shall return to Licensee any equipment or property of the Station used by the Programmer, its employees or agents, in substantially the same condition as such equipment existed on the date of this Agreement, ordinary wear and tear excepted, provided that the Programmer shall have no liability to Licensee for any property of Licensee which through ordinary use became obsolete or unusable, and any equipment purchased by the Programmer, whether or not in replacement of any obsolete or unusable equipment of Licensee, shall remain the property of the Programmer. Provided Programmer is not in default hereof, in the event this Agreement shall terminate as set forth in Section 3.2, Licensee shall pay Programmer a prorated share of the Consideration that is paid in advance to Licensee by Programmer.

18. Termination Upon Order of Judicial or Governmental Authority.

18.1 Conduct of the Parties. If any court of competent jurisdiction or any federal, state or local governmental authority designates a hearing with respect to the continuation or renewal of any license or authorization held by Licensee for the operation of the Station, advises any party to this Agreement of its intention to investigate or to issue a challenge to or a complaint concerning the activities permitted by this Agreement, or orders the termination of this Agreement and/or the curtailment in any manner material to the relationship between the parties to this Agreement of the provision of programming by Programmer, each party shall have the option to seek administrative or judicial appeal of or relief from such order(s) (in which event the other party reasonably shall cooperate with the party seeking relief from such order and each party shall be responsible for legal fees it has incurred in such proceedings). Notwithstanding the foregoing:

18.1.1 Of Licensee. Subject to Section 16, Licensee is responsible for all costs of defending the license of the Station to the extent any court of competent jurisdiction or any federal, state or local governmental authority designates a hearing with respect to the continuation or renewal of any license or authorization held by Licensee for the operation of the Station, advises any party to this Agreement of its intention to investigate or to issue a challenge to or a complaint concerning the activities permitted by this Agreement, or orders the termination of this Agreement and/or the curtailment in any manner material to the relationship between the parties to this Agreement of the provision of programming by Programmer, as a result of the conduct or programming of Licensee, or its employees or agents (excluding Programmer).

18.1.2 Of Programmer. Subject to Section 16, Programmer is responsible for all costs of defending the license of the Station to the extent any court of competent jurisdiction or any federal, state or local governmental authority designates a hearing with respect to the continuation or renewal of any license or authorization held by Licensee for the operation of the Station, advises any party to this Agreement of its intention to investigate or to issue a challenge to or a complaint concerning the activities permitted by this Agreement, or orders the termination of this Agreement and/or the curtailment in any manner material to the relationship between the parties to this Agreement of the provision of programming by Programmer, as a result of the conduct or programming of Programmer or its employees or agents (excluding Licensee).

18.2 Existence of the LMA. If the FCC designates the renewal application of the Station for a hearing as a consequence of the existence of this Agreement per se or for any reason other than as a result of the conduct or programming of Programmer, Licensee, subject to Section 16, shall be responsible for its expenses incurred as a consequence of the FCC proceeding; provided, however, that the Programmer shall cooperate and comply with any reasonable request of Licensee to assemble and provide to the FCC information relating to the Programmer's performance under this Agreement. Upon termination following such governmental order(s), Licensee shall reasonably cooperate with the Programmer to the extent permitted to enable the Programmer to fulfill advertising or other programming contracts then outstanding. Licensee shall retain all revenue for programming, spots, announcements, or features broadcast on the Station after the termination of this Agreement pursuant to such governmental order(s).

19. Representations and Warranties.

19.1 Mutual Representations and Warranties. Each of Licensee and the Programmer represents to the other that (a) it is, or as of the Commencement Date will be, an entity legally qualified and in good standing in all applicable jurisdictions and is or, as of the Commencement Date will be, qualified to do business and in good standing with the State of California; (b) it is fully qualified, empowered, and able to enter into this Agreement; (c) this Agreement has been approved by all necessary corporate and partnership action and that this Agreement constitutes the valid and binding obligation of such party, enforceable in accordance with the terms of this Agreement subject only to applicable bankruptcy, reorganization, insolvency or similar laws affecting creditors' rights generally; (d) the execution, delivery and performance hereof does not constitute a breach or violation of any agreement, contract or other obligation to which such party is subject or by which it is bound, or does not constitute a default under or result in the creation of any lien, charge or encumbrance upon any property or assets of Programmer or Licensee, or violate any law, regulation, judgment or order binding upon Programmer or Licensee; (e) no consent of any other party, and no consent, license, approval or authorization of, or exemption by, or filing, restriction or declaration with, any governmental authority, bureau, agency or regulatory authority is required in connection with the execution, delivery, validity or enforceability of this Agreement; and (f) no proceeding is pending against Programmer or Licensee, or, to the knowledge of Programmer or Licensee, threatened before any court or governmental agency to restrain or prohibit, or to obtain damages, or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby. Programmer represents that it has not engaged a media broker in connection with this Agreement; Licensee represents that it has not engaged a media broker in connection with this Agreement and Programmer and Licensee each agrees to indemnify the other and hold the other harmless against any claim any media broker or finder based upon any agreement, arrangement, or understanding alleged to have been made by Programmer or by Licensee, as the case may be.

19.2 Representations, Warranties and Covenants of Licensee. Licensee makes the following additional representations, warranties and covenants:

19.2.1 Authorizations. Licensee owns and holds all licenses and other permits and authorizations necessary for the operation of the Station as presently conducted (including licenses, permits and authorizations issued by the FCC), and such licenses, permits and authorizations will be in full force and effect for the entire term, unimpaired by any acts or omissions of Licensee, its principals, employees or agents. There is not now pending or, to Licensee's best knowledge, threatened, any action by the FCC or other party to revoke, cancel, suspend, refuse to renew or modify adversely any of such licenses, permits or authorizations, and, to Licensee's best knowledge, no event has occurred that allows or, after notice or lapse of time or both, would allow, the revocation or termination of such license, permits or authorizations or the imposition of any restriction thereon of such a nature that may limit the operation of the Station as presently conducted. Licensee has no reason to believe that any such license, permit or authorization will not be renewed during the term of this Agreement in its ordinary course. Licensee is not in violation of any statute, ordinance, rule, regulation, order or decree of any federal, state, local or foreign governmental agency, court or authority having jurisdiction over it or over any part of its operations or assets, which default or violation would have an adverse effect on Licensee or its assets or on its ability to perform this Agreement.

19.2.2 Filings. All material reports and applications required to be filed with the FCC or any other governmental agency, department or body in respect of the Station have been, and in the future will be, filed in a timely manner and are and will be true and complete and accurately present the information contained therein. All such reports and documents, to the extent required to be kept in the public inspection files of the Station, are and will be kept in such files. Upon request by Licensee, Programmer shall provide in a timely manner any such information or documents in its possession which will enable Licensee to prepare, file or maintain the records and reports required by the FCC.

19.2.3 Title to Properties. Licensee has, and will throughout the term hereof maintain, good and marketable title to all of the assets and properties including, without limitation, real property, necessary for the operation of the Station, free and clear of any liens, claims or security interests that would affect adversely Licensee's performance hereunder or the business and operations of Programmer permitted hereby. Except in the ordinary course of business of the Station consistent with past practices, Licensee will not dispose of, transfer, assign or pledge any such asset, except with the prior written consent of Programmer, if such action would affect adversely Licensee's performance hereunder or the business and operations of Programmer permitted hereby.

19.2.4 Payment of Obligations. Licensee shall pay in a timely fashion all of its debts, assessments and obligations, including without limitation tax liabilities and payments attributable to the operations of the Station, as they come due from and after the effective date of this Agreement, to the extent failure to do so will affect Programmer's rights under this Agreement.

19.2.5 Insurance. Licensee will maintain in full force and effect throughout the term of this Agreement insurance with responsible and reputable insurance companies fire and extended coverage and liability insurance and such other insurance as may be required by law or consistent with past practice of the Station. Except as otherwise permitted by the Purchase Agreement, any insurance proceeds received by Licensee in respect of damaged property will be used to repair or replace such property so that the operations of the Station conform with this Agreement.

19.3. Programmer's Representations, Warranties and Covenants.

19.3.1 Compliance with 47 C.F.R. Sec. 73.3555(a)(2)(ii). Programmer hereby verifies that this Agreement complies with the FCC's restrictions on local and national multiple station ownership set out in Section 73.3555(a)(1) and (e)(1) of the FCC Rules.

19.3.2 Compliance with Applicable Law. Programmer's performance of its obligations under the Agreement and its furnishing of Programming will be in compliance with, and will not violate, any applicable laws or any applicable rules, regulations, or orders of the FCC or any other governmental agency.

19.3.3 FCC Qualifications. Programmer has no knowledge after due inquiry of any facts concerning Programmer or any other person with an attributable interest in Programmer (as such term is defined under the Rules and Regulations of the FCC) which, under present law (including the Communications Act of 1934, as amended ("the Act")) and the Rules and Regulations of the FCC, would disqualify Programmer from being the holder of the FCC Licenses, the owner of the Sale Assets or the operator of the Station upon consummation of the transactions contemplated by this Agreement; or raise a substantial and material question of fact (within the meaning of Section 309(e) of the Act) respecting Programmer's qualifications.

19.3.4 Compliance with Copyright Act. Programmer represents and warrants that Programmer has full authority to broadcast its programming on the Station and the Programmer shall not broadcast any material in violation of any law, rule, regulation or the Copyright Act. Programmer acknowledges that it is solely responsible for payment of any public performance music license fees or royalties for music contained in the Programming, spots, announcements, features or any other programming of Programmer including, without limitation, fees payable to ASCAP, BMI and/or SESAC.

20. Modification and Waiver. No modification or waiver of any provision of this Agreement shall be effective unless made in writing and signed by the party adversely affected, and any such waiver and consent shall be effective only in the specific instance and for the purpose for which such consent was given.

21. No Waiver: Remedies Cumulative. No failure or delay on the part of Licensee or the Programmer in exercising any right or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the parties to this Agreement are cumulative and are not exclusive of any right or remedies that either may otherwise have.

22. Construction. This Agreement shall be construed in accordance with the laws of the State of California. The obligations of the parties to this Agreement are subject to all federal, state or local laws or regulations, including those of the FCC, now or hereafter in force.

23. Headings. The headings contained in this Agreement are included for convenience only and shall not in any way alter the meaning of any provision.

24. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Neither party may assign any of its rights or obligations under this Agreement without the prior written consent of the other party, except that Programmer may assign its rights and obligations, or any of them, to an entity controlled by or under common control with Programmer without the prior written consent of Licensee.

25. Counterpart Signatures. This Agreement may be signed in one or more counterparts, each of which shall be deemed a duplicate original and be binding on the parties to this Agreement.

26. Notices. Any notice required hereunder shall be in writing and shall be sufficiently given if delivered by a nationally recognized overnight delivery service or sent by registered or certified mail, first class postage prepaid, or by telegram, facsimile or similar means of communication, addressed as follows:

If to Licensee, to:

Inland Radio, Inc.
4880 Santa Rosa Road
Camarillo, CA 93012
Attn: Jonathan L. Block, Vice President
Telephone: (805) 987-0400

If to the Programmer, to:

c/o R.S. Hinz
25233 Anza Drive
Valencia, CA 91355

26.1. Alternate Addressees. Notice, as provided by this Section, may be given to any other person or party, as any party hereto may in the future designate in writing, upon due notice to the other party(ies).

26.2. Date of Notice, Action. The date of delivery by hand, or the postal receipt for deposit with the U.S. Mail or courier service specified herein shall establish the date of such notification or communication. If any notification, communication or action is required or permitted to be given or taken within a certain period of time and the last date for doing so falls on a Saturday, Sunday, or a federal legal holiday, the last day for such notification, communication or action shall be extended to the first date thereafter which is not a Saturday, Sunday or such legal holiday.

27. Expenses; Attorney's Fees. In the event any action is filed with respect to this Agreement, the prevailing party shall be reimbursed by the other party for all its actual costs and expenses incurred in connection with the action, including without limitation reasonable attorney's fees.

28. Entire Agreement. This Agreement embodies the entire agreement between the parties and there are no other agreements, representations, warranties, or understandings, oral or written, between them with respect to the subject matter hereof.

29. Severability. The provisions of this Agreement are severable. If any provision of this Agreement or the application thereof to any person or circumstance is held invalid, the provision or its application shall be modified to the extent possible to reflect the expressed intent of the parties, but in any event invalidity shall not affect other provisions or applications of this Agreement that can be given effect without the invalid provision or application.

30. Specific Performance. Licensee acknowledges that the Station is of a special, unique, and extraordinary character, and that any breach of this Agreement by Licensee could not be compensated for by damages. Accordingly, if Licensee shall breach its obligations under this Agreement, Programmer shall be entitled, in addition to any of the remedies that it may have, to enforcement of this Agreement (subject to obtaining any required approval of the FCC) by decree of specific performance or injunctive relief requiring Licensee to fulfill its obligations under this Agreement. In any action by Programmer to equitably enforce the provisions of this Agreement, Licensee shall waive the defense that there is an adequate remedy at law or equity and agrees that Programmer shall have the right to obtain specific performance of the terms of this Agreement without being required to prove actual damages, post bond or furnish other security.

31. Time of the Essence. Time is of the essence with respect to all rights and obligations of this Agreement.

32. Resolution of Claims and Disputes. Regardless of the place of execution, this Agreement shall be deemed to be a contract made in the State of California and shall be interpreted as a contract to be performed wholly in the State of California. The law of the State of California shall be applied without regard to the principles of conflicts of laws. Each party expressly waives any presumption or rule, if any, which requires this Agreement and/or any other Agreement to be construed against the drafting party. Any claims or disputes arising out of or relating to this Agreement shall be resolved only by mediation or, if mediation does not resolve the claim or dispute within ten (10) days of notice demanding mediation, by arbitration in accordance with the Rules of Procedure for Commercial Arbitration of the American Arbitration Association and any award therefrom shall be rendered by the arbitrators as a judgment in any trial court having jurisdiction in Los Angeles, California or of any other court having competent jurisdiction.

33. No Waiver; Remedies Cumulative. No failure or delay on the part of Licensee or Programmer in exercising any right or power hereunder shall operate as a waiver thereof, nor any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, shall preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of Licensee and Programmer herein provided are cumulative and are not exclusive of any rights or remedies that they may otherwise have.

34. Confidentiality. Subject to the requirements of applicable law, Programmer and Licensee shall each keep confidential all information obtained by it with respect to the other parties hereto in connection with this Agreement and the negotiations preceding this Agreement, and will use such information solely in connection with the transactions contemplated by this Agreement. Notwithstanding the foregoing, no party will be required to keep confidential or return any information which: (i) is known or available through other lawful sources, not known to the disclosing party to be bound by a confidentiality agreement with the disclosing party; (ii) is or becomes publicly known through no fault of the receiving party or its agents; (iii) is required to be disclosed pursuant to a valid order of a judicial or governmental authority (provided the disclosing party is given reasonable prior notice of the order or request and the purpose of disclosure); or (iv) is developed by the receiving party independently of the disclosure by the disclosing party.

35. Explication. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and to the singular include the plural, references to any gender include any other gender, the part includes the whole, the term "including" is not limiting, and the term "or" has, except where

otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, subsection, clause, exhibit and schedule references are to this Agreement, unless otherwise specified. Any reference in or to this Agreement or any of the ancillary agreements includes any and all permitted alterations, amendments, changes, extensions, modifications, renewals, or supplements thereto or thereof, as applicable.

36. No Joint Venture. The parties agree that nothing herein shall constitute a joint venture between them. The parties acknowledge that call letters, trademarks and other intellectual property shall at all times remain the property of the respective parties and, except as provided in Section 21, that neither party shall obtain any ownership interest in the other party's intellectual property by virtue of this Agreement.

37. Cooperation. Each party will cooperate with the other with respect to establishing and attaining the strategic and operational goals of the Station.

38. Construction of Agreement. This Agreement is the product of negotiation and preparation by, between and among Programmer and Licensee and their respective attorneys. Accordingly, the parties hereto acknowledge and agree that this Agreement shall not be deemed prepared or drafted by one party or another, and shall be construed accordingly.

39. Further Assurances. After the Commencement Date, each of the parties, upon the reasonable request of the other, will take such reasonable actions or deliver or execute such further documents, materials, signatures, or information as may be reasonably necessary to assure compliance with, or effectuation of, the terms and conditions to this Agreement and the bona fide good faith intentions of the parties hereto.

40. Schedules and Exhibits. All schedules, exhibits and riders attached to this Agreement shall be deemed part of this Agreement and incorporated herein, where applicable, as if full set forth herein.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"LICENSEE"
Inland Radio, Inc.

"PROGRAMMER"
Hi-Favor Broadcasting, LLC

By: /s/ Jonathan L. Block

By: /s/ R.S. Hinz

Name: Jonathan L. Block
Title: Vice President

Name: R.S. Hinz
Title: Manager

SCHEDULE 2

FEES

(a) Programmer shall pay Licensee \$16,666.00 per month during the term of this Agreement.

(b) For and during the Term hereof, Programmer shall reimburse Licensee for all normal and customary out-of-pocket costs and expenses associated with or arising out of the operation of the Station ("Station Expenses") including (without limitation) the cost to maintain the Station's transmitter and antennas, premiums for insurance, and the cost and expense of all utilities, telephones and music license fees for the operation of the Station. Notwithstanding the preceding sentence, "Station Expenses" shall not include any cost or expenses associated with (i) employment, including salaries, taxes, insurance and related costs, of the employees identified in Section 8.2 hereof, nor (ii) any inter-company charges. All Station Expenses shall be due and payable not later than thirty (30) days after Programmer's receipt of written itemizations of said expenses. Notwithstanding the forgoing, nothing in this Schedule 2 should alter the allocation of expenses set forth in the lease agreement for the Station transmitter site to be entered into between Edward G. Atsinger III, Stuart W. Epperson and Programmer on the Closing Date, which allocation should immediately apply following the Commencement Date as though it had previously become effective.

SCHEDULE 7

The Programmer agrees to cooperate with Licensee in the broadcasting of programs in a manner consistent with the standards of Licensee, as set forth below:

1. Election Procedures. At least 90 days before the start of any primary or regular election campaign, the Programmer will coordinate with Licensee's General Manager the rate the Programmer will charge for time to be sold to candidates for public office and/or their supporters to make certain that the rate charged conforms to all applicable laws and Station policy. Throughout a campaign, the Programmer will comply with all applicable laws and rules concerning political candidacy broadcasts and will promptly notify Licensee's General Manager of any disputes concerning either the treatment of or rate charged a candidate or supporter.

2. Required Announcements. The Programmer shall broadcast (i) an announcement in a form satisfactory to Licensee at the beginning of each hour to identify the Station, (ii) an announcement at the beginning and end of each program, and hourly, as appropriate, to indicate that program time has been purchased by the Programmer, and (iii) any other announcement that may be required by law, regulation, or Station policy.

3. Commercial Recordkeeping. The Programmer shall maintain such records of the receipt of, and provide such disclosure to Licensee of, any consideration, whether in money, goods, services, or otherwise, which is paid or promised to be paid, either directly or indirectly, by any person or company for the presentation of any programming over the Station as are required by Sections 317 and 507 of the Communications Act and the rules and regulations of the FCC.

4. No Illegal Announcements. No announcements or promotion prohibited by federal or state law or regulation of any lottery, game or contest shall be made over the Station.
5. Licensee Discretion Paramount. In accordance with Licensee's responsibility under the Communications Act of 1934, as amended, and the rules and regulations of the Federal Communications Commission, Licensee reserves the right to reject or terminate any advertising or other programming proposed to be presented or being presented over the Station which is in conflict with law, regulation, Station policy or which in the reasonable judgment of Licensee or its General Manager would not serve the public interest.
6. Indecency Hoaxes. No programming violative of applicable laws and rules concerning indecency or hoaxes will be broadcast over the Station.
7. Controversial Issues. Any broadcast over the Station concerning controversial issues of public importance shall comply with the then current FCC rules and policies.
8. Spot Commercials. The Programmer will provide, for attachment to the Station logs, a list of all commercial announcements carried during its programming.

Licensee may waive any of the foregoing regulations in specific instances if, in its reasonable opinion, good broadcasting in the public interest will be served thereby. In any case where questions of policy or interpretation arise, the Programmer shall notify Licensee before making any commitments to broadcast any programming affected by such issues.