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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

COMMISSION FILE NUMBER 000-26497

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

DELAWARE	**77-0121400**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
4880 SANTA ROSA ROAD **CAMARILLO, CALIFORNIA**	**93012**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of the Exchange on which registered
Class A Common Stock, $0.01 par value per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller Reporting Company [ ]

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

As of June 30, 2007, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $77,740,379 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

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

Class A	Outstanding at March 5, 2008
Common Stock, $0.01 par value per share	18,115,092 shares
Class B	**Outstanding at March 5, 2008**
Common Stock, $0.01 par value per share	5,553,696 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held June 4, 2008	Part III, Items 10, 11, 12, 13 and 14

TABLE OF CONTENTS

		PAGE
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	18
Item 4.	Submission of Matters to a Vote of Security Holders	18
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6.	Selected Financial Data	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 8.	Financial Statements and Supplementary Data	40
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	77
Item 9A.	Controls and Procedures	77
Item 9B.	Other Information	79
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	79
Item 11.	Executive Compensation	79
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	79
Item 13.	Certain Relationships and Related Transactions and Director Independence	79
Item 14.	Principal Accounting Fees and Services	79
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	80
	Signatures	91
	Exhibit Index	93

FORWARD-LOOKING STATEMENTS

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

All metropolitan statistical area ("MSA") rank information used in this report, excluding information concerning The Commonwealth of Puerto Rico, is from the Fall 2007 Radio Market Survey Schedule & Population Rankings published by Arbitron. According to the Radio Market Survey, the population estimates used were based upon 2000 U.S. Bureau Census estimates updated and projected to January 1, 2008 by Claritas, Inc.

PART I

ITEM 1. BUSINESS.

GENERAL

We believe that we are the largest commercial U.S. radio broadcasting company, measured by number of stations and audience coverage, providing programming targeted at audiences interested in Christian and family-themed radio programming. Our core business is the ownership and operation of radio stations in large metropolitan markets. Upon completion of all announced transactions, we will own a national portfolio of 96 radio stations in 38 markets, including 59 stations in 23 of the top 25 markets, which consists of 29 FM stations and 67 AM stations. We are one of only four commercial radio broadcasters with radio stations in all of the top 10 markets. We are the seventh largest operator measured by number of stations overall and the third largest operator measured by number of stations in the top 25 markets.

Our radio business is focused on the clustering of three strategic formats: Christian Teaching and Talk, Contemporary Christian Music and conservative News Talk. We recently started operating a fourth strategic format, Spanish language Christian Teaching and Talk. We also own and operate Salem Radio Network® ("SRN"), a national radio network that syndicates music, news and talk to approximately 2,000 affiliated radio stations, in addition to our owned and operated stations. Salem Radio Representatives® ("SRR") is a national radio advertising sales firm with offices in 12 U.S. cities.

In addition to our radio broadcast business, we also operate a non-broadcast media division. This division consists of Salem Web Network™ ("SWN"), a provider of online Christian content and streaming, Townhall.com®, a provider of conservative content on-line, Salem Publishing™, a leading publisher of Christian magazines and Xulon Press, a digital publisher of books targeting the Christian audience.

Business Strategy

Our principal business strategy is to improve our national radio platform and non-broadcast businesses to deliver compelling content to audiences interested in Christian and family-themed programming and conservative news talk. Our national presence in broadcasting, Internet and publishing gives advertisers a platform that is a unique and a powerful way to reach Christian audiences. We program 45 of our stations with our Christian Teaching and Talk format, which is talk programming with Christian and family themes. A key programming strategy on our Christian Teaching and Talk radio stations is to sell blocks of time to a variety of charitable organizations that create compelling radio programs. We also program 30 News Talk and 12 Contemporary Christian Music stations. SRN supports our strategy by allowing us to reach listeners in markets where we do not own or operate stations. Additionally, we operate numerous Internet websites and publish periodicals that target similar audiences.

We strive to build clusters of radio stations in each of our markets with each format targeting different demographic segments of the audience interested in Christian and family-themed programming. There are several potential benefits that result from operating multiple radio stations in the same market. First, this clustering and programming segmentation strategy allows us to achieve greater penetration into each segment of our target market, and collectively our stations afford our clients a larger percentage of advertising time in that market. We then are able to offer advertisers multiple audiences and to bundle the radio stations for advertising sales purposes when advantageous. Second, we realize cost and operating efficiencies by consolidating sales, technical and administrative support and promotional functions where possible. Finally, the purchase of additional radio stations in an existing market allows us to leverage our market expertise to better serve our advertisers and our listeners through traditional and emerging media.

Both our chief executive officer and our chairman are career radio broadcasters who have owned and operated radio stations for more than 40 years.

Recent Events

During 2007 the Company acquired two non-broadcast media entities. On February 2, 2007, the Company purchased ChristianMusicPlanet.com, a leading Christian music Internet portal, for $0.3 million. On September 12, 2007, the Company purchased CMCentral.com, a Christian music Internet site and online community, for $0.4 million.

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

On May 29, 2007, the Company sold radio station WVRY-FM, Nashville, Tennessee for $0.9 million resulting in a pre-tax loss of $0.5 million. The operating results of WVRY-FM were excluded from our Consolidated Statement of Operations beginning on March 9, 2007, the date the Company stopped operating the station pursuant to an LMA with the buyer.

On February 1, 2007, the Company entered into an agreement to purchase selected assets of radio station KTRO-AM, in Portland, Oregon subject to certain conditions, for $4.5 million. The Company began operating the station under an LMA effective the same date. The accompanying Consolidated Statement of Operations includes the operating results of this radio station as of the LMA date. The Company expects this transaction to close during 2009.

On October 17, 2007, the Company entered into an agreement to purchase selected assets of radio station WMCU-AM in Miami, Florida, subject to certain conditions for $12.25 million. The Company began operating the station under an LMA effective on October 18, 2007. The accompanying Consolidated Statement of Operations includes the operating results of this radio station as of the LMA date. The Company expects this transaction to close during 2008.

In 2007, the Company had a plan in place to sell radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin. In January 2008, the Company entered into formal agreements to sell selected assets of radio stations WRRD-AM and WZFH-FM in Milwaukee, Wisconsin. The accompanying Consolidated Statements of Operations reflect WFZH-FM and WRRD-AM as discontinued operations. All prior periods have been revised to reflect the results of these stations as discontinued operations to conform to the current period presentation.

In an effort to enhance Christian music on the Internet through its Christian music Internet network, the Company announced in January 2008 that the April 2008 issue will be the final printed version of *CCM Magazine.* The decision to discontinue the printed version of *CCM Magazine* does not affect Salem Publishing's other magazines, *Preaching Magazine*, *Youthworker Journal, Homecoming Magazine, The Singing News Magazine* and *Faith Talk Magazine*.

Programming Strategy

Through the strength of our Christian Teaching and Talk format, the influence of our News Talk format, the growing popularity of our Contemporary Christian Music format, and the launch of our new Spanish Christian Teaching and Talk format, we believe we remain well-positioned to improve upon our leadership position in Christian and family-themed radio.

Christian Teaching and Talk. Christian Teaching and Talk is our foundational format. Through this format, a listener can hear Bible teachings and sermons, as well as gain answers to questions relating to daily life, from raising children to religious legal rights in education and the workplace. This format serves as both a learning resource and as a personal support for our listeners nationwide. In response to the daily programming of our block programming partners, listeners contact these programs to ask questions, get more materials on a subject and receive study guides based on what they have learned on the radio.

Block Programming. Our national station platform and focused programming strategy provides us with the ability to consistently offer block programmers on our Christian Teaching and Talk stations both scale and targeting efficiencies. Historically, more than 90 percent of our block programming partners renew their respective relationships with us. Based on our historical renewal rates, we believe that our block programming business provides a steady and consistent stream of revenue and cash flow.

News Talk. News talk programming is the second most popular radio format in the country, based both on listenership and number of radio stations. Our research has shown that our News Talk format is highly complementary to our core format of Christian Teaching and Talk. As programmed by Salem, both of these formats express conservative views and family values. Our News Talk format also provides us with the opportunity to leverage syndicated talk programming produced by our network, SRN. Our nationally syndicated programs are distributed through approximately 2,000 affiliates.

The FISH® - Contemporary Christian Music. Through our Contemporary Christian Music ("CCM") format, called The FISH® in most markets, we are able to bring listeners the words of inspirational recording artists, set to upbeat contemporary music. Our music format is branded "Safe for the Whole Family®", with sounds that everyone enjoys and lyrics that parents appreciate. The CCM genre continues to be popular and was the sixth largest genre in terms of album sales based on data available as of 2006. We believe this listener base has been underserved in terms of radio coverage, especially in the larger markets.

Spanish Christian Teaching and Talk. In late 2007 we launched our Spanish Christian Teaching and Talk format on a small number of stations. This format is similar to our core Christian Teaching and Talk format in that it broadcasts biblically based programming. However, almost all of the block programming is local rather than national.

XM Satellite Radio. As America's most popular satellite radio service, XM reaches 8.5 million subscribers from coast to coast. Our satellite radio station, XM 170, is the exclusive Christian Teaching and Talk channel on XM, reaching the entire nation 24 hours a day, seven days a week.

Audience Growth

We grow our audience by providing high quality, compelling content on our radio stations and in syndication that is tested and fine-tuned to appeal to our listeners in each of our strategic formats. We work to maximize audience share and then convert these audience share ratings to advertising revenue. We rely on a combination of research, marketing, targeted promotions and live events that create visibility and brand awareness for our stations in their local markets.

Technical Improvements

A focus for us has been identifying ways to improve a radio station's broadcast signal so that it can reach as many listeners as possible, both during the day and at night. We have completed numerous enhancements to increase the coverage of our signals, including several in the top 25 markets. In early 2006, Salem launched KTRO-FM, a new station in Portland, Oregon. Additionally, during 2006 Salem completed a tower upgrade project for WLQV-AM in Detroit, Michigan, and relocated our tower for KKOL-AM in Seattle, Washington.

Radio Advertising Sales

We have assembled an effective, highly-trained sales staff responsible for converting audience share into revenue. We operate with a focused, sales-oriented culture that rewards selling efforts through a commission and bonus compensation structure. We hire and deploy teams of sales professionals for each of our stations or station clusters, and we provide these teams with the resources necessary to compete effectively in the markets in which we operate. We utilize various sales strategies to sell and market our stations as stand-alones or in combination with other stations within a given market and across markets, where appropriate.

Marketing Platform to National Advertisers

We have created a national platform of radio stations that reaches more than four million listeners weekly. National companies find advertising on multiple radio stations to be an efficient and cost-effective way to reach this target audience. Through SRR, we bundle and sell this national platform of radio stations to national advertisers, thereby enhancing our revenue generating opportunities, expanding our base of advertisers, creating greater demand for our advertising time inventory and making our sales effort more efficient.

Significant Community Involvement

We believe our active involvement and significant relationships in the Christian community provide a competitive advantage in targeting Christian audiences. Our proactive involvement in the Christian community in each of our markets significantly improves the marketability of our radio broadcast time to advertisers who are targeting such communities. We believe that a radio station's image should reflect the lifestyle and viewpoints of the target demographic group it serves. We regularly partner with organizations that serve the Christian and family-themed audience and sponsor and support events important to this group. These events include listener rallies, pastor appreciation events and concerts like *Celebrate Freedom*® and *Fishfest*®. These events connect us with our listeners and enable us to create enhanced awareness and name recognition in our markets. Involvement leads to increased effectiveness in developing and improving our programming formats, leading to greater listenership and higher ratings over the long-term.

Corporate Structure

The management of our operations is decentralized. Our operations vice presidents, some of whom are also station general managers, oversee several markets on a regional basis. Our operations vice presidents are experienced radio broadcasters with expertise in sales, programming, marketing and production. We anticipate relying on this strategy of decentralization and encourage operations vice presidents to apply innovative techniques to the operations they oversee which, if successful, can be implemented at our other stations. Additionally, we have executive leadership and oversight from our corporate headquarters.

Our corporate headquarters personnel oversee the placement and rate negotiation for all national block programs. Centralized oversight of this component of our revenue is necessary because our key block program customers purchase time in many of our markets. Corporate headquarters personnel also are responsible for centralized accounting and finance functions, information technology, human resources, legal, engineering, real estate, strategic direction and other support functions designed to provide resources to local management.

CORPORATE INFORMATION

We maintain a website at http://www.salem.cc. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC").

Salem Communications Corporation was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Salem Communications Holding Corporation ("Salem Holding") was formed as a wholly-owned subsidiary of Salem Communications Corporation in May 2000. In May 2000, Salem Communications Corporation formed an additional wholly-owned subsidiary, Salem Communications Acquisition Corporation ("AcquisitionCo"), which has since acquired nine radio stations through its wholly-owned subsidiary, SCA License Corporation. In August 2000, Salem Communications Corporation assigned substantially all of its assets and liabilities (other than stock of Salem Holding and AcquisitionCo) to Salem Holding.

In June 2001, Salem Holding effected a dividend to Salem Communications Corporation of Salem Holding's publishing and Internet businesses. This transaction was effected as a dividend of the capital stock and membership interests, respectively, of Salem Holding's wholly-owned subsidiaries CCM Communications, Inc. ("CCM") and OnePlace, LLC ("OnePlace"). As a result, CCM and OnePlace became direct subsidiaries of Salem Communications Corporation. Subsequently, the membership interests of OnePlace were contributed to SCA License Corporation, and OnePlace became an indirect subsidiary of Salem. Salem Communications Corporation and all of its subsidiaries (other than Salem Holding) are guarantors of the borrowings under Salem Holding's credit facility and Salem Holding's $100.0 million 7¾% senior subordinated notes due 2010 ("7¾% Notes").

DEVELOPMENT OF THE BUSINESS

In 2007, we completed the purchase of the following non-broadcast entities:

Date	Entity	Purchase Price
		(Dollars in thousands)
February 2, 2007	ChristianMusicPlanet.com	$ 311
September 12, 2007	CMCentral.com	360
Various	Other Internet Businesses and Domain Names	316
		$ 987

RADIO STATIONS

Upon the close of all announced transactions, the company will own and/or operate a national portfolio of 96 radio stations in 38 markets, consisting of 29 FM stations and 67 AM stations. The following table sets forth information about each of Salem's stations, in order of market size:

Market (1)	MSA Rank (2)	Station Call Letters	Year Acquired	Format
New York, NY	1, 17 (3)	WMCA-AM	1989	Christian Teaching and Talk
		WWDJ-AM	1994	Christian Teaching and Talk
Los Angeles, CA	2	KKLA-FM	1985	Christian Teaching and Talk
		KRLA-AM	1998	News Talk
		KFSH-FM	2000	Contemporary Christian Music
		KXMX-AM	2000	Ethnic Brokered Programming
Chicago, IL	3	WYLL-AM	2001	Christian Teaching and Talk
		WIND-AM	2005	News Talk
San Francisco, CA	4, 34 (4)	KFAX-AM	1984	Christian Teaching and Talk
		KNTS-AM	2001	News Talk
Dallas-Fort Worth, TX	5	KLTY-FM	1996	Contemporary Christian Music
		KWRD-FM (5)	2000	Christian Teaching and Talk
		KSKY-AM	2000	News Talk

RADIO STATIONS, CONTINUED

Market (1)	MSA Rank (2)	Station Call Letters	Year Acquired	Format
Houston-Galveston, TX	6	KNTH-AM	1995	News Talk
		KKHT-FM	2005	Christian Teaching and Talk
Philadelphia, PA	7	WFIL-AM	1993	Christian Teaching and Talk
		WNTP-AM	1994	News Talk
Atlanta, GA	8	WNIV-AM	2000	Christian Teaching and Talk
		WLTA-AM	2000	Christian Teaching and Talk
		WAFS-AM	2000	Spanish Christian Teaching and Talk
		WFSH-FM	2000	Contemporary Christian Music
		WGKA-AM	2004	News Talk
Washington, D.C.	9	WAVA-FM	1992	Christian Teaching and Talk
		WAVA-AM	2000	Christian Teaching and Talk
Boston, MA	10	WEZE-AM	1997	Christian Teaching and Talk
		WROL-AM	2001	Christian Teaching and Talk
		WTTT-AM	2003	News Talk
Detroit, MI	11	WDTK-AM	2004	News Talk
		WLQV-AM	2006	Christian Teaching and Talk
Miami, FL	12	WKAT-AM	2004	Ethnic Brokered Programming
		WMCU-AM (formerly WTPS-AM) (6)	2007	Christian Teaching and Talk
Seattle-Tacoma, WA	13	KGNW-AM	1986	Christian Teaching and Talk
		KLFE-AM	1994	Christian Teaching and Talk
		KDOW-AM	1997	Ethnic Brokered Programming
		KKMO-AM	1998	Spanish Christian Teaching and Talk
		KKOL-AM	1999	News Talk
Phoenix, AZ	14	KKNT-AM	1996	News Talk
		KPXQ-AM	1999	Christian Teaching and Talk
Minneapolis-St. Paul, MN	15	KKMS-AM	1996	Christian Teaching and Talk
		KYCR-AM	1998	News Talk
		WWTC-AM	2001	News Talk
San Diego, CA	16	KPRZ-AM	1987	Christian Teaching and Talk
		KCBQ-AM	2000	News Talk
Tampa, FL	18	WTWD-AM (8)	2000	Christian Teaching and Talk
		WTBN-AM (8)	2001	Christian Teaching and Talk
		WGUL-AM	2005	News Talk
Baltimore, MD	20	WAMD-AM	Pending	To be determined
Denver-Boulder, CO	21	KRKS-FM	1993	Christian Teaching and Talk
		KRKS-AM	1994	Christian Teaching and Talk
		KNUS-AM	1996	News Talk
		KBJD-AM (9)	1999	Spanish Christian Teaching and Talk
Portland, OR	22	KPDQ-FM	1986	Christian Teaching and Talk
		KPDQ-AM	1986	Christian Teaching and Talk
		KFIS-FM	2002	Contemporary Christian Music
		KRYP-FM (formerly KTRO-FM)	2005	Spanish
		KTRO-AM (formerly KKSN-AM) (10)	2007	News Talk
Pittsburgh, PA	23	WORD-FM	1993	Christian Teaching and Talk
		WPIT-AM	1993	Christian Teaching and Talk
Riverside-San Bernardino, CA	25	KTIE-AM	2001	News Talk
Sacramento, CA	26	KFIA-AM	1995	Christian Teaching and Talk
		KTKZ-AM	1997	News Talk
		KXMX-FM	2002	Spanish Christian Teaching and Talk
		KKFS-FM	2006	Contemporary Christian Music

RADIO STATIONS, CONTINUED

Market (1)	MSA Rank (2)	Station Call Letters	Year Acquired	Format
Cleveland, OH	27	WHKW-AM	2000	Christian Teaching and Talk
		WFHM-FM	2001	Contemporary Christian Music
		WHK-AM	2005	News Talk
San Antonio, TX	29	KSLR-AM	1994	Christian Teaching and Talk
		KLUP-AM	2000	News Talk
Orlando, FL	33	WORL-AM	2006	News Talk
		WTLN-AM	2006	Christian Teaching and Talk
		WHIM-AM	2006	Christian Teaching and Talk
Columbus, OH	36	WRFD-AM	1987	Christian Teaching and Talk
Nashville, TN	43	WBOZ-FM	2000	Southern Gospel
		WFFH-FM (11)	2002	Contemporary Christian Music
		WFFI-FM (11)	2002	Contemporary Christian Music
Louisville, KY	52	WFIA-FM	1999	Christian Teaching and Talk
		WRVI-FM	1999	Contemporary Christian Music
		WGTK-AM	2000	News Talk
		WFIA-AM	2001	Christian Teaching and Talk
Honolulu, HI	63	KHNR-AM	2000	News Talk
		KAIM-FM	2000	Contemporary Christian Music
		KGU-AM	2000	Christian Teaching and Talk
		KHCM-FM (formerly KHNR-FM)	2004	Country Music
		KHNR-AM (formerly KHCM-AM)	2006	News Talk
		KHUI-FM	2004	Adult Standards
		KGMZ-FM	2005	Adult Nostalgia
Omaha, NE	71	KGBI-FM	2005	Contemporary Christian Music
		KOTK-AM	2005	News Talk
		KCRO-AM	2005	Christian Teaching and Talk
Sarasota-Bradenton, FL	72	WLSS-AM	2005	News Talk
Colorado Springs, CO	94	KGFT-FM	1996	Christian Teaching and Talk
		KBIQ-FM	1996	Contemporary Christian Music
		KZNT-AM	2003	News Talk
Oxnard-Ventura, CA	116	KDAR-FM	1974	Christian Teaching and Talk
Youngstown-Warren, OH	118	WHKZ-AM	2001	Christian Teaching and Talk
Tyler-Longview, TX	144	KPXI-FM (5)	2000	Christian Teaching and Talk

(1) Actual city of license may differ from metropolitan market served.

(2) "MSA" means metropolitan statistical area per the fall 2007 Radio Market Survey Schedule and Population Rankings published by Arbitron, excluding the Commonwealth of Puerto Rico.

(3) This market includes the Nassau-Suffolk, NY Metro market which independently has a MSA rank of 17.

(4) This market includes the San Jose, CA market which independently has a MSA rank of 34.

(5) KPXI-FM is simulcast with KWRD-FM, Dallas-Fort Worth, TX.

(6) WMCU-AM is operated under a Local Marketing Agreement ("LMA") with Radio One as of October 2007 pending the completion of the acquisition.

(7) KDOW-AM is an expanded band AM station. Under current Federal Communications Commission ("FCC") rules, we will be required to surrender to the FCC the license for either KDOW-AM or KLFE-AM on July 14, 2009.

(8) WTBN-AM is simulcast with WTWD-AM, Tampa, FL.

(9) KBJD-AM is an expanded band AM station. Under current FCC rules, we must request special temporary authority (STA) to operate the station for periods of approximately six months. An STA request was filed on February 12, 2007 that once approved will be requested every six months thereafter pursuant to the FCC requirements.

(10) KTRO-AM is operated under a Time Brokerage Agreement with Entercom Portland License, LLC as of February 1, 2007 pending the completion of the acquisition.

(11) WFFH-FM is simulcast with WFFI-FM, Nashville, TN.

PROGRAM REVENUE. For the year ended December 31, 2007 we derived 22.1% and 14.9% of our net broadcasting revenue, or $45.6 million and $30.7 million, respectively, from the sale of nationally syndicated and local block program time. We derive nationally syndicated program revenue from a programming customer base consisting primarily of geographically diverse, well-established non-profit religious and educational organizations that purchase time on stations in a large number of markets in the United States. Nationally syndicated program producers typically purchase 13, 26 or 52 minute blocks on a Monday through Friday basis and may offer supplemental programming for weekend release. We obtain local program revenue from community organizations and churches that typically purchase time primarily for weekend release and from local speakers who purchase daily releases. We believe our management has been successful in assisting quality local programs expand into national syndication.

ADVERTISING REVENUE. For the year ended December 31, 2007, we derived 41.4% of our net broadcasting revenue, or $85.5 million from the sale of local spot advertising and 7.3% of our net broadcasting revenue, or $15.0 million from the sale of national spot advertising.

SALEM RADIO NETWORK® AND SALEM RADIO REPRESENTATIVES ™

We own and operate Salem Radio Network ("SRN") as part of our overall business strategy to develop a national network of affiliated radio stations anchored by our owned and operated radio stations in major markets. SRN, which is headquartered in Dallas, Texas, develops, produces and syndicates a broad range of programming specifically targeted to Christian and family-themed talk and music stations as well as general market News Talk stations. Currently, we have rights to several full-time satellite channels to deliver SRN programs to affiliates via satellite.

SRN has approximately 2,000 affiliate stations, in addition to our owned and operated stations, which broadcast one or more of the offered programming options. These programming options feature talk shows, news and music. The principal source of network revenue is from the sale of advertising time.

We own Salem Radio Representatives ("SRR"), a sales representation company specializing in placing national advertising on religious format radio stations. SRN and our radio stations each have relationships with SRR for the sale of available SRN spot advertising. SRR receives a commission on all SRN sales. SRR also contracts with individual radio stations to sell air time to national advertisers desiring to include selected company stations in national buys covering multiple markets. In 2005, we established Vista Radio Representatives ("VRR"), a sales representation company specializing in placing national advertising on non-religious format radio stations.

We recognize our advertising and commission revenue from radio stations as the spots are aired. SRN's net revenue, including commission revenue for SRR and VRR, for the year ended December 31, 2007 was $15.2 million, or 7.4% of net broadcasting revenue.

NON-BROADCAST MEDIA

Salem Web Network™ and Townhall®.com. Our online strategy centers on creating the premiere Internet platform serving the audience interested in Christian and conservative content. Leveraging our engaged and loyal radio listener base, SWN's content, both in text and audio, can be accessed through our national portals which include OnePlace.com, Crosswalk.com, Christianity.com, Townhall.com, and through our 96 radio station websites, which provide local content of interest to our local radio station listeners. In 2006 we acquired CrossDaily.com and Townhall.com. These recent acquisitions enhance our web leadership as a provider and distributor of Christian and family-values content and services for our target audience.

Salem Publishing™. Our distribution of Christian content also extends into print through Salem Publishing, a magazine publisher serving the Christian audience and the Christian music industry and Xulon Press, a provider of print-on-demand publishing services targeted to the Christian audience. Last year, we published more than two million magazines and published close to one million books. Salem Publishing™ is well positioned to grow its magazines*: Homecoming® The Magazine, YouthWorker Journal™, The Singing News, FaithTalk Magazine, Preaching* and *CrossWalk.com® Magazine*. In 2006, we acquired two target segment-leading magazines, The *Singing News* magazine and *Preaching* magazine, and their respective Internet sites. In 2006, we also purchased Xulon Press. During 2007, Salem Publishing acquired the Christian Music Planet® brand, including www.ChristianMusicPlanet.com, a leading Christian music web portal and CMCentral.com, a Christian music website and online community.

COMPETITION

RADIO. The radio broadcasting industry, including the segment of this industry that focuses on Christian and family themes, is a highly competitive business. The financial success of each of our radio stations that focuses on Christian Teaching and Talk is dependent, to a significant degree, upon its ability to generate revenue from the sale of block program time to national and local religious and educational organizations. We compete for this program revenue with a number of different commercial and noncommercial radio station licensees. While no commercial group owner in the United States specializing in Christian and family-themed programming approaches Salem in size of potential listening audience and presence in major markets, other religious radio stations exist and enjoy varying degrees of prominence and success in all markets.

We also compete for revenue in the spot advertising market with other commercial religious format and general format radio station licensees. We compete in the spot advertising market with non-broadcast media as well, including broadcast television, cable television, newspapers, magazines, direct mail, Internet and billboard advertising, some of which may be controlled by horizontally-integrated companies.

Competition may also come from new media technologies and services that are being developed or introduced. These include delivery of audio programming by cable television and satellite systems, digital audio radio services, mobile telephony, personal communications services and the service of low powered, limited coverage FM radio stations authorized by the FCC. Digital audio broadcasting will deliver multi-format digital radio services by satellite to national and regional audiences. The quality of programming delivered by digital audio broadcasting would be equivalent to compact disc. The delivery of live and stored audio programming through the Internet has also created new competition. In addition, satellite delivered digital audio radio services, which deliver multiple audio programming formats to local and national audiences, has created competition. We have attempted to address these existing and potential competitive threats through a more active strategy to acquire and integrate new electronic communications formats including Internet acquisitions made by SWN and our exclusive arrangement to provide Christian and family-themed talk and music formats on one of the two FCC licensees of satellite digital audio radio services.

NETWORK. Salem Radio Network® (“SRN”) competes with other commercial radio networks that offer news and talk programming to religious and general format stations and other noncommercial networks that offer Christian music formats. SRN also competes with other radio networks for the services of talk show personalities.

NON-BROADCAST MEDIA. Our magazines compete for readers and advertisers with other publications that follow the Christian music industry and publications that address themes of interest to church leadership and the Christian audience. Xulon Press competes for authors with other on-demand publishers and other Christian book publishers. Our Internet business competes for visitors and advertisers with other companies that deliver on-line audio programming and Christian and conservative Internet content as well as providers of general market Internet sites.

SEGMENTS

The Company’s operations are aligned into two business segments, broadcasting and non-broadcasting vs. one reportable segment per Note 12. These segments are consistent with the Company’s management of these businesses and its financial reporting structure. Corporate expenses represent costs not allocated to reportable segments. The broadcast segment includes the Company’s radio business while the non-broadcast segment includes SWN and Townhall.com as well as Salem Publishing and Xulon Press. The Company has presented its segment information in Note 12 of the Notes to the Consolidated Financial Statements, Item 8 of Part II of this report, incorporated by reference.

EMPLOYEES

On February 28, 2008, Salem employed 1,177 full-time and 415 part-time employees. None of Salem’s employees are covered by collective bargaining agreements, and we consider our relations with our employees to be good.

INTERNET ADDRESS AND INTERNET ACCESS TO SEC REPORTS

Our Internet address is www.salem.cc. You may obtain through our Internet website, free of charge, copies of our annual reports filed on From 10-K, quarterly reports on Form 10-Q, current reports on From 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports are available as soon as reasonably practical after we electronically file them or furnish them to the SEC. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this Form 10-K.

ITEM 1A. RISK FACTORS

CERTAIN FACTORS AFFECTING SALEM

We may choose not to pursue potentially more profitable business opportunities outside of our Christian, conservative news talk and family-themed formats, or not to broadcast programming that violates our programming standards, either of which may have a material adverse effect on our business.

We are fundamentally committed to broadcasting, Internet and publishing formats and programming emphasizing Christian, conservative news talk and family themes. We may choose not to switch to other formats or pursue potentially more profitable business opportunities in response to changing audience preferences. We do not intend to pursue business opportunities or air programming that would conflict with our core commitment to Christian and family themes formats or that would violate our programming standards, even if such opportunities or programming would be more profitable. Our decision not to pursue other formats or air programming inconsistent with our programming standards might result in lower operating revenues and profits than we might otherwise achieve.

We Must Respond To the Rapid Changes in Technology, Services and Standards of Our Industry In Order To Remain Competitive

The radio broadcasting industries are subject to rapid technological change, evolving industry standards and the emergence of competition from new media technologies and services. We cannot assure you that we will have the resources to acquire new technologies or to introduce new services that could compete with these new technologies. Various new media technologies and services are being developed or introduced, including:

- satellite-delivered digital audio radio service, which has resulted in the introduction of new subscriber-based satellite radio services with numerous niche formats;
- audio programming by cable systems, direct-broadcast satellite systems, personal communications systems, content available over the Internet and other digital audio broadcast formats;
- in-band on-channel digital radio, which provides multi-channel, multi-format digital radio services in the same bandwidth currently occupied by traditional AM and FM radio services;
- low-power FM radio, which could result in additional FM radio broadcast outlets;
- mobile telephony; and
- iPod or similar devices.

We currently program one channel on XM Satellite Radio. We also offer pod-casts and downloads of portions of our programming; however, we cannot assure you that this arrangement will continue, will be successful or enable us to adapt effectively to these new media technologies. We cannot predict the effect, if any, that competition arising from new technologies or regulatory change may have on the radio broadcasting industry or on our financial condition and results of operations.

The Accounting Treatment of Goodwill and FCC Licenses Could Cause Future Losses Due To Asset Impairment

Under Statement of Financial Accounting Standards (“SFAS”) 142 “Goodwill and Other Intangible Assets,” goodwill and some indefinite-lived intangibles, including FCC licenses, are not amortized into results of operations, but instead are tested for impairment at least annually, with impairment being measured as the excess of the carrying value of the goodwill or intangible asset over its fair value. In addition, goodwill and intangible assets are tested more often for impairment as circumstances warrant. Intangible assets that have finite useful lives continue to be amortized over their useful lives and are measured for impairment in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Any impairment losses under SFAS No. 142 or SFAS No. 144 will be recorded as operating expenses. On January 16, 2008, the Company announced its plan to discontinue publishing *CCM Magazine* as of the April 2008 issue. The magazine will be shut down, resulting in the termination of employees and refunds to customers for subscriptions paid in advance. As a result of this decision, the Company recorded an impairment charge in the fourth quarter of 2007 of $1.9 million equal to the value of goodwill associated with *CCM Magazine*. Our future impairment reviews could result in asset write-downs.

We May Be Unable To Integrate the Operations and Management of Acquired Stations or Businesses, Which Could Have a Material Adverse Effect on Our Business and Operating Results

Since January 1, 2006, we have acquired selected assets of six radio stations, two Internet businesses and three publishing businesses, and we expect to make acquisitions of other stations and related non-broadcast businesses in the future. We cannot assure you that we will be able to successfully integrate the operations or management of acquired stations and businesses and realize anticipated revenue synergies, or the operations or management of stations and businesses that might be acquired in the future. Continued acquisitions of stations will require us to manage a larger and likely more geographically diverse radio station portfolio than historically has been the case. Our inability to integrate and manage newly acquired stations or businesses successfully could have a material adverse effect on our business and operating results.

If We Are Unable To Implement Our Cluster Strategy, We May Not Realize Anticipated Operating Efficiencies

As part of our operating strategy, we attempt to realize efficiencies in operating costs and cross-selling of advertising by clustering the operations of two or more radio stations in a single market. However, there can be no assurance that this operating strategy will be successful. Furthermore, we cannot assure you that the clustering of radio stations in one market will not result in downward pressure on advertising rates at one or more of the existing or new radio stations within the cluster. There can be no assurance that any of our stations will be able to maintain or increase its current listening audiences and operating revenue in circumstances where we implement our clustering strategy.

Additionally, FCC rules and policies allow a broadcaster to own a number of radio stations in a given market and permit, within limits, joint arrangements with other stations in a market relating to programming, advertising sales and station operations. We believe that radio stations that elect to take advantage of these clustering opportunities may, in certain circumstances, have lower operating costs and may be able to offer advertisers more attractive rates and services. The future development of our business in new markets, as well as the maintenance of our business growth in those markets in which we do not currently have radio station clusters, may be negatively impacted by competitors who are taking advantage of these clustering opportunities by operating multiple radio stations within markets.

The Restrictions On Ownership of Multiple Stations In Each Market May Prevent Us From Implementing Our Cluster Strategy.

As part of our growth strategy, we seek to acquire additional radio stations in markets in which we already have existing stations. However, our ability to acquire, operate and integrate any such future acquisitions as part of a cluster is limited by antitrust laws, the Federal Communications Act of 1934 (the “Communications Act”), FCC regulations and other applicable laws and regulations. Changes to any of these laws or regulations may affect our ability to acquire additional stations in radio markets where we already own one or more radio stations.

In 1996, Congress passed legislation that requires the FCC to periodically conduct reviews of its regulations, including ones that govern the maximum number of radio stations an entity may own or have joint arrangements with relating to programming, advertising sales and station operations (the “Ownership Limits”). The FCC has adopted radio multiple ownership rules that depend upon the total number of radio stations located in the market in determining the applicable Ownership Limits. In 2003, the FCC modified its definition of the term “market” and its method of determining the number of radio stations located in a “market.” Specifically, in larger markets the FCC replaced its “signal contour method” of defining a market and determining the number of radio stations located in the market with the use of “geographic markets” delineated by The Arbitron Company (“Arbitron”), which is a commercial ratings service. For smaller radio markets for which Arbitron has not delineated a geographic market, the “signal contour method” continues to be the method of defining the market and determining the number of radio stations in the market. The methods the FCC uses to define markets affect the number of radio stations an entity may own or have joint arrangements with relating to programming, advertising sales and station operations in areas adjacent to a delineated Arbitron market. In 2006, the FCC opened a new phase of rulemaking concerning its broadcast ownership rules. The FCC is currently seeking public comments on the existing rules, including arguments and factual data on their impact on competition, localism, and diversity. The FCC has held, and is planning to hold more, public meetings around the country on the issue of media ownership rules, including regulations affecting the Ownership Limits, and how to define the term “market.” The FCC has also commissioned a series of research studies in these issues. In addition, interest has been expressed by members of Congress to reduce the Ownership Limits.

We cannot predict the impact of possible modifications to the FCC’s local radio multiple ownership rules on our business operations. Likewise, we cannot predict whether there will be a change in the antitrust laws, Communications Act or other laws governing the ownership or operation of radio stations, or whether the FCC, Department of Justice (“DOJ”) or Federal Trade Commission (“FTC”) will modify their regulations and policies governing the acquisition of additional radio stations in a market. In addition, we cannot predict whether a private party will challenge acquisitions we propose in the future. These events could adversely affect our ability to implement our cluster acquisition strategy.

Government Regulation of the Broadcasting Industry by the FTC, DOJ and FCC May Limit Our Ability to Acquire or Dispose of Radio Stations and Enter Into Certain Agreements

The Communications Act and FCC rules and policies require prior FCC approval for transfers of control of, and assignments of, FCC licenses. The FTC and the DOJ evaluate transactions to determine whether those transactions should be challenged under federal antitrust laws. Over the past eight years, the FTC and the DOJ have been increasingly active in their review of radio station transactions. This is particularly the case when a radio broadcast company proposes to acquire an additional station in an existing market. As we have gained a presence in a greater number of markets and percentage of the top 50 markets, our future proposed transactions may be subject to more frequent and aggressive review by the FTC or the DOJ due to market concentration concerns. This increased level of review may be accentuated in instances where we propose to engage in a transaction with parties who themselves have multiple stations in the relevant market. The FCC might not approve a proposed radio station acquisition or disposition when the DOJ has expressed market concentration concerns with respect to the buy or sell side of a given transaction, even if the proposed transaction would otherwise comply with the FCC's numerical limits on in-market ownership. We cannot be sure that the DOJ or the FTC will not seek to prohibit or require the restructuring of our future acquisitions or dispositions on these or other bases.

Were a complaint to be filed against us or other FCC licensees involved in a transaction with us, or an objection to the transaction itself, the FCC could delay the grant of, or refuse to grant, its consent to an assignment or transfer of control of licenses and effectively prohibit a proposed acquisition or disposition.

As noted in the immediately preceding risk factor, the FCC's local radio multiple ownership rules limit the maximum number of stations we may own or operate in a market. This may limit our ability to make future radio station acquisitions in certain markets. Additionally, this may limit our ability, in certain markets, to enter into agreements whereby we provide programming to or sell advertising on radio stations that we do not own. It could also limit our ability to sell stations to other entities that already own stations in some markets.

We May Be Adversely Affected By New Statutes Dealing With Indecency

On June 15, 2006, the Broadcast Decency Enforcement Act of 2005 that enhances the FCC's enforcement of its rules concerning the broadcast of obscene, indecent, or profane material became law. This legislation increased the FCC's authority in this area to impose substantially higher monetary forfeiture penalties, up to $325,000 per violation and a total of $3,000,000 for any one incident. While we do not anticipate these increased penalties to impact us as significantly as some of our competitors given the nature of our programming, we could face increased costs in the form of fines as a result of this legislation.

If We Fail To Maintain Our Licenses with the FCC, We Would Be Prevented From Operating Affected Radio Stations

We operate each of our radio stations pursuant to one or more FCC broadcasting licenses, generally of eight years duration. As each license expires, we apply for renewal of the license. However, we cannot be sure that any of our licenses will be renewed, and renewal is subject to challenge by third-parties or to denial by the FCC. In evaluating a broadcasting license renewal application, the FCC must grant the renewal if: (1) the station has served the public interest, convenience and necessity; (2) there have been no serious violations of the Communications Act or the FCC's rules; and (3) there have been no other violations which, taken together, constitute a pattern of abuse. If, however, the station fails to meet these standards, the FCC may deny the application, after notice and an opportunity for a hearing, or grant the application on terms and conditions that are appropriate, including renewal for less than the maximum term otherwise allowed. The failure to renew any of our licenses would prevent us from operating the affected station and generating revenue from it. If the FCC decides to include conditions or qualifications in any of our licenses, we may be limited in the manner in which we may operate the affected station.

Capital Requirements Necessary to Implement Acquisitions Could Pose Risks

We face stiff competition from other broadcasting companies for acquisition opportunities. If the prices sought by sellers of these companies were to rise, we may find fewer acceptable acquisition opportunities. In addition, the purchase price of possible acquisitions could require additional debt or equity financing on our part. Since the terms and availability of this financing depend to a large degree upon general economic conditions and third parties over which we have no control, we can give no assurance that we will obtain the needed financing or that we will obtain such financing on attractive terms. In addition, our ability to obtain financing depends on a number of other factors, many of which are also beyond our control, such as interest rates and national and local business conditions. If the cost of obtaining needed financing is too high or the terms of such financing are otherwise unacceptable in relation to the acquisition opportunity we are presented with, we may decide to forego that opportunity. Additional indebtedness could increase our leverage and make us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures. Additional equity financing could result in dilution to our shareholders.

If We Are Unable To Execute Our Acquisition Strategy Successfully, Our Business May Not Continue To Grow

We intend to continue to acquire radio stations and complementary non-broadcast media businesses. With respect to the acquisition of radio stations, our acquisition strategy has been, and will continue to focus primarily on, the acquisition of stations in the top 50 markets. However, we may not be able to identify and consummate future acquisitions successfully, and stations that we do acquire may not increase our station operating income or yield other anticipated benefits. Acquisitions in markets in which we already own stations may not increase our station operating income due to saturation of audience demand. Acquisitions in smaller markets may have less potential to increase operating revenues. With respect to our acquisition strategy of non-broadcast media businesses, we may not be able to identify and consummate the acquisition of future non-broadcast media businesses successfully. Additionally, we may not be able to effectively integrate the operation of newly acquired businesses with our existing businesses which could result in reduced operating income from our non-broadcast media businesses. Our failure to execute our acquisition strategy successfully in the future could limit our ability to continue to grow in terms of number of stations or profitability.

Because Of Our Holding Company Structure, We Depend On Our Subsidiaries for Cash Flow, and Our Access to This Cash Flow Is Restricted

We operate as a holding company. All of our radio stations are currently owned and operated by our subsidiaries. Salem Holding, our wholly-owned subsidiary, is the borrower under our credit facilities and our senior subordinated debt. All of our station-operating subsidiaries are subsidiaries of Salem Communications Corporation. Further, we guaranteed Salem Holding's obligations under the credit facilities and under the senior subordinated notes.

As a holding company, our only source of cash to pay our obligations, including corporate overhead and other trade payables, are distributions from our subsidiaries of their net earnings and cash flow. We currently expect that the net earnings and cash flow of our subsidiaries will be retained and used by them in their operations, including servicing their debt obligations, before distributions are made to us. Even if our subsidiaries elect to make distributions to us, we cannot assure you that applicable state law and contractual restrictions, including the dividend covenants contained in our credit facilities and senior subordinated notes, would permit such dividends or distributions.

Our Business is Dependent upon the Performance of Key Employees, On-Air Talent and Program Hosts

Our business is dependent upon the performance and continued efforts of certain key individuals, particularly Edward G. Atsinger III, our Chief Executive Officer, and Stuart W. Epperson, our Chairman of the Board. The loss of the services of either of Messrs. Atsinger or Epperson could have a material adverse effect upon us. We have entered into employment agreements with each of Messrs. Atsinger and Epperson. Both agreements expire in June 2010. Mr. Epperson has radio interests unrelated to Salem's operations that will continue to impose demands on his time. Mr. Atsinger has an interest in an aviation business unrelated to Salem's operations that will continue to impose demands on his time.

We also employ or independently contract with several on-air personalities and hosts of syndicated radio programs with significant loyal audiences on both a national level and in their respective markets. Although we have entered into long-term agreements with some of our executive officers, key on-air talent and program hosts to protect our interests in those relationships, we can give no assurance that all or any of these key employees will remain with us or will retain their audiences. Competition for these individuals is intense and many of our key employees are at-will employees who are under no legal obligation to remain with us. Our competitors may choose to extend offers to any of these individuals on terms, which we may be unwilling to meet. In addition, any or all of our key employees may decide to leave for a variety of personal or other reasons beyond our control. Furthermore, the popularity and audience loyalty of our key on-air talent and program hosts is highly sensitive to rapidly changing public tastes. A loss of such popularity or audience loyalty is beyond our control and could limit our ability to generate revenues.

If We Are Not Able To Obtain Financing or Generate Sufficient Cash Flows from Operations, We May Be Unable To Fund Future Acquisitions

We may require significant financing to fund our acquisition strategy. This financing may not be available to us. The availability of funds under our credit facility at any time will be dependent upon, among other factors, our ability to satisfy financial covenants. Our future operating performance will be subject to financial, economic, business, competitive, regulatory and other factors, many of which are beyond our control. Accordingly, we cannot assure you that our future cash flows or borrowing capacity will be sufficient to allow us to complete future acquisitions or implement our business plan, which could have a material negative impact on our business and results of operations.

Our Substantial Indebtedness and Our Ability to Incur More Indebtedness Could Adversely Affect Our Financial Condition

We currently have a significant amount of indebtedness. At December 31, 2007, our total consolidated indebtedness was $356.8 million. Our substantial indebtedness could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to borrowings under the credit facilities and the subordinated notes;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing our ability to use our cash flow to fund future working capital, capital expenditures, acquisitions and other general corporate requirements;
- placing us at a competitive disadvantage relative to those of our competitors that have less indebtedness;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry that could make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulations;
- subjecting us to higher interest expense in the event of increases in interest rates because some of our indebtedness is at variable rates of interest
- causing us to sell income-producing assets that have market value; and
- impacting our stock price.

We may incur additional indebtedness to fund future acquisitions and for other corporate purposes. If new indebtedness is added to our and our subsidiaries' current indebtedness levels, the related risks that we and they now face could intensify.

To Service Our Indebtedness And Other Obligations, We Will Require A Significant Amount Of Cash. Our Ability to Generate Cash Depends On Many Factors Beyond Our Control

Our ability to make payments on and to refinance our indebtedness, to pay dividends and to fund capital expenditures will depend on our ability to generate cash in the future. This ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our businesses might not generate sufficient cash flow from operations. We might not be able to complete future offerings, and future borrowings might not be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

If We Cannot Attract the Anticipated Listener, Programmer and Advertiser Base for Our Newly Acquired Radio Stations, We May Not Recoup Associated Operating Costs Or Achieve Profitability for These Radio Stations

We frequently acquire selected assets of radio stations that previously broadcast in formats other than our primary formats. We continue to program some of these stations in non-primary formats and we re-program others to one of our primary formats. During, and for a period after, the conversion of a radio station's format, the radio station typically generates operating losses. The magnitude and duration of these losses depends on a number of factors, including the promotional and marketing costs associated with attracting listeners and advertisers to our radio station's new format and the success of these efforts. There is no guarantee that the operation of these newly acquired stations or our operations in new formats will attract a sufficient listener and advertiser base. If we are not successful in attracting the listener and advertiser base we anticipate, we may not recoup associated operating costs or achieve profitability for these radio stations.

If We Do Not Maintain or Increase Our Block Programming Revenues, Our Business and Operating Results May Be Adversely Affected

The financial success of each of our radio stations that feature Christian Teaching and Talk programming is dependent, to a significant degree, upon our ability to generate revenue from the sale of block programming time to national and local religious organizations, which accounted for 34.9% and 37.0% of our net broadcasting revenue during the years ended December 31, 2006, and 2007, respectively. We compete for this program revenue with a number of commercial and non-commercial radio stations. Due to the significant competition for this block programming, we may not be able to maintain or increase our current block programming revenue.

If We Are Unable To Maintain or Grow Our Advertising Revenues, Our Business and Operating Results May Be Adversely Affected

Depending on their format, our radio stations are to varying degrees dependent upon advertising for their revenues. In the advertising market, we compete for revenue with other commercial religious format and general format radio stations, as well as with other media, including broadcast and cable television, newspapers, magazines, direct mail, Internet and billboard advertising. Due to this significant competition, we may not be able to maintain or increase our current advertising revenue.

A Sustained Economic Downturn in Key Salem Markets Could Negatively Impact Our Ability to Generate Broadcasting Revenues

We derive a substantial part of our total revenues from the sale of advertising on our radio stations. For the years ended December 31, 2005, 2006 and 2007, 51.0%, 47.6%, and 43.4% of our total revenues, respectively, were generated from the sale of advertising. We are particularly dependent on revenue from stations in the Los Angeles and Dallas markets, which generated 7.1% and 6.9%, respectively, of our total revenues in 2007. Because substantial portions of our revenues are derived from local advertisers in these key markets, our ability to generate revenues in those markets could be adversely affected by local or regional economic downturns.

Environmental, Health, Safety and Land Use Laws and Regulations May Limit or Restrict Some of Our Operations

We must comply with various federal, state and local environmental, health, safety and land use laws and regulations which have a tendency to affect broadcast facilities differently than other uses. We and our properties are subject to such laws and regulations relating to the use, storage, disposal, emission and release of hazardous and non-hazardous substances and employee health and safety, as well as zoning restrictions which may affect, among other things, the ability for us to improve or relocate our radio broadcasting facilities. Historically, we have not incurred significant expenditures to comply with these laws. However, existing laws, and those which may be applied in the future, or a finding of a violation of or liability, could require us to make significant expenditures and otherwise limit or restrict some of our operations.

Acts of War and Terrorism May Reduce Our Revenue and Have Other Negative Effects on Our Business

In response to the September 11, 2001 terrorist attacks on New York City and Washington, D.C., we increased our news and community service programming, which decreased the amount of broadcast time available for commercial advertising and block programming. In addition, these events caused advertisers to cancel advertisements on our stations. Continued acts of war and terrorism against the United States, and the country's response thereto, including the current military actions in Iraq, may also cause a general slowdown in the U.S. advertising market, which could cause our revenues to decline due to advertising and/or programming cancellations, delays or defaults in payment, and other factors. In addition, these events may have other negative effects on our business, the nature and duration of which we cannot predict. If these acts of war or terrorism or weak economic conditions continue or worsen, our financial condition and results of operations may be materially and adversely affected.

Our Controlling Stockholders May Cause Us to Act, or Refrain from Acting, In A Way That Minority Stockholders Do Not Believe Is In Their Best Interest

As of March 10, 2008, Edward G. Atsinger III, Stuart W. Epperson, Nancy A. Epperson and Edward C. Atsinger controlled approximately 86.0% of the voting power of our capital stock. These four stockholders thus have the ability to control fundamental corporate transactions requiring stockholder approval, including but not limited to, the election of all of our directors, approval of merger transactions involving Salem and the sale of all or substantially all of Salem's assets. The interests of any of these controlling stockholders may differ from the interests of our other stockholders and one or more of the controlling stockholders could take action or make decisions (or block action or decisions) that minority stockholders may not believe are in their best interest.

If We Fail To Maintain Our Licenses with the FCC, We Would Be Prevented From Operating Affected Radio Stations

We operate each of our radio stations pursuant to one or more FCC broadcasting licenses. As each license expires, we apply for renewal of the license. However, we cannot be sure that any of our licenses will be renewed, and renewal is subject to challenge by third-parties or to denial by the FCC. The Communications Act and FCC rules and policies require prior FCC approval for transfers of control of, and assignments of, FCC licenses. Were a complaint to be filed against us or other FCC licensees involved in a transaction with us, the FCC could delay the grant of, or refuse to grant, its consent to an assignment or transfer of control of licenses and effectively prohibit a proposed acquisition or disposition. The failure to renew any of our licenses would prevent us from operating the affected station and generating revenue from it. If the FCC decides to include conditions or qualifications in any of our licenses, we may be limited in the manner in which we may operate the affected station.

Covenant Restrictions Under Salem Holding's Credit Facility And Its Indenture Governing Its Outstanding Senior Subordinated Notes May Limit Our Ability To Operate Our Business

Salem Holding's credit facility and the indenture governing its notes contain, among other things, covenants that restrict Salem's, Salem Holding's and their subsidiaries' ability to finance future operations or capital needs or to engage in other business activities. The credit facility and each indenture restrict, among other things, our ability to:

- incur additional debt;
- pay dividends or make distributions;
- purchase or redeem stock;
- make investments and extend credit;
- engage in transactions with affiliates;
- create liens on assets;
- transfer and sell assets;
- extend radio site leases, and
- effect a consolidation or merger or sell, transfer, lease, or otherwise dispose of all or substantially all of their assets.

These restrictions on management's ability to operate Salem's and Salem Holding's business in accordance with their discretion could have a material adverse effect on our business. The covenants in the indenture of Salem Holding are subject to a number of important limitations and exceptions. These limitations and exceptions will, for example, allow Salem Holding to make certain restricted payments to, and investments in, Salem, subject to specified limitations.

In addition, Salem Holding's credit facility requires us to maintain specified financial ratios and satisfy certain financial condition tests which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. We cannot assure you that we will meet those tests or that the lenders will waive any failure to meet those tests. A breach of any of these covenants would result in a default under Salem Holding's credit facility and its existing indenture. If an event of default occurs under any of these agreements, the lenders could, under the credit facility, elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable.

If we are unable to pay our obligations to the lenders under the credit facility or other future senior debt instruments, the lenders could proceed against any or all of the collateral securing the indebtedness to them. The collateral under the credit facility consists of substantially all of our existing assets. In addition, a breach of certain of the restrictions or covenants in these agreements, or an acceleration by these lenders of the obligations to them, would cause a default under Salem Holding's notes. We may not have, or be able to obtain, sufficient funds to make accelerated payments, including payments on the notes, or to repay the notes in full after we pay the senior secured lenders to the extent of their collateral.

We May be Adversely Affected by a General Deterioration in Economic Conditions

The risks associated with our businesses become more acute in periods of a slowing economy or recession, which may be accompanied by a decrease in advertising. A decline in the level of business activity of our advertisers could have an adverse effect on our revenues and profit margins. During economic slowdowns in the United States, many advertisers have reduced their advertising expenditures. The impact of slowdowns on our business is difficult to predict, but they may result in reductions in purchases of advertising.

Our Broadcasts Often Rely on Content Owned by Third Parties; Obtaining Such Content Could Be Costly and Require Us to Enter Into Disadvantageous License or Royalty Arrangements

We rely heavily upon content and software owned by third parties in order to provide programming for our broadcasts. The cost of obtaining all necessary licenses and permission to use this third party content and software continues to increase. Although we attempt to avoid infringing known proprietary rights of third parties in our broadcasting efforts, we expect that we may be subject to legal proceedings and claims for alleged infringement from time to time in the ordinary course of business. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, or require us to enter into royalty or license agreements which are not advantageous to us. In addition, parties making claims may be able to obtain an injunction, which could prevent us from broadcasting all or certain portions of individual radio broadcasts containing content owned by third parties. We also rely on software that we license from third parties, including software that is integrated with internally developed software and used to perform key broadcasting and accounting functions. We could lose the right to use this software or it could be made available to us only on commercially unreasonable terms. Although we believe that alternative software is available from other third-party suppliers or internal developments, the loss of or inability to maintain any of these software licenses or the inability of the third parties to enhance in a timely and cost-effective manner their products in response to changing customer needs, industry standards or technological developments could result in limitations or delays in broadcasting or accounting for programming by us until equivalent software could be developed internally or identified, licensed and integrated, which would harm our business.

Proposed Legislation Requires Radio Broadcasters to pay Royalties to Record Labels and Recording Artists

On December 18, 2007, legislation was introduced to Congress that would require terrestrial radio broadcasters to pay a royalty to record labels and performing artists for use of their recorded songs. Currently, we pay royalties to song composers and publishers through BMI, ASCAP and SESAC. The proposed legislation would add an additional layer of royalties to be paid directly to the record labels and artists. It is currently unknown which proposed legislation, if any, will become law, and what impact this royalty would have on our results from operations, cash flows or financial position.

We may be unable to increase or maintain our advertising revenues, which could reduce our profits.

We generate advertising revenue from the sale of display advertisements on our Internet sites. Our ability to increase or maintain this advertising revenue is largely dependent upon the number of users actively visiting our Internet sites. We also must increase user engagement with our advertisers in order to increase our advertising revenues. In addition, Internet advertising techniques are evolving, and if our technology and advertisement serving techniques do not evolve to meet the needs of advertisers, our advertising revenue could decline. Changes in our business model, advertising inventory or initiatives could also cause a decrease in our advertising revenue.

In addition, Internet advertisements are reportedly becoming a means to distribute viruses over the Internet. If this practice becomes more prevalent, it could result in consumers becoming less inclined to click through online advertisements, which could adversely affect the demand for Internet advertising. We do not have long-term agreements with most of our advertisers. Any termination, change or decrease in our advertising relationships could have a material adverse affect on our revenues and profitability. If we do not maintain or increase our advertising revenues, our business, results of operations and financial condition would be materially adversely affected.

If we are unable to protect our domain names, our reputation and brands could be adversely affected.

We currently hold various domain name registrations relating to our brands, including Christianity.com, OnePlace.com and Crosswalk.com. The registration and maintenance of domain names generally are regulated by governmental agencies and their designees. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to register or maintain relevant domain names. We may be unable, without significant cost or at all, to prevent third parties from registering domain names that are similar to, infringe upon or otherwise decrease the value of, our trademarks and other proprietary rights. Failure to protect our domain names could adversely affect our reputation and brands, and make it more difficult for users to find our Web sites and our services.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES.

Corporate

Our corporate headquarters are located in Camarillo, California where we own an approximately 40,000 square foot office building.

Radio Broadcasting

The types of properties required to support our radio stations include offices, studios, and transmitter, antenna and tower sites. A station's studios are generally located in an office in a downtown or business district. Transmitter, antenna and tower sites are located in areas that provide maximum market coverage.. We either own or lease our radio properties under agreements that generally range from five to twenty-five years. We believe we will be able to renew any such lease that expires or obtain comparable facilities, as necessary. Our SRN and SRR offices are located in an office building in the Dallas, Texas metropolitan area, where we own an approximately 34,000 square foot office building. Our network operations are supported by various offices and studios from which its programming originates or is relayed from a remote point of origination. Our network leases satellite transponders used for delivery of its programming

Non-Broadcast

Salem Publishing and Salem Web Network operate from leased office facilities in Nashville, Tennessee; Orlando, Florida; Richmond, Virginia, and Boone, North Carolina. The lease agreements range from one to fifteen years remaining on the lease term. We believe we will be able to renew any such lease that expires or obtain comparable facilities, as necessary.

We lease certain property from our principal stockholders or trusts and partnerships created for the benefit of the principal stockholders and their families. These leases are described in "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" in Part III, Item 13 and in Note 8 of our consolidated financial statements. All such leases have cost of living adjustments. Based upon our management's assessment and analysis of local market conditions for comparable properties, we believe such leases have terms that are as favorable, as or more favorable, to the company than those that would have been available from unaffiliated parties.

No one physical property is material to our overall operations. We believe that our properties are in good condition and suitable for our operations; however, we continually evaluate opportunities to upgrade our properties. We believe we will be able to renew existing leases when applicable or obtain comparable facilities, as necessary

ITEM 3. LEGAL PROCEEDINGS.

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

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

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY; RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The company's Class A common stock trades on the NASDAQ Global Market® ("NASDAQ-NGM") under the symbol SALM. On March 5, 2008, the company had approximately 68 stockholders of record (not including the number of persons or entities holding stock in nominee or street name through various brokerage firms) and 18,115,092 outstanding shares of its Class A common stock and two stockholders of record and 5,553,696 outstanding shares of its Class B common stock. The following table sets forth for the fiscal quarters indicated the range of high and low sales price information per share of the Class A common stock of the company as reported on the NASDAQ-NGM.

	2006				2007			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High (mid-day)	$ 18.16	$ 15.60	$ 13.86	$ 14.05	$ 13.66	$ 14.00	$ 12.07	$ 8.89
Low (mid-day)	$ 12.85	$ 11.42	$ 9.95	$ 11.63	$ 10.64	$ 10.75	$ 7.05	$ 6.39

There is no established public trading market for the company's Class B common stock.

DIVIDEND POLICY

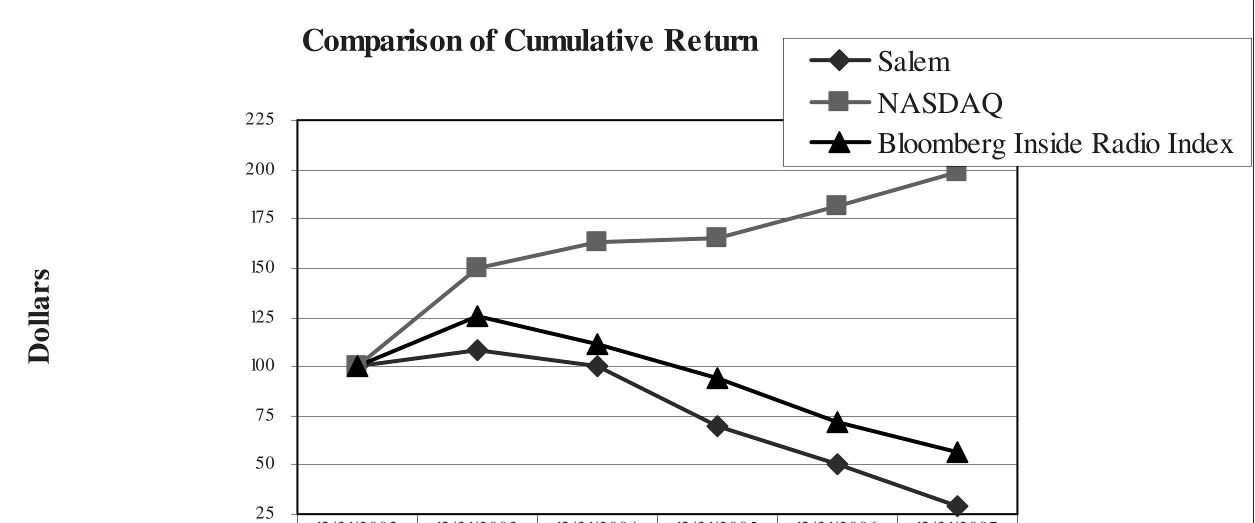
Due to the transition of the radio broadcasting industry to a more mature stage of its lifecycle, a number of broadcasting peers have introduced the payment of dividends. After careful review and consideration of its earnings, financial position, capital requirements, its bank credit facilities and the indenture governing its senior subordinated notes, the Company determined that it was in the interest of its shareholders to grant a special dividend. On August 23, 2007, the Company paid a special cash dividend of $0.42 per share on its Class A and Class B common stock to shareholders of record as of the close of business on August 20, 2007. The cash payment amounted to approximately $10.0 million. On July 28, 2006, the Company paid a special cash dividend of $0.60 per share on its Class A and Class B common stock to shareholders of record as of the close of business on July 17, 2006. The cash payment amounted to approximately $14.6 million.

The company’s sole source of cash available for making any future dividend payments will be dividends paid to the company or payments made to the company by its subsidiaries. The ability of subsidiaries of the company to make such payments may be restricted by applicable state laws or terms of agreements to which they are or may become a party; the company’s credit facility and the terms of the indenture governing its outstanding senior subordinated notes restrict the payment of dividends on its common stock unless certain specified conditions are satisfied.

STOCK PRICE PERFORMANCE GRAPH

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return of the company’s Class A common stock with the cumulative total return of the NASDAQ - NMS equity index and the Bloomberg Broadcast and Cable Radio Index for a five year period commencing December 31, 2002 and ending December 31, 2007. The company’s Class B common stock is not publicly traded and is not registered. The graph assumes that the value of an investment in the Company’s Class A common stock and each index was $100 on December 31, 2002 and that any dividends were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Salem	100	109	100	70	50	29
NASDAQ	100	150	163	165	181	199
Bloomberg Inside Radio Index	100	125	111	94	72	57

The stock price performance graph above shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act or the Exchange Act, except to the extent that the company specifically incorporates this information by reference and shall not otherwise be deemed filed under such Acts.

During the twelve month period ended December 31, 2007, we made repurchases of our Class A common stock pursuant to share repurchase programs authorized by our Board of Directors in May 2005 and February 2006. These repurchase programs expired on December 31, 2007. During the twelve month period ended December 31, 2007, we made repurchases of our Class A common stock as follows:

Repurchases of Class A Common Stock

Period	Total Number of of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs
Jan. 1, 2007 – Jan. 31, 2007	—	—	—	17,781,997
Feb. 1, 2007 – Feb. 28, 2007	—	—	—	17,781,997
Mar. 1, 2007 - Mar. 31, 2007	—	—	—	17,781,997
Apr. 1, 2007 – Apr. 30, 2007	—	—	—	17,781,997
May 1, 2007 – May 31, 2007	—	—	—	17,781,997
Jun. 1, 2007 – Jun. 30, 2007	—	—	—	17,781,997
Jul. 1, 2007 – Jul. 31, 2007	—	—	—	17,781,997
Aug. 1, 2007 – Aug. 31,2007	112,267	9.20	112,267	16,748,750
Sept. 1, 2007 – Sept. 30, 2007	74,965	10.07	74,965	15,993,903
Oct 1, 2007 – Oct 31, 2007	—	—	—	15,993,903
Nov 1, 2007 – Nov 30, 2007	—	—	—	15,993,903
Dec 1, 2007– Dec 31, 2007	—	—	—	15,993,903
Total	187,232		187,232	

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected financial data and other operating information of Salem. The selected financial data in the table are derived from the consolidated financial statements of Salem. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included (incorporated by reference) herein. The data below should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and specifically the disclosure concerning a reconciliation for historical Non-GAAP measures presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations–Non-GAAP Financial Measures" included in Item 7 of this report.

The Statements of Operations Data for all periods presented have been reclassified to reflect the operating results of WTSJ-AM, Cincinnati, Ohio, WBOB-AM, Cincinnati, Ohio, WBTK-AM, Richmond, Virginia, WITH-AM, Baltimore, Maryland, WBGB-FM, Jacksonville, Florida, WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida, and WZAZ-AM, Jacksonville, Florida, as discontinued operations. The Company entered into agreements to sell these radio stations during 2005 and 2006 and completed the sale of these entities during the year ended December 31, 2006.

The Statements of Operations Data for all periods presented have been reclassified to reflect the operating results of WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin as discontinued operations. In 2007, the Company had a plan in place to sell these radio stations and entered into formal sale agreements in January 2008.

ITEM 6. SELECTED FINANCIAL DATA (CONTINUED).

	Year Ended December 31,				
	2003	2004	2005	2006	**2007**
	(Dollars in thousands, except share and per share data)				
Statement of Operations Data:					
Net broadcasting revenue	$ 167,287	$ 182,592	$ 196,885	$ 206,367	**$ 206,596**
Non-broadcast revenue	7,865	9,342	10,790	19,369	**25,130**
Total revenue	175,152	191,934	207,675	225,736	**231,726**
Operating expenses:					
Broadcasting operating expenses	105,319	110,777	119,740	129,438	**131,796**
Cost of denied / abandoned tower site and license upgrade	2,202	746	—	—	—
Non-broadcast operating expenses	7,942	8,600	9,889	18,172	**23,093**
Legal settlement	—	—	650	—	**—**
Corporate expenses	16,091	17,480	19,607	24,043	**22,314**
Cost of terminated offering	651	—	—	—	**—**
Impairment of goodwill	—	—	—	—	**1,862**
Depreciation and amortization	11,963	11,923	12,859	15,026	**15,082**
(Gain) loss on disposal of assets	211	3,179	522	(18,653)	**(2,190)**
Total operating expenses	144,379	152,705	163,267	168,026	**191,957**
Operating income	30,773	39,229	44,408	57,710	**39,769**
Other income (expense):					
Interest income	212	171	207	210	**183**
Interest expense	(23,474)	(19,931)	(22,559)	(26,342)	**(25,488)**
Loss on early redemption of long-term debt	(6,440)	(6,588)	(24)	(3,625)	**—**
Other income (expense)	(410)	(116)	(506)	(420)	**164**
Total other expense	(30,112)	(26,464)	(22,882)	(30,177)	**(25,141)**
Income from continuing operations before income taxes	661	12,765	21,526	27,533	**14,628**
Provision for income taxes	813	4,874	8,538	11,096	**6,620**
Income (loss) from continuing operations	(152)	7,891	12,988	16,437	**8,008**
Income (loss) from discontinued operations, net of tax	(525)	(558)	(326)	2,562	**167**
Net income (loss)	$ (677)	$ 7,333	$ 12,662	$ 18,999	**$ 8,175**
Basic earnings (loss) per share data:					
Earnings (loss) per share from continuing operations	$ (0.01)	$ 0.31	$ 0.50	$ 0.68	**$ 0.34**
Income (loss) from discontinued operations	(0.02)	(0.02)	(0.01)	0.11	**0.01**
Net earnings (loss) per share	$ (0.03)	$ 0.29	$ 0.49	$ 0.78	**$ 0.34**
Diluted earnings (loss) per share data:					
Earnings (loss) per share from continuing operations	$ (0.01)	$ 0.31	$ 0.50	$ 0.68	**$ 0.34**
Earnings (loss) per share from discontinued operations	(0.02)	(0.02)	(0.01)	0.11	**0.01**
Net earnings (loss) per share	$ (0.03)	$ 0.29	$ 0.49	$ 0.78	**$ 0.34**
Basic weighted average shares outstanding	23,488,898	25,220,678	25,735,641	24,215,867	**23,785,015**
Diluted weighted average shares outstanding	23,488,898	25,371,649	25,794,875	24,223,751	**23,788,568**

ITEM 6. SELECTED FINANCIAL DATA (CONTINUED).

	Year Ended December 31,				
	2003	2004	2005	2006	**2007**
	(Dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 5,620	$ 10,994	$ 3,979	$ 710	**$ 447**
Broadcast licenses	364,102	388,628	435,178	468,630	**464,549**
Other intangible assets including goodwill, net	15,387	14,172	20,047	31,866	**27,607**
Total assets	560,011	585,374	645,930	686,264	**679,798**
Long-term debt, less current portion	330,046	276,882	326,470	358,978	**347,617**
Stockholders' equity	171,822	247,637	249,118	237,716	**233,178**
Cash flows related to:					
Operating activities	$ 24,074	$ 38,771	$ 38,690	$ 36,378	**$ 31,666**
Investing activities	(19,763)	(44,069)	(83,338)	(50,509)	**(11,312)**
Financing activities	(14,883)	10,923	37,548	(3,773)	**(20,853)**
Other Data:					
Station operating income (1)	$ 61,968	$ 71,815	$ 77,145	$ 76,929	**$ 74,800**
Station operating income margin (2)	37.0%	39.3%	39.2%	37.3%	**36.2%**

(1) We define station operating income as net broadcasting revenue less broadcasting operating expenses.
(2) Station operating income margin is station operating income as a percentage of net broadcasting revenue.

Station operating income is not a measure of performance calculated in accordance with generally accepted accounting principles ("GAAP"). Therefore it should be viewed as a supplement to and not a substitute for results of operations presented on the basis of GAAP. Management believes that station operating income is useful, when considered in conjunction with operating income, the most directly comparable GAAP financial measure, because it is generally recognized by the radio broadcasting industry as a tool in measuring performance and in applying valuation methodologies for companies in the media, entertainment and communications industries. This measure is used by investors and by analysts who report on the industry to provide comparisons between broadcast groups. Additionally, we use station operating income as one of our key measures of operating efficiency and contribution to profitability. Station operating income does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash flow activity and our income statement presents our historical performance prepared in accordance with GAAP. Our station operating income is not necessarily comparable to similarly titled measures employed by other companies.

RECONCILIATION OF STATION OPERATING INCOME TO OPERATING INCOME

	Year Ended December 31,				
	2003	2004	2005	2006	**2007**
	(Dollars in thousands)				
Station operating income	$ 61,968	$ 71,815	$ 77,145	$ 76,929	**$ 74,800**
Plus non-broadcast revenue	7,865	9,342	10,790	19,369	**25,130**
Less cost of denied tower site and license upgrade	(2,202)	(746)	—	—	—
Less non-broadcast operating expenses	(7,942)	(8,600)	(9,889)	(18,172)	**(23,093)**
Less depreciation and amortization	(11,963)	(11,923)	(12,859)	(15,026)	**(15,082)**
Less gain (loss) on disposal of assets	(211)	(3,179)	(522)	18,653	**2,190**
Less corporate expenses	(16,091)	(17,480)	(19,607)	(24,043)	**(22,314)**
Less cost of terminated offering	(651)	—	—	—	—
Less impairment of goodwill	—	—	—	—	**(1,862)**
Less legal settlement	—	—	(650)	—	—
Operating income from continuing operations	$ 30,773	$ 39,229	$ 44,408	$ 57,710	**$ 39,769**

ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this report. Our consolidated financial statements are not directly comparable from period to period because of our acquisition and disposition of selected assets of radio stations and our acquisitions of non-broadcast businesses. See Note 2 to our consolidated financial statements under Item 8 for additional information.

OVERVIEW

As a radio broadcasting company with a national radio network, we derive our broadcasting revenue primarily from the sale of broadcast time and radio advertising on a national and local basis.

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.

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

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

Our sources of revenue and product offerings also increasingly include non-broadcast businesses, including our Internet and publishing businesses.

The following table shows the percentage of net broadcasting revenue for each broadcasting revenue source.

	Year Ended December 31,					
	2005		2006		**2007**	
			(Dollars in thousands)			
Block program time:						
National	$ 36,378	18.5%	$ 41,307	20.0%	**$ 45,598**	**22.1%**
Local	27,964	14.2	30,805	14.9	**30,740**	**14.9**
	64,342	32.7	72,112	34.9	**76,338**	**37.0**
Advertising:						
National	15,336	7.8	17,136	8.3	**15,022**	**7.3**
Local	90,596	46.0	90,424	43.8	**85,527**	**41.4**
	105,932	53.8	107,560	52.1	**100,549**	**48.7**
Infomercials	8,129	4.1	7,798	3.8	**8,511**	**4.1**
Network	14,664	7.4	14,834	7.2	**15,247**	**7.4**
Other	3,818	2.0	4,063	2.0	**5,951**	**2.8**
Net broadcasting revenue	$ 196,885	100%	$ 206,367	100%	**$ 206,596**	**100%**

Our broadcasting revenue is affected primarily by the program rates our radio stations charge, the level of broadcast air time sold and by the advertising rates our radio stations and networks charge. The rates for block programming time are based upon our stations' ability to attract audiences that will support the program producers through contributions and purchases of their products. Advertising rates are based upon the demand for advertising time, which in turn is based on our stations' and networks' ability to produce results for their advertisers. We do not subscribe to traditional audience measuring services for our Christian Teaching and Talk stations. Instead, we have marketed ourselves to advertisers based upon the responsiveness of our audiences. 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 networks has a pre-determined level of time that they make available for block programming and/or advertising, which may vary at different times of the day.

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds with quarterly fluctuations in the retail advertising industry. Quarterly revenue from the sale of block programming time does not tend to vary significantly, however, because program rates are generally set annually and are recognized on a per program basis.

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

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services in lieu of cash. In order to preserve the sale of our advertising time for cash, we generally enter into trade agreements only if the goods or services bartered to us will be used in our business. We have minimized our use of trade agreements and have generally sold most of our advertising time for cash. In 2007, we sold 97% 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: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses and (iv) music license fees. In addition to these expenses, our network incurs programming costs and lease expenses for satellite communication facilities. We also incur and 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.

Salem Web Network™ and Townhall.com®, our Internet businesses, earn revenues from the sales of streaming services, sales of advertising and, to a lesser extent, sales of software and software support contracts. Salem Publishing™, our publishing business, earns its revenue by selling advertising in and subscriptions to its publications and by selling books. Xulon Press earns its revenue from the publishing of books. The revenue and related operating expenses of these businesses are reported as "non-broadcast" on our Consolidated Statement of Operations.

SAME STATION DEFINITION

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

RESULTS OF OPERATIONS

We have reclassified our statements of operations data for all periods presented to reflect the operating results of WTSJ-AM, Cincinnati, Ohio, WBOB-AM, Cincinnati, Ohio, WBTK-AM, Richmond, Virginia, WITH-AM, Baltimore, Maryland, WBGB-FM, Jacksonville, Florida, WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida, and WZAZ-AM, Jacksonville, Florida, as discontinued operations for the year ended December 31, 2006. The Company entered into agreements to sell these radio stations during 2005 and 2006 and completed the sale of these entities during the year ended December 31, 2006.

In 2007, the Company had a plan in place to sell radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin and entered into formal sale agreements in January 2008. The accompanying Consolidated Balance Sheets and Statements of Operations reflect the operating results and net assets of these entities as discontinued operations. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

The following table sets forth certain statements of operations data for the periods indicated and shows annual changes:

	Year Ended December 31,				
	2005	2006	**2007**	2006 over 2005	2007 over 2006
		(in thousands)		% change	
Net broadcasting revenue	$ 196,885	$ 206,367	**$ 206,596**	4.8%	**0.1%**
Non-broadcast revenue	10,790	19,369	**25,130**	79.5%	**29.7%**
Total revenue	207,675	225,736	**231,726**	8.7%	**2.7%**
Operating expenses:					
Broadcasting operating expenses	119,740	129,438	**131,796**	8.1%	**1.8%**
Non-broadcast operating expenses	9,889	18,172	**23,093**	83.8%	**27.1%**
Legal settlement	650	—	—	(100.0)%	—%
Corporate expenses	19,607	24,043	**22,314**	22.6%	**(7.2)%**
Impairment of goodwill	—	—	**1,862**	—	**100.0%**
Depreciation	11,399	11,906	**12,047**	4.4%	**1.2%**
Amortization	1,460	3,120	**3,035**	113.7%	**(2.7)%**
(Gain) / Loss on disposal of assets	522	(18,653)	**(2,190)**	(3,673.4)%	**(88.3)%**
Total operating expenses	163,267	168,026	**191,957**	2.9%	**14.2%**
Operating income from continuing operations	44,408	57,710	**39,769**	30.0%	**(31.1)%**
Other income (expense):					
Interest income	207	210	**183**	1.4%	**(12.9)%**
Interest expense	(22,559)	(26,342)	**(25,488)**	16.8%	**(3.2)%**
Loss on early redemption of long-term debt	(24)	(3,625)	—	15,004.2%	**(100.0)%**
Other income (expense), net	(506)	(420)	**164**	(17.0)%	**(139.0)%**
Income from continuing operations before income taxes	21,526	27,533	**14,628**	27.9%	**(46.9)%**
Provision for income taxes	8,538	11,096	**6,620**	30.0%	**(40.3)%**
Income from continuing operations	12,988	16,437	**8,008**	26.6%	**(51.3)%**
Income (loss) from discontinued operations, net of tax	(326)	2,562	**167**	(885.9)%	**(93.5)%**
Net income	$ 12,662	$ 18,999	**$ 8,175**	50.0%	**(57.0)%**

The following table presents selected financial data for the periods indicated as a percentage of total revenue.

	Year Ended December 31,		
	2005	2006	**2007**
Net broadcasting revenue	95 %	91 %	**89 %**
Non-broadcast revenue	5 %	9 %	**11 %**
Total revenue	100 %	100 %	**100 %**
Operating expenses:			
Broadcasting operating expenses	58 %	57 %	**57 %**
Non-broadcast operating expenses	5 %	8 %	**10 %**
Legal settlement	— %	— %	**— %**
Corporate expenses	9 %	11 %	**10 %**
Impairment of goodwill	— %	— %	**1 %**
Depreciation	6 %	5 %	**5 %**
Amortization	1 %	1 %	**1 %**
(Gain) Loss on disposal of assets	— %	(8) %	**(1) %**
Total operating expenses	79 %	74 %	**83 %**
Operating income from continuing operations	21 %	26 %	**17 %**
Other income (expense):			
Interest income	— %	— %	**— %**
Interest expense	(11) %	(12) %	**(11) %**
Loss on early redemption of long-term debt	— %	(2) %	**— %**
Other expense, net	— %	— %	**— %**
Income from continuing operations before income taxes	10 %	12 %	**6 %**
Provision for income taxes	4 %	5 %	**3 %**
Income from continuing operations	6 %	7 %	**3 %**
Income from discontinued operations, net of tax	— %	1 %	**— %**
Net income	6 %	8 %	**3 %**

Year ended December 31, 2007 compared to year ended December 31, 2006

NET BROADCASTING REVENUE. Net broadcasting revenue increased $0.2 million or 0.1% to $206.6 million for the year ended December 31, 2007 from $206.4 million for the year ended December 31, 2006. On a same station basis, net broadcasting revenue improved by $1.0 million, or 0.5%, to $202.3 million for the year ended December 31, 2007 from $201.3 million for the year ended December 31, 2006. The increase is attributable to growth in national program revenue on our Christian Teaching and Talk stations of $4.3 million and growth in local advertising sales on our Contemporary Christian Music station of $1.7 million, offset by a $4.5 million decline in local advertising revenue on our News Talk and Christian Teaching Talk stations and a $0.5 million decline in national advertising revenue on our Contemporary Christian Music stations. Revenue from advertising as a percentage of our net broadcasting revenue decreased to 48.7% for the year ended December 31, 2007 from 52.1% for the year ended December 31, 2006. Revenue from block program time as a percentage of our net broadcasting revenue increased to 37.0% for year ended December 31, 2007 from 34.9% for the year ended December 31, 2006. Block programming revenue has continued to increase as a percentage of our total broadcasting revenue, particularly on our Christian Teaching and Talk stations. Overall, the trend in the radio broadcasting industry is of declining advertising revenues resulting in the use of block programming or infomercials to offset the declines. We expect this trend to continue; however, we cannot quantify the financial impact on our future operating results.

NON-BROADCAST REVENUE. Non-broadcast revenue increased $5.7 million, or 29.7%, to $25.1 million for the year ended December 31, 2007 from $19.4 million for the year ended December 31, 2006. The increase is comprised of $5.0 million of revenue from entities acquired in 2006, Townhall.com, Preaching Magazine and Xulon Press which contributed $8.9 million of revenue for the year ended December 31, 2007 compared to $3.9 million for the year ended December 31, 2006 and a $0.9 million increase in banner advertising and streaming revenue on Salem Web Network offset by a $0.2 million decline in subscription and advertising revenue on Salem Publishing.

BROADCASTING OPERATING EXPENSES. Broadcast operating expenses increased $2.4 million, or 1.8%, to $131.8 million for the year ended December 31, 2007 from $129.4 million for the year ended December 31, 2006. On a same station basis, broadcast operating expense increased $3.2 million, or 2.6%, to $127.1 million for the year ended December 31, 2007 from $123.9 million for the year ended December 31, 2006. The increase in expenses consist of a $1.0 million increase in rental costs associated with lease renewals, primarily in New York and Boston, a $0.5 million increase in advertising and promotion costs, and a $0.4 million increase in production and programming costs. Additionally, the Company incurred a $0.2 million increase in LMA fees for the year ended December 31, 2007 compared to the year ended December 31, 2006 associated with the operations of WMCU-AM in Miami, Florida and KTRO-AM in Portland, Oregon.

NON-BROADCAST OPERATING EXPENSES. Non-broadcast operating expenses increased $4.9 million, or 27.1%, to $23.1 million for the year ended December 31, 2007 from $18.2 million for the year ended December 31, 2006. The increase is comprised of $4.1 million of expenses from entities acquired in 2006, Townhall.com, Preaching Magazine and Xulon Press, which incurred $8.0 million of expenses for the year ended December 31, 2007 compared to $3.9 million for the year ended December 31, 2006, a $0.3 million increase in streaming expenses, a $0.2 million increase in personnel related costs and a $0.2 million increase in advertising costs on Salem Web Network.

CORPORATE EXPENSES. Corporate expenses decreased $1.7 million, or 7.2%, to $22.3 million for the year ended December 31, 2007 from $24.0 million for the year ended December 31, 2006. The decrease is comprised of a $1.1 million reduction in non-cash stock-based compensation expense associated with stock options, a $0.4 million decrease in accounting and auditing fees resulting from our change in outside audit firms and the use the use of consultants for internal control test work in the prior year, and a $0.2 million decrease in legal fees.

IMPAIRMENT OF GOODWILL. In accordance with SFAS No. 142, we review the recorded values of our FCC broadcast licenses, goodwill, and other non-amortizable intangible assets on an annual basis or more frequently if conditions indicate that we may have an impairment. We completed our annual evaluation during the fourth quarter of 2007. No impairment was recognized on the value of our FCC licenses or other non-amortizable assets. On January 16, 2008, we announced our plan to discontinue publishing the *CCM Magazine* as of the April 2008 issue. The magazine will be shut down, resulting in the termination of employees and refunds to customers for subscriptions paid in advance. As a result of this decision, we recorded an impairment charge in the fourth quarter of 2007 of $1.9 million equal to the value of goodwill associated with *CCM Magazine*.

DEPRECIATION. Depreciation expense increased $0.1 million, or 1.2%, to $12.0 million for the year ended December 31, 2007 from $11.9 million for the year ended December 31, 2006. The increase is due to depreciation associated with acquisitions of radio station assets and non-broadcast entities during 2006 for which a full twelve months of depreciation is reported for the year ended December 31, 2007 compared to the year ended December 31, 2006.

AMORTIZATION. Amortization expense decreased $0.1 million, or 2.7%, to $3.0 million for the year ended December 31, 2007 from $3.1 million for the year ended December 31, 2006. The decrease is due to higher amortization recognized in 2006 on intangibles such as advertising agreements and other business contracts that were acquired in that year that had an estimated useful life of one year from the date of purchase.

(GAIN) LOSS ON DISPOSAL OF ASSETS. Gain on disposal of assets of $2.2 million for the year ended December 31, 2007 was comprised of the sale of radio station WKNR-AM in Cleveland, Ohio which was sold for $7.0 million resulting in a pre-tax gain of $3.4 million, offset by the loss recognized on the sale of radio station WVRY-FM, Nashville, Tennessee, which was sold for $0.9 million resulting in a pre-tax loss of $0.5 million, and $0.7 million of various fixed asset disposals. The gain on disposal of assets of $18.7 million for the year ended December 31, 2006 resulting from gains recognized on various transactions. Selected assets of KLMG-FM, Sacramento, California, were exchanged for selected assets of radio station KKFS-FM, Sacramento, California, which resulted in a pre-tax gain of $14.6 million. Additionally, we sold selected assets of WCCD-AM in Cleveland, Ohio, for $2.1 million resulting in a pre-tax gain of $1.6 million, which was partially offset by a sale of radio station KBAA-FM, Sacramento, California, for $0.5 million, resulting in a pre-tax loss of $0.6 million. We also exchanged selected assets of KNIT-AM, Dallas, Texas for selected assets of WORL-AM, Orlando, Florida, resulting in a pre-tax gain on the exchange of $3.5 million.

OTHER INCOME (EXPENSE). Interest income of approximately $0.2 million for each of the years ended December 31, 2007 and 2006, was primarily from interest earned on excess cash. Interest expense decreased $0.8 million, or 3.2% to $25.5 million for the year ended December 31, 2007 from $26.3 million for the year ended December 31, 2006. The decrease is primarily due to the redemption of our 9% Notes in July 2006 and an overall decrease in net outstanding debt. Other income of $0.2 million for the year ended December 31, 2007 is comprised of royalty income from real estate properties offset with bank commitment fees associated with our credit facilities. Net other expense of $0.4 million for the year ended December 31, 2006 related primarily to bank commitment fees associated with our credit facility. During the year ended December 31, 2006, we recognized a pre-tax loss of approximately $3.6 million on the redemption of our 9% senior subordinated notes due July 2011, which includes the write-off of unamortized bond issue costs and interest rate swap settlement amounts.

PROVISION FOR INCOME TAXES. Provision for income taxes was $6.6 million for the year ended December 31, 2007 compared to $11.1 million for the year ended December 31, 2006. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 45.3% for the year ended December 31, 2007 compared to 40.3% for the year ended December 31, 2006. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX. Income from discontinued operations of $0.2 million, net of tax, for the year ended December 31, 2007 reflects the operating results of radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin which are presented as discontinued operations for the year ended December 31, 2007 and all prior period presented. The $2.6 million income for the year ended December 31, 2006 includes the operating results these Milwaukee stations as well as a pre-tax gain of $0.7 million from the 2006 sale of radio stations WTSJ-AM, Cincinnati, Ohio and WBOB-AM, Cincinnati, Ohio, a pre-tax gain of $0.8 million from the 2006 sale of radio station WBGB-FM, Jacksonville, Florida, a pre-tax gain of $0.6 million from the 2006 sale of radio station WBTK-AM in Richmond, Virginia, a $2.2 million pre-tax gain from the 2006 sale of radio station WITH-AM Baltimore, Maryland, a $0.1 million pre-tax gain from the 2006 sale of radio stations WJGR-AM, WZNZ-AM, and WZAZ-AM, Jacksonville, Florida, and the operating results of each of these radio stations up through the date of the sales. These transactions are discussed further in Note 2 to our financial statements.

NET INCOME. We recognized net income of $8.2 million for the year ended December 31, 2007 compared to net income of $19.0 million for the year ended December 31, 2006, a decrease of $10.8 million, or 57.0%. This decrease is comprised of $16.5 million decrease in the gain recognized on the disposal of assets, a $2.4 million increase in broadcast operating expenses and a $4.9 million increase in non-broadcast operating expenses, offset by a $1.7 million decrease in corporate expenses, a $5.9 million increase in net revenue and the impact of the $3.6 million loss on early retirement of debt that was recognized during the 12 months ended December 31, 2006.

Year ended December 31, 2006 compared to year ended December 31, 2005

NET BROADCASTING REVENUE. Net broadcasting revenue increased $9.5 million or 4.8% to $206.4 million for the year ended December 31, 2006, from $196.9 million for the year ended December 31, 2005. On a same station basis, net broadcasting revenue improved $4.7 million, or 2.4% to $198.6 million for the year ended December 31, 2006, from $193.9 million for the year ended December 31, 2005. The increase is attributable to growth in net broadcasting revenue on our Christian Teaching and Talk stations of $3.6 million and in net broadcasting revenue on our News Talk stations of $5.0 million. Revenue from advertising as a percentage of our net broadcasting revenue decreased to 52.1% for the year ended December 31, 2006, from 53.8% for the year ended December 31, 2005. Revenue from block program time as a percentage of our net broadcasting revenue increased to 34.9% for year ended December 31, 2006, from 32.7% for the year ended December 31, 2005. This change in our revenue mix was primarily due to weakness in the radio advertising market with block programming and infomercials being used to offset declining advertising revenues.

NON-BROADCAST REVENUE. Non-broadcast revenue increased $8.6 million, or 79.5% to $19.4 million for the year ended December 31, 2006, from $10.8 million for the year ended December 31, 2005. The increase was primarily due to our acquisitions of Churchstaffing.com in the fourth quarter of 2005 and our acquisitions of Singing News, CrossDaily.com, Townhall.com, and Xulon Press during 2006 plus organic growth of advertising revenue at Salem Web Network™.

BROADCASTING OPERATING EXPENSES. Broadcast operating expenses increased $9.7 million, or 8.1% to $129.4 million for the year ended December 31, 2006, compared to $119.7 million for the year ended December 31, 2005. On a same station basis, broadcast operating expense increased $5.3 million or 4.6% to $121.6 million for the year ended December 31, 2006, compared to $116.3 million for the year ended December 31, 2005. The increase is primarily attributable to higher personnel costs of $3.8 million, including stock-based compensation of $0.8 million which was not applicable during the same period of the prior year and including commissions of $0.1 million associated with higher sales, higher advertising costs of $0.5 million, higher facility related costs of $0.6 million associated with recently acquired facilities and higher production costs of $1.2 million associated with station programming.

NON-BROADCAST OPERATING EXPENSES. Non-broadcast operating expenses increased $8.3 million, or 83.8% to $18.2 million for the year ended December 31, 2006, compared to $9.9 million for the year ended December 31, 2005. The increase is attributable primarily to costs associated with our acquisitions of Churchstaffing.com in the fourth quarter of 2005 and our acquisitions of Singing News, CrossDaily.com, Townhall.com, and Xulon Press during 2006.

LEGAL SETTLEMENT. During the year ended December 31, 2005, we recorded a $0.7 million expense related to a stipulation of settlement of a class action lawsuit.

CORPORATE EXPENSES. Corporate expenses increased $4.4 million, or 22.6%, to $24.0 million for the year ended December 31, 2006, compared to $19.6 million for the year ended December 31, 2005. The increase is primarily due to $3.5 million of non-cash stock-based compensation expense associated with the implementation of SFAS No. 123R, "Share-Based Payment" on January 1, 2006, higher personnel costs of $0.3 million, higher research and development costs of $0.2 million and $0.3 million of costs associated with compliance requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

DEPRECIATION. Depreciation expense increased $0.5 million, or 4.4%, to $11.9 million for the year ended December 31, 2006, compared to $11.4 million for the year ended December 31, 2005. The increase is primarily due to depreciation associated with the acquisitions of radio station assets and non-broadcast entities during 2006.

AMORTIZATION. Amortization expense increased $1.6 million, or 113.7%, to $3.1 million for the year ended December 31, 2006, compared to $1.5 million for the year ended December 31, 2005. The increase in amortization is primarily due to definitive lived assets acquired with non-broadcast media entities during 2005 and 2006.

(GAIN) LOSS ON DISPOSAL OF ASSETS. Gain on disposal of assets of $18.7 million for the year ended December 31, 2006, was primarily due to gains recognized on various exchange transactions accounted for under SFAS No. 153. Radio station KLMG-FM, Sacramento, California, was exchanged for selected assets of radio station KKFS-FM, Sacramento, California, which resulted in a pre-tax gain of $14.6 million. Additionally, we sold radio station WCCD-AM in Cleveland, Ohio, for $2.1 million resulting in a pre-tax gain of $1.6 million, which was primarily offset by the sale of radio station KBAA-FM, Sacramento, California, for $0.5 million, resulting in a pre-tax loss of $0.6 million. We also exchanged radio station KNIT-AM, Dallas, Texas for selected assets of radio station WORL-AM, Orlando, Florida, resulting in a pre-tax gain on the exchange of $3.5 million. Loss on disposal of assets of $0.5 million for the year ended December 31, 2005, was primarily due to the write-off of various fixed assets and equipment.

OTHER INCOME (EXPENSE). Interest expense increased $3.7 million, or 16.8% to $26.3 million for the year ended December 31, 2006, compared to $22.6 million for the year ended December 31, 2005. The increase in interest expense is due to higher interest rates under our credit facilities and an increase in our net outstanding debt throughout the year. Net other expense of $0.4 million relates primarily to bank commitment fees associated with our credit facilities. During the year ended December 31, 2006, we recognized a pre-tax loss of approximately $3.6 million on the redemption of our 9% senior subordinated notes due July 2011, which includes the write-off of unamortized bond issue costs and interest rate swap settlement amounts.

PROVISION FOR INCOME TAXES. Provision for income taxes was $11.1 million for the year ended December 31, 2006 compared to $8.5 million for the year ended December 31, 2005. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 40.3% for the year ended December 31, 2006 compared to 39.6% for the year ended December 31, 2005. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX. Income from discontinued operations of $2.6 million net of tax, for the year ended December 31, 2006, reflects the operating results of radio stations WRRD-AM, Milwaukee Wisconsin and WFZH-FM, Milwaukee, as well as a pre-tax gain of $0.7 million from the sale of radio stations WTSJ-AM, Cincinnati, Ohio and WBOB-AM, Cincinnati, Ohio, a pre-tax gain of $0.8 million from the sale of radio station WBGB-FM, Jacksonville, Florida, a pre-tax gain of $0.6 million from the sale of radio station WBTK-AM in Richmond, Virginia, a $2.2 million pre-tax gain from the sale of radio station WITH-AM Baltimore, Maryland, a $0.1 million pre-tax gain from the sale of radio stations WJGR-AM, WZNZ-AM, and WZAZ-AM, Jacksonville, Florida, and the operating results of each of these radio stations up through the date of the sales. The loss from discontinued operations of $0.3 million, net of tax, for the year ended December 31, 2005, includes the operating results of each of these stations in order to conform the current period presentation as of December 31, 2007. These transactions are discussed further in Note 2 to our financial statements.

NET INCOME. We recognized net income of $19.0 million for the year ended December 31, 2006 compared to net income of $12.7 million for the year ended December 31, 2005. This increase of $6.3 million is comprised of a $19.2 million increase in (gain) loss on disposal of assets, a $9.5 million increase in net broadcast revenue and a $8.6 million increase in non-broadcast revenue offset by a $9.4 million increase in broadcast expenses (exclusive of stock-based compensation), a $8.3 million increase in non-broadcast expenses (exclusive of stock-based compensation), an increase of $4.3 million for total stock-based compensation expense, a $3.7 million increase in interest expense, a $3.6 million charge on the early redemption of debt, and a $2.6 million increase in our provision for income taxes.

NON-GAAP FINANCIAL MEASURES

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

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

Year ended December 31, 2007 compared to year ended December 31, 2006

STATION OPERATING INCOME. SOI decreased $2.1 million, or 2.8% to $74.8 million for the year ended December 31, 2007 compared to $76.9 million for the year ended December 31, 2006 as a result of the changes in net broadcasting revenue and broadcast operating expense explained above. As a percentage of net broadcasting revenue, SOI decreased to 36.2% for the year ended December 31, 2007 from 37.3% for the year ended December 31, 2006. On a same station basis, SOI declined $2.3 million, or 3.0%, to $75.2 million for the year ended December 31, 2007 from $77.5 million for the year ended December 31, 2006. As a percentage of same station net broadcasting revenue, same station SOI decreased to 37.2% for the year ended December 31, 2007 compared to 38.5% for the year ended December 31, 2006.

The following table provides a reconciliation of SOI (a non-GAAP financial measure) to operating income (as presented in our financial statements) for the year ended December 31, 2007 and 2006:

	For the Year Ended December 31, (Dollars in thousands) 2006	**2007**
Station operating income	$ 76,929	**$ 74,800**
Plus non-broadcast revenue	19,369	**25,130**
Less non-broadcast operating expenses	(18,172)	**(23,093)**
Less depreciation and amortization	(15,026)	**(15,082)**
Less gain (loss) on disposal of assets	18,653	**2,190**
Less impairment of goodwill	—	**(1,862)**
Less corporate expenses	(24,043)	**(22,314)**
Operating income from continuing operations	$ 57,710	**$ 39,769**

Year ended December 31, 2006 compared to year ended December 31, 2005

STATION OPERATING INCOME. SOI decreased $0.2 million, or 0.3% to $76.9 million for the year ended December 31, 2006, compared to $77.1 million for the year ended December 31, 2005 as a result of the changes in net broadcasting revenue and broadcast operating expense explained above. As a percentage of net broadcasting revenue, SOI decreased to 37.2% for the year ended December 31, 2006 from 39.1% for the year ended December 31, 2005. On a same station basis, SOI declined $0.6 million, or 0.8%, to $77.0 million for the year ended December 31, 2006 from $77.6 million for the year ended December 31, 2005. As a percentage of same station net broadcasting revenue, same station SOI decreased to 38.8% for the year ended December 31, 2006 compared to 40.0% for the year ended December 31, 2005.

The following table provides a reconciliation of SOI (a non-GAAP financial measure) to operating income (as presented in our financial statements) for the year ended December 31, 2006 and 2005:

	For the Year Ended December 31, (Dollars in thousands) 2005	2006
Station operating income	$ 77,145	$ 76,929
Plus non-broadcast revenue	10,790	19,369
Less non-broadcast operating expenses	(9,889)	(18,172)
Less depreciation and amortization	(12,859)	(15,026)
Less gain (loss) on disposal of assets	(522)	18,653
Less corporate expenses	(19,607)	(24,043)
Less legal settlement	(650)	—
Operating income from continuing operations	$ 44,408	$ 57,710

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

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

Accounting for acquisitions and upgrades of radio station and network assets

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

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

Revenue recognition.

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

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

Advertising by the radio stations exchanged for goods and services is recorded as the advertising is broadcast and is valued at the estimated value of goods or services received or to be received. The value of the goods and services received in such barter transactions is charged to expense when used. We record broadcast advertising provided in exchange for goods and services as broadcasting revenue and the goods or services received in exchange for such advertising as broadcasting operating expenses.

Based on our past experience, the use of these criteria has been a reliable method to recognize revenue.

Allowance for doubtful accounts

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

Goodwill and other intangible assets

Under the Financial Accounting Standard Board "FASB" rules, SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," we no longer amortize goodwill and intangible assets deemed to have indefinite lives, but perform annual impairment tests in accordance with these statements. We believe our FCC licenses have indefinite lives and accordingly amortization expense is no longer recorded for our FCC licenses as well as our goodwill. Other intangible assets continue to be amortized over their useful lives.

We perform impairment tests on our FCC licenses and goodwill at least annually. The annual tests are performed during the fourth quarter of each year and include comparing the recorded values to the appraised values, calculations of discounted cash flows, operating income and other analyses. As of December 31, 2007 no impairment was recognized on the value of our FCC licenses. On January 16, 2008, we announced our plan to discontinue publishing the *CCM Magazine* as of the April 2008 issue. The magazine will be shut down, resulting in the termination of employees and refunds to customers for subscriptions paid in advance. As a result of this decision, we recorded an impairment charge in the fourth quarter of 2007 of $1.9 million equal to the value of goodwill associated with *CCM Magazine*. The assessment of the fair values of these assets and the underlying businesses are estimates, which require careful consideration and judgments by our management. If conditions in the markets in which our stations and non-broadcast businesses operate or if the operating results of our stations and non-broadcast businesses change or fail to develop as anticipated, our estimates of the fair values may change in the future and may result in impairment charges.

Uncertain tax positions

We adopted FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48") on January 1, 2007 and accrued liabilities for unrecognized tax benefits in accordance with the provisions. On the date of adoption we had $3.0 million in liabilities related to uncertain tax positions, including $0.9 million recognized under Statement of Accounting Standards No. 5 ("SFAS No. 5") Accounting for Contingencies and carried forward from prior years and $2.1 million recognized upon adoption of FIN 48 as a reduction to retained earnings. Included in the $2.1 million accrual was $0.1 million related interest, net of federal income tax benefits. During 2007, we recognized a net increase of $0.9 million in liabilities and at December 31, 2007, had $3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.1 million accrued for the related interest, net of federal income tax benefits, and $0.1 million for the related penalty recorded in income tax expense on our Consolidated Statements of Operations.

A summary of the changes in the gross amount of unrecognized tax benefits for the year ended December 31, 2007, is shown below (dollars in thousands):

Balance at January 1, 2007	$	2,963
Additions based on tax positions related to the current year		777
Additions based on tax positions related to prior years		200
Reductions related to tax positions of prior years		(79)
Decrease due to statute expirations		(66)
Related interest and penalties, net of federal tax benefits		99
Balance as of December 31,2007	$	3,894

Valuation allowance (deferred taxes)

For financial reporting purposes, we recorded a valuation allowance of $1.8 million as of December 31, 2007 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. Management regularly reviews our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on management's estimate of the benefit the company will receive from such carryforwards.

Long-term debt and debt covenant compliance

Our classification of borrowings under our credit facilities as long-term debt on our balance sheet is based on our assessment that, under the borrowing restrictions and covenants in our credit facilities and after considering our projected operating results and cash flows for the coming year, no principal payments, other than the scheduled principal reductions in our term loan facility, will be required pursuant to the credit agreement. These projections are estimates dependent upon a number of factors including developments in the markets in which we are operating in and economic and political factors, among other factors. Accordingly, these projections are inherently uncertain and our actual results could differ from these estimates. Should our actual results differ materially from these estimates, payments may become due under our credit facilities or it may become necessary to seek an amendment to our credit facilities. Based on our management's current assessment, we do not anticipate principal payments becoming due under our credit facilities other than the scheduled principal reductions in our term loan facility, or a further amendment of our credit facilities becoming necessary.

Stock-Based compensation

We have one stock option plan, The Amended and Restated 1999 Stock Incentive Plan, (the "Plan") under which stock options and restricted stock units are granted to employees, directors, officers and advisors of the Company. As of December 31, 2007 a maximum of 3,100,000 shares are authorized under the plan, of which 2,422,024 are outstanding and 1,475,337 are exercisable.

Effective January 1, 2006, we adopted SFAS No. 123(R), which requires the measurement at fair value and recognition of compensation expense for all share-based payment awards. Total stock-based compensation expense during 2006 was $4.3 million. Determining the appropriate fair-value model and calculating the fair value of employee stock options and rights to purchase shares under stock purchase plans at the date of grant requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of these share-based awards consistent with the provisions of SFAS No. 123(R). Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that significantly affect the grant date fair value. The expected dividend rate and expected risk-free rate of return are not currently significant to the calculation of fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 160

In December 2007 the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"), an amendment of ARB No. 51. SFAS No.160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We believe that the adoption of SFAS No. 160 will not have a material impact on our operations, cash flows or financial position.

Statement of Financial Accounting Standards No. 141(R)

In December 2007 the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS No. 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. We are currently evaluating the impact that adopting SFAS No. 141(R) may have on our consolidated financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 159

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

Statement of Financial Accounting Standards No. 157

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" which is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, specifies the acceptable methods for determining fair value, and expands disclosure requirements regarding fair value measurements. SFAS No. 157 is effective beginning January 1, 2008. In February 2008, the FASB deferred the adoption of SFAS No. 157 for one year as it applies to certain items, including assets and liabilities initially measured at fair value in a business combination, reporting units and certain assets and liabilities measured at fair value in connection with goodwill impairment tests in accordance with SFAS No. 142 and long-lived assets measured at fair value for impairment assessments under SFAS No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets* . We are still required to adopt the provisions of SFAS No. 157 in 2008 as it relates to certain other items, including those within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instrument* , and financial and nonfinancial derivatives within the scope of SFAS No. 133. We believe that the adoption of SFAS No. 157 will not have a material impact on our consolidated financial position, results of operations and cash flows.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash and cash equivalents were $0.4 million on December 31, 2007 and $0.7 million on December 31, 2006. Working capital was $21.6 million on December 30, 2007 compared to $22.0 million as of December 31, 2006.

Cash Flows from Operating Activities

Our cash flows from continuing operations are primarily derived from our earnings from ongoing operations before non-cash expenses such as depreciation, amortization, bad debt and stock-based compensation and changes in our working capital. Net cash provided by operating activities of continuing operations was $31.7 million for the year ended December 31, 2007 compared to $36.4 million for the same period of the prior year. The decrease of $4.7 million was primarily the result of a decrease in net income of $8.4 million offset by changes in operating assets and liabilities, including a decrease in deferred income taxes of $6.1 million, a decrease in non-cash stock-based compensation expense of $1.0 million.

Cash Flows from Investing Activities

Our investing activities primarily relate to capital expenditures, strategic acquisitions or dispositions of radio station assets and strategic acquisitions of non-broadcast businesses. Net cash used in investing activities was $11.3 million for the year ended December 31, 2007 compared to $50.5 million for the same period of the prior year. The decrease of $39.2 million was primarily due to a $30.5 million decrease in cash outlays for acquisitions of radio station assets and non-broadcast businesses and secondarily to a $5.2 million decrease in capital expenditures. During the year ended December 31, 2007, we purchased two Internet businesses for $0.7 million compared to $31.5 million to purchase selected assets of five radio stations, three Internet businesses, and two magazine businesses during same period of the prior year. Additionally, for the year ended December 31, 2007, we sold selected assets of two radio stations for $8.0 million compared to the sale of eleven radio stations for $25.2 million in the same period of the prior year.

Cash Flows from Financing Activities

Our financing activities primarily relate to proceeds and repayments under our credit facilities, payments of capital lease obligations, payments of dividends and repurchases of our Class A Common Stock. Net cash used in financing activities was $20.8 million for the year ended December 31, 2007 compared to $3.8 million for the same period of the prior year. The change was primarily due to stock repurchases of $1.8 million during for the year ended December 31, 2007 compared to $20.7 million the same period of the prior year, net repayments of debt of $9.3 million during the year ended December 31, 2007 compared to $126.8 million for the same period of the prior year, increased borrowings of $0.5 million related to our Swingline credit facility and a $10.0 million payment of a special cash dividend. In addition, during 2006 we used $98.3 million for the redemption of our 9% Notes which included a premium and the payment of a special cash dividend of $14.6 million.

Credit Facilities

Our wholly-owned subsidiary, Salem Communications Holding Corporation ("Salem Holding"), is the borrower under our credit facilities. The maximum amount that Salem Holding may borrow under our credit facilities is limited by a ratio of our consolidated existing total adjusted funded debt to pro forma twelve-month cash flow (the "Total Leverage Ratio"). Our credit facilities will allow us to adjust our total debt as used in such calculation by the lesser of (i) 50% of the aggregate purchase price of acquisitions of newly acquired radio stations that we reformat to a religious talk, News Talk or religious music format or (ii) $45.0 million, and the cash flow from such stations will not be considered in the calculation of the ratio during the period in which such acquisition gives rise to an adjustment to total debt. The Total Leverage Ratio allowed under the credit facilities was 6.25 to 1 as of December 31, 2007. The ratio will decline periodically until December 31, 2009, at which point it will remain at 5.5 to 1 through the remaining term of the credit facilities. The Total Leverage Ratio under our credit facilities at December 31, 2007, on a pro forma basis, was 5.98 to 1.

We amended our credit facilities on October 24, 2007 to increase our Total Leverage Ratio covenant ratio to 6.75 to 1 through March 30, 2009. Additionally, the senior leverage ratio covenant will increase to 5.0 to 1 and the interest coverage ratio will remain at 2.0 to 1 through March 30, 2009. These covenant changes are effective upon the close of the acquisition of WMCU-AM in Miami, Florida

The credit facilities include a $75.0 million senior secured reducing revolving credit facility ("revolving credit facility"), a $75.0 million term loan B facility ("term loan B facility") and a $165.0 million term loan C facility ("term loan C facility"). As of December 31, 2007, the borrowing capacity and aggregate commitments were $60.0 million under our revolving credit facility, $72.4 million under our term loan B facility and $162.5 million under our term loan C facility. The amount we can borrow, however, is subject to certain restrictions as described below. As of December 31, 2007, we could borrow $16.0 million under our credit facilities.

On December 31, 2007, $72.4 million was outstanding under the term loan B facility, $162.5 million was outstanding under the term loan C facility and $13.0 million was outstanding under our revolving credit facility. The borrowing capacity under the revolving credit facility steps down in three 10% increments commencing June 30, 2007, and matures on March 25, 2009. The borrowing capacity under the term loan B facility steps down 0.5% each December 31 and June 30. The term loan B facility matures on the earlier of March 25, 2010, or the date that is six months prior to the maturity of any subordinated indebtedness of Salem or Salem Holding. The borrowing capacity under the term loan C facility steps down 0.5% each December 31 and June 30. The term loan C facility matures on the earlier of June 30, 2012, or the date that is six months prior to the maturity of any subordinated indebtedness of Salem or Salem Holding. The credit facilities require us, under certain circumstances, to prepay borrowings under the credit facilities with excess cash flow and the net proceeds from the sale of assets, the issuance of equity interests and the issuance of subordinated notes. If we are required to make these prepayments, our borrowing capacity and the aggregate commitments under the facilities will be reduced, but such reduction shall not, in any event, reduce the borrowing capacity and aggregate commitments under the facilities below $50.0 million.

Amounts outstanding under the credit facilities bear interest at a rate based on, at Salem Holding's option, the bank's prime rate or LIBOR, in each case plus a spread. For purposes of determining the interest rate under our revolving credit facility, the prime rate spread ranges from 0.00% to 1.00%, and the LIBOR spread ranges from 1.00% to 2.00%. For both the term loan B facility and the term loan C facility, the prime rate spread ranges from 0.25% to 0.75%, and the LIBOR spread ranges from 1.25% to 1.75%. In each case, the spread is based on the total leverage ratio on the date of determination. If an event of default occurs, the rate may increase by 2.0%. At December 31, 2007, the blended interest rate on amounts outstanding under the credit facilities was 6.64%.

Our credit facilities contain additional restrictive covenants customary for facilities of their size, type and purpose which, with specified exceptions, limits our ability to incur debt, have liens, enter into affiliate transactions, pay dividends, consolidate, merge or affect certain asset sales, make specified investments, acquisitions and loans and change the nature of our business. Our credit facilities also require us to satisfy specified financial covenants, which covenants require us on a consolidated basis to maintain specified financial ratios and comply with certain financial tests, including ratios for maximum leverage as described above, minimum interest coverage (not less than 2.0 to 1 through June 30, 2009 increasing in increments to 2.5 to 1 after June 30, 2009), minimum debt service coverage (a static ratio of not less than 1.25 to 1), a maximum consolidated senior leverage ratio (currently 5.0 to 1, which will decline periodically until December 31, 2008, at which point it will remain at 4.0 to 1 through the remaining term of the credit facilities), and minimum fixed charge coverage (a static ratio of not less than 1.1 to 1). Salem and all of its subsidiaries, except for Salem Holding, are guarantors of borrowings under the credit facilities. The credit facilities are secured by liens on all of our assets and our subsidiaries' assets and pledges of all of the capital stock of our subsidiaries.

On October 18, 2006, the company purchased two interest rate caps for $0.1 million to mitigate exposure to rising interest rates based on LIBOR. The first interest rate cap covers $50.0 million of borrowings under the credit facilities for a three year period. The second interest rate cap covers $50.0 million of borrowings under the credit facilities for a four year period. Both interest rate caps are at 7.25%.

As of December 31, 2007, we were and remain in compliance with all of the covenants under our terms of the credit facilities.

Swingline Credit Facility. On June 1, 2005, we entered into an agreement for a swingline credit facility ("Swingline") with a borrowing capacity of $5.0 million. As collateral for the Swingline, the company pledged its corporate office building. Amounts outstanding under the Swingline bear interest at a rate based on the bank's prime rate. As of December 31, 2007, $2.9 million was outstanding under the Swingline bearing interest at 7.00%.

As of December 31, 2007, we were and remain in compliance with all of the covenants under the terms of the Swingline.

7¾% Notes. In December 2002, Salem Holding issued $100.0 million principal amount of 7¾% Notes. Salem Holding used the net proceeds to redeem the $100.0 million 9½% Notes on January 22, 2003. The indenture for the 7¾% Notes contains restrictive covenants that, among other things, limit the incurrence of debt by Salem Holding and its subsidiaries, the payment of dividends, the use of proceeds of specified asset sales and transactions with affiliates. Salem Holding is required to pay $7.8 million per year in interest on the 7¾% Notes. We and all of our subsidiaries (other than Salem Holding) are guarantors of the 7¾% Notes.

As of December 31, 2007, we were and remain in compliance with all of the covenants under the indenture for the 7¾% Notes.

A summary of long-term debt obligations is as follows:

	December 31, 2006	December 31, 2007
	(Dollars in thousands)	
Term loan B	$ 73,125	$ 72,375
Term loan C	165,000	162,525
Revolving line of credit under credit facility	19,100	13,000
Swingline credit facility	1,241	2,952
Seller financed note to acquire Townhall.com	2,444	2,546
7¾% senior subordinated notes due 2010	100,000	100,000
Capital leases and other loans	116	886
	$ 361,026	$ 354,284
Less current portion	2,048	6,667
	$ 358,978	$ 347,617

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2006 and 2007, Salem did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Salem is not materially exposed to any financing, liquidity, market or credit risk that could arise if Salem had engaged in such relationships.

CONTRACTUAL OBLIGATIONS

The following table summarizes our aggregate contractual obligations at December 31, 2007, and the estimated timing and effect that such obligations are expected to have on our liquidity and cash flow in future periods.

Contractual Obligations	Total	Less than One year	1-3 years	3-5 years	More Than 5 years
	Payments Due by Period (Dollars in thousands)				
Long-term debt, including current portion	$ 350,852	$ 5,352	$ 345,500	$ —	$ —
Interest payments on long-term debt (1)	39,367	16,787	22,143	120	317
Capital lease obligations and other loans	3,432	1,315	1,357	71	689
Operating leases	85,712	9,870	17,647	13,936	44,259
Total contractual cash obligations	$ 479,363	$ 33,324	$ 386,647	$ 14,127	$ 45,265

(1) Interest payments on long-term debt are based on the outstanding debt and respective interest rates with interest rates on variable-rate debt held constant through maturity at the December 31, 2007 rates. Interest ultimately paid on these obligations may differ based on changes in interest rates for variable-rate debt, as well as any potential future refinancing. See Note 4 to the accompanying consolidated financial statements for further details.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

DERIVATIVE INSTRUMENTS

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

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

During 2004 and through February 18, 2005, we had an interest rate swap agreement with a notional principal amount of $66.0 million. This agreement related to our $94.4 million 9% senior subordinated notes due 2011 (the "9% Notes."). This agreement was scheduled to expire in 2011 when the 9% Notes were to mature, and effectively swapped the 9.0% fixed interest rate on $66.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 3.09%. On February 18, 2005, we sold our entire interest in this swap and received a payment of approximately $3.7 million, which was amortized as a reduction of interest expense over the remaining life of the 9% Notes. On July 6, 2006, we completed the redemption of the remainder of our outstanding 9% senior subordinated notes. As a result of the redemption, we wrote off the remaining balance of the buyout premium of approximately $2.7 million as a reduction of the loss on the early redemption of long term debt. Interest expense for the year ended December 31, 2006, was reduced by approximately $0.3 million related to the amortization of the buyout premium received.

During 2004, we also had a second interest rate swap agreement with a notional principal amount of $24.0 million. This agreement also related to our 9% Notes. This agreement was to expire in 2011 when the 9% Notes were to mature, and effectively swapped the 9.0% fixed interest rate on $24.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 4.86%. On August 20, 2004, we sold our interest in $14.0 million of this swap. As a result of this transaction, we paid and capitalized $0.3 million in buyout premium, which was amortized into interest expense over the remaining life of the 9% Notes. On October 22, 2004, we sold our remaining $10.0 million interest in this swap. As a result of this second transaction, we paid and capitalized approximately $110,000 in buyout premium, which was amortized into interest expense over the remaining life of the 9% Notes. On July 6, 2006, we completed the redemption of the remainder of our outstanding 9% Notes. As a result of this redemption, we recorded a loss on the swap of approximately $0.3 million which is included in the loss on early redemption of long-term debt. We recognized approximately $33,000 in interest expense for the year ended December 31, 2006 related to the amortization of capitalized buyout premium.

On April 8, 2005, we entered into an interest rate swap arrangement for the notional principal amount of $30.0 million whereby we will pay a fixed interest rate of 4.99% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the year ended December 31, 2007, was reduced by approximately $101,000 as a result of the difference between the interest rates. As of December 31, 2007, we recorded a liability for the fair value of the interest rate swap of approximately $1.2 million. This amount, net of income tax benefit of approximately $0.5 million, is reflected in other comprehensive income (loss), as we have designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On April 26, 2005, we entered into a second interest rate swap arrangement for the notional principal amount of $30.0 million whereby we will pay a fixed interest rate of 4.70% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the year ended December 31, 2007, was reduced by approximately $189,000 as a result of the difference between the interest rates. As of December 31, 2007, we recorded a liability for the fair value of the interest rate swap of approximately $0.8 million. This amount, net of income tax benefit of approximately $0.3 million, is reflected in other comprehensive income (loss), as we have designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On May 5, 2005, we entered into a third interest rate swap arrangement for the notional principal amount of $30.0 million whereby we will pay a fixed interest rate of 4.53% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the year ended December 31, 2007, was reduced by approximately $242,000 as a result of the difference between the interest rates. As of December 31, 2007, we recorded a liability for the fair value of the interest rate swap of approximately $0.5 million. This amount, net of income tax benefit of approximately $0.2 million, is reflected in other comprehensive income (loss), as we have designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On October 18, 2006, the Company purchased two interest rate caps for $0.1 million to mitigate exposure to rising interest rates based on LIBOR. The first interest rate cap covers $50.0 million of borrowings under the credit facilities for a three year period. The second interest rate cap covers $50.0 million of borrowings under the credit facilities for a four year period. Both interest rate caps are at 7.25%. The caps do not qualify for hedge accounting and accordingly, all changes in fair value have been included as a component of interest expense. For the years ended December 31, 2006 and 2007, interest expense of $53,000 and $31,000 was recorded related to our interest rate caps.

MARKET RISK

In addition to the interest rate swap agreements discussed above under “Derivative Instruments,” borrowings under the credit facilities are subject to market risk exposure, specifically to changes in LIBOR and in the prime rate in the United States. As of December 31, 2007, we had borrowed $250.9 million under our credit facilities and Swingline. As of December 31, 2007, we could borrow up to an additional $16.0 million under the credit facilities. Amounts outstanding under the credit facilities bear interest at a rate based on, at Salem Holding’s option, the bank’s prime rate or LIBOR, in each case plus a spread. For purposes of determining the interest rate under our revolving credit facility, the prime rate spread ranges from 0.00% to 1.00%, and the LIBOR spread ranges from 1.00% to 2.00%. For both the term loan B facility and the term loan C facility, the prime rate spread ranges from 0.25% to 0.75%, and the LIBOR spread ranges from 1.25% to 1.75%. In each case, the spread is based on the total leverage ratio on the date of determination. At December 31, 2007, the blended interest rate on amounts outstanding under the credit facilities was 6.64%. At December 31, 2007 a hypothetical 100 basis point increase in the prime rate or LIBOR, as applicable, would result in additional interest expense of $1.6 million on an annualized basis. As of December 31, 2006, we had borrowed $258.5 million under our credit facilities and Swingline. As of December 31, 2006, we could borrow up to an additional $51.9 million under the credit facilities. Amounts outstanding under the credit facilities bear interest at a rate based on, at Salem Holding’s option, the bank’s prime rate or LIBOR, in each case plus a spread. For purposes of determining the interest rate under our revolving credit facility, the prime rate spread ranges from 0.00% to 1.00%, and the LIBOR spread ranges from 1.00% to 2.00%. For both the term loan B facility and the term loan C facility, the prime rate spread ranges from 0.25% to 0.75%, and the LIBOR spread ranges from 1.25% to 1.75%. In each case, the spread is based on the total leverage ratio on the date of determination. At December 31, 2006, the blended interest rate on amounts outstanding under the credit facilities was 6.95%. At December 31, 2006 a hypothetical 100 basis point increase in the prime rate or LIBOR, as applicable, would have resulted in additional interest expense of $1.7 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 outstanding 7¾% Notes as of December 31, 2007, with an aggregate fair value of $99.6 million. 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. The ultimate value of these notes will be determined by actual market prices, as all of these notes are tradable. We estimate that a hypothetical 100 basis point increase in market interest rates would result in a decrease in the aggregate fair value of the notes to approximately $97.1 million and a hypothetical 100 basis point decrease in market interest rates would result in the increase of the fair value of the notes to approximately $102.2 million. As of December 31, 2006 we estimated that a hypothetical 100 basis point increase in market interest rates would have resulted in a decrease in the aggregate fair value of the notes to approximately $98.1 million and a hypothetical 100 basis point decrease in market interest rates would have resulted in the increase of the fair value of the notes to approximately $104.9 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS

	PAGE
Reports of Independent Registered Public Accounting Firm	41
Consolidated Balance Sheets as of December 31, 2006 and 2007	43
Consolidated Statements of Operations for the years ended December 31, 2005, 2006 and 2007	44
Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2005, 2006 and 2007	46
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2006 and 2007	47
Notes to Consolidated Financial Statements	49

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Salem Communications Corporation

We have audited the consolidated balance sheet of Salem Communications Corporation and subsidiaries (collectively, the "Company") as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2007. Our audit also included the financial statement schedule of Salem Communications Corporation listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Salem Communications Corporation and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company has adopted the provisions of Statement of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" on January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Salem Communications Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2008 expressed an unqualified opinion on the effectiveness of Salem Communications Corporation's internal control over financial reporting.

/s/ SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, CA
March 13, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Salem Communications Corporation

We have audited the accompanying consolidated balance sheet of Salem Communications Corporation as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of Salem Communications Corporation's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Salem Communications Corporation at December 31, 2006, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006 Salem Communications Corporation changed its method of accounting for share-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) and its method of accounting for exchanges of non-monetary assets in accordance with Statement of Financial Accounting Standards No. 153.

Since the initial issuance of our report dated March 15, 2007, Salem Communications Corporation has put a plan in place to sell radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin. This plan is further discussed in Note 1 and Note 2 to the accompanying financial statements. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 15, 2007, except for the accounting for discontinued operations as discussed in Note 1 and Note 2, as to which date is March 11, 2008

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

	December 31, 2006	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 710	**$ 447**
Trade accounts receivable (less allowance for doubtful accounts of $7,606 in 2006 and $8,131 in 2007)	31,984	**30,030**
Other receivables	551	**635**
Prepaid expenses	2,330	**2,621**
Deferred income taxes	5,020	**5,567**
Assets of discontinued operations	8,671	**8,599**
Total current assets	49,266	**47,899**
Property, plant and equipment (net of accumulated depreciation of $74,051 in 2006 and $82,796 in 2007)	127,956	**131,087**
Broadcast licenses	468,630	**464,549**
Goodwill	20,606	**18,636**
Other indefinite-lived intangible assets	2,892	**2,892**
Amortizable intangible assets (net of accumulated amortization of $10,846 in 2006 and $13,882 in 2007)	8,368	**6,079**
Bond issue costs	593	**444**
Bank loan fees	2,996	**1,994**
Fair value of interest rate swap agreements	1,290	**—**
Other assets	3,667	**6,218**
Total assets	$ 686,264	**$ 679,798**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,421	**$ 1,325**
Accrued expenses	6,446	**6,134**
Accrued compensation and related expenses	7,033	**7,297**
Accrued interest	4,275	**553**
Deferred revenue	4,050	**4,205**
Current portion of long-term debt and capital lease obligations	2,048	**6,667**
Income tax payable	22	**109**
Total current liabilities	27,295	**26,290**
Long-term debt and capital lease obligations, less current portion	358,978	**347,617**
Fair value of interest rate swap agreements	—	**2,489**
Deferred income taxes	53,935	**61,381**
Deferred revenue	7,063	**7,500**
Other liabilities	1,277	**1,343**
Total liabilities	448,548	**446,620**
Commitments and contingencies		
Stockholders Equity:		
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 20,424,242 issued and 18,293,824 outstanding shares in 2006; 20,432,742 issued and 18,115,092 outstanding shares in 2007	204	**204**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding shares in 2006 and 2007	56	**56**
Additional paid-in capital	221,466	**224,878**
Retained earnings	47,433	**43,538**
Treasury stock, at cost (2,130,418 shares at December 31, 2006 and 2,317,650 at December 31, 2007)	(32,218)	**(34,006)**
Accumulated other comprehensive income (loss)	775	**(1,492)**
Total stockholders' equity	237,716	**233,178**
Total liabilities and stockholders' equity	$ 686,264	**$ 679,798**

See accompanying notes

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

	Year Ended December 31,		
	2005	2006	**2007**
Net broadcasting revenue	$ 196,885	$ 206,367	**$ 206,596**
Non-broadcast revenue	10,790	19,369	**25,130**
Total revenue	207,675	225,736	**231,726**
Operating expenses:			
Broadcasting operating expenses exclusive of depreciation and amortization shown below (including $1,115, $1,117 and $1,239 for the years ended December 31, 2005, 2006 and 2007, respectively, paid to related parties)	119,740	129,438	**131,796**
Non-broadcast operating expenses exclusive of depreciation and amortization shown below	9,889	18,172	**23,093**
Legal settlement	650	—	**—**
Corporate expenses exclusive of depreciation and amortization shown below (including $256, $235 and $368 for the years ended December 31, 2005, 2006 and 2007, respectively, paid to related parties)	19,607	24,043	**22,314**
Impairment of goodwill	—	—	**1,862**
Depreciation (including $394, $862 and $761 for the years ended December 31, 2005, 2006 and 2007, respectively, for non-broadcast businesses)	11,399	11,906	**12,047**
Amortization (including $518, $2,405 and $2,868 for the years ended December 31, 2005, 2006 and 2007, respectively, for non-broadcast businesses)	1,460	3,120	**3,035**
(Gain) loss on disposal of assets	522	(18,653)	**(2,190)**
Total operating expenses	163,267	168,026	**191,957**
Operating income from continuing operations	44,408	57,710	**39,769**
Other income (expense):			
Interest income	207	210	**183**
Interest expense	(22,559)	(26,342)	**(25,488)**
Loss on early redemption of long-term debt	(24)	(3,625)	—
Other income (expense), net	(506)	(420)	**164**
Income from continuing operations before income taxes	21,526	27,533	**14,628**
Provision for income taxes	8,538	11,096	**6,620**
Income from continuing operations	12,988	16,437	**8,008**
Income (loss) from discontinued operations, net of tax	(326)	2,562	**167**
Net income	$ 12,662	$ 18,999	**$ 8,175**
Other comprehensive income (loss), net of tax	318	457	**(2,267)**
Comprehensive income	$ 12,980	$ 19,456	**$ 5,908**

See accompanying notes

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

	Year Ended December 31, 2005	2006	**2007**
Basic earnings (loss) per share data:			
Earnings per share from continuing operations	$ 0.50	$ 0.68	**$ 0.34**
Income (loss) per share from discontinued operations	(0.01)	0.11	**0.01**
Basic earnings per share	0.49	0.78	**0.34**
Diluted earnings (loss) per share data:			
Earnings per share from continuing operations	$ 0.50	$ 0.68	**$ 0.34**
Income (loss) from discontinued operations	(0.01)	0.11	**0.01**
Diluted earnings per share	0.49	0.78	**0.34**
Basic weighted average shares outstanding	25,735,641	24,215,867	**23,785,015**
Diluted weighted average shares outstanding	25,794,875	24,223,751	**23,788,568**

See accompanying notes

SALEM COMMUNICATIONS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except share data)

	Class A Common Stock		Class B Common Stock		Additional	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Paid-In Capital	Earnings	Stock	Income (Loss)	Total
Stockholders' equity, January 1, 2005	20,408,742	204	5,553,696	56	216,996	30,381	—	—	247,637
Class A common stock shares repurchased	—	—	—	—	—	—	(11,539)	—	(11,539)
Net unrealized income on interest rate swap agreements	—	—	—	—	—	—	—	318	318
Options exercised	2,250	—	—	—	33	—	—	—	33
Tax benefit related to stock options exercised	—	—	—	—	7	—	—	—	7
Net income	—	—	—	—	—	12,662	—	—	12,662
Stockholders' equity, December 31, 2005	20,410,992	204	5,553,696	56	217,036	43,043	(11,539)	318	249,118
Options exercised	13,250	—	—	—	95	—	—	—	95
Tax benefit related to stock options exercised	—	—	—	—	1	—	—	—	1
Class A common stock shares repurchased	—	—	—	—	—	—	(20,679)	—	(20,679)
Dividends	—	—	—	—	—	(14,609)	—		(14,609)
Stock-based compensation	—	—	—	—	4,334	—	—	—	4,334
Net unrealized income on interest rate swap agreements	—	—	—	—	—	—	—	457	457
Net income	—	—	—	—	—	18,999	—	—	18,999
Stockholders' equity, December 31, 2006	20,424,242	204	5,553,696	56	221,466	47,433	(32,218)	775	237,716
Options exercised	8,500	—	—	—	30	—	—	—	30
Tax benefit related to stock options exercised	—	—	—	—	1	—	—	—	1
Class A common stock shares repurchased	—	—	—	—	—	—	(1,788)	—	(1,788)
Adoption of FIN 48	—	—	—	—	—	(2,060)	—	—	(2,060)
Dividends	—	—	—	—	—	(10,010)	—	—	(10,010)
Stock-based compensation	—	—	—	—	3,381	—	—	—	3,381
Net unrealized (loss) on interest rate swap agreements	—	—	—	—	—	—	—	(2,267)	(2,267)
Net income	—	—	—	—	—	8,175	—	—	8,175
Stockholders' equity, December 31, 2007	**20,432,742**	**204**	**5,553,696**	**56**	**224,878**	**43,538**	**(34,006)**	**(1,492)**	**233,178**

See accompanying notes

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

	Year Ended December 31,		
	2005	2006	**2007**
OPERATING ACTIVITIES			
Income from continuing operations	$ 12,988	$ 16,437	**$ 8,008**
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Non-cash stock-based compensation	—	4,334	**3,381**
Depreciation and amortization	12,859	15,026	**15,082**
Amortization of bond issue costs and bank loan fees	1,470	1,360	**1,161**
Amortization and accretion of financing items	(687)	(166)	**102**
Provision for bad debts	2,793	3,566	**3,233**
Deferred income taxes	8,024	12,414	**6,351**
Impairment of goodwill	—	—	**1,862**
(Gain) loss on disposal of assets	522	(18,653)	**(2,190)**
Loss on early redemption of debt	24	3,625	—
Changes in operating assets and liabilities:			
Accounts receivable	(4,211)	(3,488)	**(1,333)**
Prepaid expenses and other current assets	(335)	154	**(291)**
Accounts payable and accrued expenses	446	1,256	**(4,535)**
Deferred revenue	4,441	569	**592**
Other liabilities	356	(78)	**156**
Income taxes payable	—	22	**87**
Net cash provided by continuing operating activities	38,690	36,378	**31,666**
INVESTING ACTIVITIES			
Capital expenditures	(22,138)	(21,070)	**(15,896)**
Deposits on radio station acquisitions	670	—	**(1,237)**
Purchases of broadcast assets	(53,249)	(20,229)	—
Purchases of non-broadcast businesses	(6,940)	(11,246)	**(987)**
Proceeds from sale of property, plant and equipment and broadcast licenses	80	2,400	**7,972**
Other	(1,761)	(364)	**(1,164)**
Net cash used in investing activities of continuing operations	(83,338)	(50,509)	**(11,312)**
FINANCING ACTIVITIES			
Repurchase of Class A common stock	(11,539)	(20,679)	**(1,788)**
Payments to redeem 9% Notes	—	(94,031)	—
Payment of bond premium	(24)	(4,231)	—
Proceeds from borrowings under credit facilities	87,750	156,000	**18,000**
Payments of long-term debt and notes payable	(41,275)	(29,250)	**(27,331)**
Net borrowings and repayment of Swingline credit facility	—	1,241	**1,711**
Proceeds from exercise of stock options	33	95	**30**
Tax benefit related to stock options exercised	7	1	**1**
Payment of cash dividend on common stock	—	(14,609)	**(10,010)**
Issuance of loans and capital lease obligations	84	—	—
Payments on capital lease obligations	(9)	(26)	**(32)**
Payments for interest rate swap	(339)	—	—
Payments of costs related to bank credit facility and debt financing	(870)	(273)	—
Proceeds from interest rate swap termination	3,730	—	—
Book overdraft	—	1,989	**(1,434)**
Net cash provided by (used in) financing activities	37,548	(3,773)	**(20,853)**
CASH FLOWS FROM DISCONTINUED OPERATIONS			
Operating cash flows	90	(2,968)	**300**
Investing cash flows	(5)	17,603	**(64)**
Total cash inflow from discontinued operations	85	14,635	**236**
Net increase (decrease) in cash and cash equivalents	(7,015)	(3,269)	**(263)**
Cash and cash equivalents at beginning of period	10,994	3,979	**710**
Cash and cash equivalents at end of period	$ 3,979	$ 710	**$ 447**

See accompanying notes

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

	Year Ended December 31,		
	2005	2006	**2007**
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 21,447	$ 27,496	**$ 28,892**
Income taxes	341	256	**368**
Non-cash investing and financing activities:			
Assets acquired through capital lease obligations	—	—	**800**
Capital expenditures	—	—	**286**

See accompanying notes

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of Salem Communications Corporation ("Salem" or the "Company") include the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The Company is a holding company with substantially no assets, operations or cash flows other than its investments in subsidiaries. The Company, excluding its subsidiaries, is herein referred to as Parent. In May 2000, the Company formed two new wholly-owned subsidiaries, Salem Communications Holding Corporation ("HoldCo") and Salem Communications Acquisition Corporation ("AcquisitionCo"), each a Delaware corporation. HoldCo is the issuer of the 7¾% Senior Subordinated Notes due 2010 ("7¾% Notes"). HoldCo is a holding company with substantially no assets, operations or cash flows other than its investments in subsidiaries. In July 2000, the Company formed SCA License Corporation ("SCA"), a Delaware corporation. HoldCo and AcquisitionCo are direct subsidiaries of the Company; SCA is a wholly-owned subsidiary of AcquisitionCo. Parent, AcquisitionCo and all of its subsidiaries and all of the subsidiaries of HoldCo are Guarantors of the 7¾% Notes discussed in Note 4. The Guarantors (i) are wholly-owned subsidiaries of the Company, (ii) comprise substantially all the Company's direct and indirect subsidiaries and (iii) have fully and unconditionally guaranteed on a joint and several basis and the 7¾% Notes. SCA owns the assets of eight radio stations as of December 31, 2007. See Note 13 for certain consolidating information with respect to the Company.

Description of Business

Salem is a domestic U.S. radio broadcast company, which has traditionally provided talk and music programming targeted at audiences interested in Christian and family issues. Salem operated 97 radio stations across the United States at each of December 31, 2006 and 2007, respectively. The Company also owns and operates Salem Radio Network® ("SRN"), SRN News Network ("SNN"), Salem Music Network ("SMN"), Reach Satellite Network ("RSN"), Salem Radio Representatives ("SRR") and Vista Radio Representatives ("VRR"). SRN, SNN, SMN and RSN are radio networks, which produce and distribute talk, news and music programming to radio stations in the U.S., including some of Salem's stations. SRR and VRR sell commercial air time to national advertisers for Salem's radio stations and networks, and for independent radio station affiliates.

Additionally, Salem owns and operates Internet businesses, including Salem Web Network ("SWN") and Townhall.com®, and publishing businesses including Salem Publishing and Xulon Press. SWN and Townhall.com® provide Christian and conservative editorial content on the Internet as well as on-demand audio streaming and related services. Salem Publishing and Xulon Press publish magazines and books that serve the Christian audience. The revenue and related operating expenses of these businesses are reported as "non-broadcast" on the consolidated Statements of Operations.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments, purchased with an initial maturity of three months or less, to be cash equivalents. The carrying value of the Company's cash equivalents approximated fair value at each balance sheet date.

Revenue Recognition

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

Revenues from radio programs and commercial advertising are recognized when the program or advertisement is broadcast. Revenue is reported net of agency commissions, which are calculated based on a stated percentage applied to gross billing. Salem's broadcasting customers principally include not-for-profit charitable organizations and commercial advertisers.

Revenues from the sale of products and services from the Company's non-broadcast businesses are recognized when the products are shipped and the services are rendered. Revenues from the sale of advertising in Salem Publishing's publications are recognized upon publication. Revenues from the sale of subscriptions to Salem Publishing's publications are recognized over the life of the subscription. Revenues from book sales are recorded by Xulon Press when shipment occurs.

Advertising by the radio stations exchanged for goods and services is recorded as the advertising is broadcast and is valued at the estimated value of goods or services received or to be received. The value of the goods and services received in such barter transactions is charged to expense when used. Barter advertising revenue included in broadcasting revenue for the years ended December 31, 2005, 2006 and 2007 was approximately $5.5 million, $5.4 million and $5.4 million, respectively, and barter expenses were approximately the same as barter revenue for each period. The Company records its broadcast advertising provided in exchange for goods and services as broadcasting revenue and the goods or services received in exchange for such advertising as broadcasting operating expenses.

Accounting For Stock-Based Compensation

The Company has one employee compensation plan, described more fully in "Note 7. Stock Option Plan." Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) requires employee equity awards to be accounted for under the fair value method. Accordingly, share-based compensation is measured at the grant date, based on the fair value of the award. Prior to January 1, 2006, the Company accounted for awards granted under its equity incentive plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended. The exercise price of options is equal to the market price of Salem Communications common stock on the date of grant. Additionally, the stock purchase plan was deemed non-compensatory under APB No. 25. Accordingly, no share-based compensation, other than insignificant amounts of acquisition-related compensation, was recognized on the consolidated financial statements prior to 2006.

Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost recognized by the Company beginning in 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company uses the straight-line attribution method to recognize share-based compensation costs over the service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock units, deferred tax assets for options and restricted stock units with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. To calculate the excess tax benefits available as of the date of adoption for use in offsetting future tax shortfalls, the Company followed the alternative transition method discussed in FASB Staff Position No. 123(R)-3.

Accounting for upgrades of radio station and network assets

From time to time the Company undertakes projects to upgrade its radio station technical facilities and/or FCC licenses. The Company's policy is to capitalize costs up to the point where the project is complete, at which point the Company transfers the costs to the appropriate fixed asset and/or intangible asset categories. In certain cases where a project's completion is contingent upon FCC or other regulatory approval, the Company will assess the probable future benefit of the asset at the time that it is recorded and monitor it through the FCC or other regulatory approval process. If the required approval is not considered probable, the Company will write-off the capitalized costs of the project.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 160

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"), an amendment of ARB No. 51. SFAS No.160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The adoption of SFAS No. 160 will not have a material impact on our consolidated financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 141(R)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141 (R)"). SFAS No. 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS No. 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS No. 141 (R) is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact that SFAS No. 141 (R) may have on the consolidated financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 159

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

Statement of Financial Accounting Standards No. 157

On September 15, 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" which is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, specifies the acceptable methods for determining fair value, and expands disclosure requirements regarding fair value measurements. SFAS No. 157 is effective beginning January 1, 2008. In February 2008, the FASB deferred the adoption of SFAS No. 157 for one year as it applies to certain items, including assets and liabilities initially measured at fair value in a business combination, reporting units and certain assets and liabilities measured at fair value in connection with goodwill impairment tests in accordance with SFAS No. 142 and long-lived assets measured at fair value for impairment assessments under SFAS No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets* . The Company would still be required to adopt the provisions of SFAS No. 157 in 2008 as it relates to certain other items, including those within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* and financial and nonfinancial derivatives within the scope of SFAS No. 133. The Company believes that the adoption of SFAS No. 157 will not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Discontinued Operations

During 2005 and 2006 the Company entered into agreements to sell radio stations WTSJ-AM, Cincinnati, Ohio, WBOB-AM, Cincinnati, Ohio, WBTK-AM, Richmond, Virginia, WITH-AM, Baltimore, Maryland, WBGB-FM, Jacksonville, Florida, WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida, and WZAZ-AM, Jacksonville, Florida. The operating results for these entities were reported as discontinued operations for all periods presented up through the date of the sale. The sale of each of these stations was completed during the year ended December 31, 2006.

In 2007, the Company had a plan in place to sell radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin. Formal sale agreements for each station were entered in January 2008. The accompanying Consolidated Balance Sheets and Statements of Operations reflect the operating results and net assets of these entities as discontinued operations for the year ended December 31, 2007. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

The following table sets forth the components of income (loss) from discontinued operations, net of tax, for the years ended December 31, 2005, 2006 and 2007:

	Year Ended December 31,		
	2005	2006	**2007**
	(Dollars in thousands)		
Operating income (loss)	$ (810)	$ (140)	**$ 349**
Gain on sale or exchange of station	320	4,326	—
Income (loss) from discontinued operations	(490)	4,186	**349**
Provision (benefit) for income taxes	(164)	1,624	**182**
Income (loss) from discontinued operations, net of tax	$ (326)	$ 2,562	**$ 167**

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes capitalized interest of $1.5 million and $1.0 million during the years ended December 31, 2006 and December 31, 2007. Repair and maintenance costs are charged to expense as incurred. Capital improvements are capitalized. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Category	Life
Buildings	40 years
Office furnishings and equipment	5-10 years
Antennae, towers and transmitting equipment	20 years
Studio and Production equipment	10 years
Computer software and website development costs	3 years
Record and tape libraries	5 years
Automobiles	5 years
Leasehold improvements	Lesser of 15 years or life of lease

In accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long Lived Assets," the carrying value of property, plant and equipment is evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and businesses for indicators of impairment. When indicators of impairment are present and the cash flows estimated to be generated from these assets is less than the carrying value of these assets, an adjustment to reduce the carrying value to the fair market value of the assets is recorded, if necessary. No adjustments to the carrying amounts of property, plant and equipment have been made during the years ended December 31, 2005, 2006 and 2007.

Web Site Development Costs

Web site development activities include planning, design and development of graphics and content for new web sites and operation of existing sites. The Company accounts for costs associated with such activities in accordance with the Emerging Issues Task Force ("EITF") Issue No. 00-2, "Accounting for Web Site Development Costs." Under this guidance, costs incurred that involve providing additional functions and features to the web site should be capitalized. Costs associated with website planning, maintenance, content development and training should be expensed as incurred. Capitalized costs are generally amortized over a three year period.

Amortizable Intangible Assets

Intangible assets acquired in conjunction with the acquisition of various radio stations and non-broadcast businesses are being amortized over the following estimated useful lives using the straight-line method:

Category	Life
Customer lists and contracts	Lesser of 5 years or life of contract
Favorable and assigned leases	Life of the lease
Other	5-10 years

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

	As of December 31, 2007		
	Cost	Accumulated Amortization	Net
	(Dollars in thousands)		
Customer lists and contracts	$ 10,437	$ (7,687)	$ 2,750
Domain and brand names	4,910	(2,458)	2,452
Favorable and assigned leases	1,581	(1,227)	354
Other amortizable intangible assets	3,033	(2,510)	523
	$ 19,961	$ (13,882)	$ 6,079

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

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

Year Ending December 31,	Amortization Expense
	(Dollars in thousands)
2008	$ 2,670
2009	1,419
2010	935
2011	370
2012	120
Thereafter	565
Total	$ 6,079

The carrying value of intangibles is evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and businesses for indicators of impairment. When indicators of impairment are present and the undiscounted cash flows estimated to be generated from these assets are less than the carrying amounts of these assets, an adjustment to reduce the carrying value to the fair market value of these assets is recorded, if necessary. No adjustments to the carrying amounts of intangible assets have been made during the years ended December 31, 2005, 2006 and 2007.

Goodwill and Indefinite Lived Intangible Assets

The Company accounts for goodwill and other indefinite lived intangible assets in accordance with SFAS No.142, “Goodwill and Other Intangible Assets.” Accordingly, the Company does not amortize goodwill or other indefinite lived intangible assets, but rather tests for impairment at least annually, or when events indicate that impairment may exist. The Company estimates fair value of its indefinite lived intangibles using a combination of market analysis, review of independent third party appraisals and cash flow analysis.

The Company completed its annual impairment tests in the fourth quarter of 2007. No adjustments to the carrying value of FCC licenses were necessary based on its review and evaluations. On January 16, 2008, the Company issued a press release announcing its plan to discontinue publishing the *CCM Magazine* as of the April 2008 issue. The magazine will be shut down, resulting in the termination of employees and refunds to customers for subscriptions paid in advance. As a result of this decision, the Company wrote off the entire value of goodwill associated with the *CCM Magazine* of $1.9 million. No other adjustments to the carrying value of goodwill were necessary based on our review and evaluations.

(Gain) Loss on Disposal of Assets

The loss on disposal of assets of $0.5 million for the year ended December 31, 2005 was primarily due to the write-off of various fixed assets and equipment. Gain on disposal of assets of $18.7 million for the year ended December 31, 2006 was primarily due to the gains recognized on various exchange transactions accounted for under SFAS No. 153 as explained in Note 2. The gain on disposal of assets of $2.2 million for the year ended December 31, 2007 includes a $3.4 million pre-tax gain on the sale of radio station WKNR-AM offset by a $0.5 million pre-tax loss on the sale of radio station WVRY-AM and $0.7 million of various fixed asset disposals.

Leases

The Company leases various facilities including tower and transmitter sights. When a lease is entered, the Company determines the classification of the lease as either a capital or operating lease based on the factors listed in SFAS No. 13 “Accounting for Leases”. Lease terms generally range from one to twenty-five years with rent expense recorded on a straight line basis for financial reporting purposes. The Company subleases owned towers under various agreements with other broadcasters. Lease terms generally cover a sixty year term, over which time the Company recognizes rental income on a straight line basis. Deferred rent revenue, related to prepaid lease payments, was $5.2 million and $5.1 million at December 31, 2006 and 2007, respectively.

Leasehold Improvements

If, at any time during tenancy, the Company elects to construct or otherwise invest in leasehold improvements to the property, the Company capitalizes the improvements. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the remaining lease term.

Bond Issue Costs and Bank Loan Fees

Bond issue costs represent costs incurred in conjunction with the issuance of the 7¾% Notes. They are being amortized over the term of the Notes as an adjustment to interest expense. Bank loan fees represent costs incurred with our credit facility and related amendments. They are being amortized over the term of the facility as an adjustment to interest expense.

Partial Self-Insurance on Employee Health Plan

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

Local Programming and Marketing Agreement Fees

The Company often enters into local programming and marketing agreements ("LMA") or Time Brokerage Agreements ("TBA") in connection with acquisitions of radio stations that are pending regulatory approval of transfer of the FCC licenses. Under the terms of these agreements, the Company makes specified periodic payments to the owner in exchange for the right to program and sell advertising for a specified portion of the station's inventory of broadcast time. The Company records revenues and expenses associated with the portion of the station's inventory of broadcast time it manages. Nevertheless, as the holder of the FCC license, the owner-operator retains control and responsibility for the operation of the station, including responsibility over all programming broadcast on the station. The Company also enters into LMAs in connection with dispositions of radio stations. In such cases the Company may receive periodic payments in exchange for allowing the buyer to program and sell advertising for a portion of the station's inventory of broadcast time.

Derivative Instruments

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

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

During 2004 and through February 18, 2005, the Company had an interest rate swap agreement with a notional principal amount of $66.0 million. This agreement related to its $94.4 million 9% senior subordinated notes due 2011 (the "9% Notes."). This agreement was scheduled to expire in 2011 when the 9% Notes were to mature, and effectively swapped the 9.0% fixed interest rate on $66.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 3.09%. On February 18, 2005, the Company sold its entire interest in this swap and received a payment of approximately $3.7 million, which was amortized as a reduction of interest expense over the remaining life of the 9% Notes. On July 6, 2006, the Company completed the redemption of the remainder of its outstanding 9% senior subordinated notes. As a result of the redemption, the Company wrote off the remaining balance of the buyout premium of approximately $2.7 million as a reduction of the loss on the early redemption of long term debt. Interest expense for the year ended December 31, 2006, was reduced by approximately $0.3 million related to the amortization of the buyout premium received.

During 2004, the Company also had a second interest rate swap agreement with a notional principal amount of $24.0 million. This agreement also related to the 9% Notes. This agreement was to expire in 2011 when the 9% Notes were to mature, and effectively swapped the 9.0% fixed interest rate on $24.0 million of the 9% Notes for a floating rate equal to the LIBOR rate plus 4.86%. On

August 20, 2004, the Company sold its interest in $14.0 million of this swap. As a result of this transaction, the Company paid and capitalized $0.3 million in buyout premium, which was amortized into interest expense over the remaining life of the 9% Notes. On October 22, 2004, the Company sold its remaining $10.0 million interest in this swap. As a result of this second transaction, the Company paid and capitalized approximately $110,000 in buyout premium, which was amortized into interest expense over the remaining life of the 9% Notes. On July 6, 2006, the Company completed the redemption of the remainder of its outstanding 9% Notes. As a result of this redemption, the Company recorded a loss on the swap of approximately $0.3 million which is included in the loss on early redemption of long-term debt. The Company recognized approximately $33,000 in interest expense for the year ended December 31, 2006 related to the amortization of capitalized buyout premium.

On April 8, 2005, the Company entered into an interest rate swap arrangement for the notional principal amount of $30.0 million whereby the Company will pay a fixed interest rate of 4.99% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the year ended December 31, 2007, was reduced by approximately $101,000 as a result of the difference between the interest rates. As of December 31, 2007, the Company recorded a liability for the fair value of the interest rate swap of approximately $1.2 million. This amount, net of income tax benefit of approximately $0.5 million, is reflected in other comprehensive income (loss), as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On April 26, 2005, the Company entered into a second interest rate swap arrangement for the notional principal amount of $30.0 million whereby the Company will pay a fixed interest rate of 4.70% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the year ended December 31, 2007, was reduced by approximately $189,000 as a result of the difference between the interest rates. As of December 31, 2007, the Company recorded a liability for the fair value of the interest rate swap of approximately $0.8 million. This amount, net of income tax benefit of approximately $0.3 million, is reflected in other comprehensive income (loss), as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On May 5, 2005, the Company entered into a third interest rate swap arrangement for the notional principal amount of $30.0 million whereby the Company will pay a fixed interest rate of 4.53% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the year ended December 31, 2007, was reduced by approximately $242,000 as a result of the difference between the interest rates. As of December 31, 2007, the Company recorded a liability for the fair value of the interest rate swap of approximately $0.5 million. This amount, net of income tax benefit of approximately $0.2 million, is reflected in other comprehensive income (loss), as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

Interest Rate Caps

On October 18, 2006, the Company purchased two interest rate caps for $0.1 million to mitigate exposure to rising interest rates based on LIBOR. The first interest rate cap covers $50.0 million of borrowings under the credit facilities for a three year period. The second interest rate cap covers $50.0 million of borrowings under the credit facilities for a four year period. Both interest rate caps are at 7.25%. The caps do not qualify for hedge accounting and accordingly, all changes in fair value have been included as a component of interest expense. For the years ended December 31, 2006 and 2007, interest expense of $53,000 and $31,000 was recorded related to our interest rate caps.

Income Taxes and Uncertain Tax Positions

The Company accounts for income taxes in accordance with the liability method of providing for deferred income taxes. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The Company adopted FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN No. 48”) on January 1, 2007 and accrued liabilities for unrecognized tax benefits in accordance with the provisions. On the date of adoption the Company had $3.0 million in liabilities related to uncertain tax positions, including $0.9 million recognized under Statement of Accounting Standards No. 5 (“SFAS No. 5”) Accounting for Contingencies and carried forward from prior years and $2.1 million recognized upon adoption of FIN 48 as a reduction to retained earnings. Included in the $2.1 million accrual was $0.1 million related interest, net of federal income tax benefits. During 2007, the Company recognized a net increase of $0.9 million in liabilities and at December 31, 2007, had $3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.1 million accrued for the related interest, net of federal income tax benefits, and $0.1 million for the related penalty recorded in income tax expense on our Consolidated Statements of Operations.

A summary of the changes in the gross amount of unrecognized tax benefits for the year ended December 31, 2007, is shown below (dollars in thousands):

Balance at January 1, 2007	$ 2,963
Additions based on tax positions related to the current year	777
Additions based on tax positions related to prior years	200
Reductions related to tax positions of prior years	(79)
Decrease due to statute expirations	(66)
Related interest and penalties, net of federal tax benefits	99
Balance as of December 31,2007	$ 3,894

Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income" establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The Company accounts for changes in the fair value of its interest rate swaps as a component of Other Comprehensive Income (Loss).

Other comprehensive income (loss) reflects changes in the fair value of each of the Company's three cash flow hedges as follows:

	Year Ended December 31,		
	2005	2006	**2007**
		(Dollars in thousands)	
Mark-to-market gain (loss)	$ 527	$ 762	**$ (3,779)**
Less tax provision (benefit)	209	305	**(1,512)**
Other comprehensive income (loss), net of tax	$ 318	$ 457	**$ (2,267)**

Basic and Diluted Net Earnings Per Share

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

Options to purchase 1,924,269, 2,146,564 and 2,422,024 shares of Class A common stock and unvested restricted stock shares of 5,000, 6,000 and 5,000 were outstanding at December 31, 2005, 2006 and 2007, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the Company's stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. The number of anti-dilutive shares were 1,865,035, 2,138,680 and 2,418,471 as of December 31, 2005, 2006, and 2007, respectively.

The following table sets forth the shares used to compute basic and diluted net earnings per share for the periods indicated:

	Year Ended December 31,		
	2005	2006	**2007**
Weighted average shares	25,735,641	24,215,867	**23,785,015**
Effect of dilutive securities - stock options	59,234	7,884	**3,553**
Weighted average shares adjusted for dilutive securities	25,794,875	24,223,751	**23,788,568**

Segments

The Company presents its segment information in Note 12. The Company has one reportable operating segment - radio broadcasting. The remaining non-reportable segments consist of its Internet businesses, SWN and Townhall.com and its publishing businesses, Salem Publishing and Xulon Press, which do not meet the reportable segment quantitative thresholds and accordingly are aggregated below as non-broadcast. The radio broadcasting segment also operates various radio networks.

Concentrations of Business and Credit Risks

The majority of the Company's operations are conducted in multiple locations across the country. The Company's credit risk is spread across a large number of customers, none of which account for a significant volume of revenue or outstanding receivables. The Company does not normally require collateral on credit sales; however, credit histories are reviewed before extending substantial credit to any customer. The Company establishes an allowance for doubtful accounts based on customers' payment history and perceived credit risks. Bad debt expense has been within management's expectations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas for which management uses estimates are allowance for bad debts, income tax valuation allowance and impairment analysis for intangible assets including broadcast licenses and goodwill as well as other long-lived assets.

Reclassifications

Certain reclassifications were made to the prior year financial statements to conform to the current year presentation. These reclassifications include the accounting for WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin as discontinued operations as discussed in Note 2. The accompanying Consolidated Statement of Operations reflect the results of these stations as discontinued operations for the year ended December 31, 2007. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

NOTE 2. ACQUISITIONS AND DISPOSITIONS OF ASSETS

During the year ended December 31, 2007, the Company completed the following acquisitions, none of which were material to our financial position as of the date of acquisition:

Acquisition Date	Entity	Description	Acquisition Cost	
			(Dollars in thousands)	
February 2, 2007	ChristianMusicPlanet.com	Christian music web portal	$	311
September 12, 2007	CMCentral.com	Christian music Internet site and online community		360
Various	Various	Other Internet Businesses and domain names		316
			$	987

The purchase price was allocated to the total assets acquired as follows:

	Amount	
	(Dollars in thousands)	
Asset		
Property and equipment	$	196
Domain and brand names		422
Subscriber list		203
Customer lists and other contracts		121
Goodwill		45
	$	987

The accompanying Consolidated Balance Sheets include the acquired assets and liabilities of each acquired entity as of the acquisition date. The results of operations are included in the accompanying Consolidated Statements of Operations as of the date of acquisition. With the exception of certain domain names, which were acquisitions of assets, the above transactions were acquisitions of businesses.

On February 7, 2007, the Company sold radio station WKNR-AM in Cleveland, Ohio, for $7.0 million resulting in a pre-tax gain of $3.4 million. The operating results of WKNR-AM were excluded from the Consolidated Statement of Operations beginning on December 1, 2006, the date the Company stopped operating the station pursuant to a local marketing agreement ("LMA") with the buyer.

On May 29, 2007, the Company sold radio station WVRY-FM, Nashville, Tennessee for $0.9 million resulting in a pre-tax loss of $0.5 million, including the write-off of goodwill associated with this entity of $0.2 million. The operating results of WVRY-FM were excluded from the Consolidated Statement of Operations beginning on March 9, 2007, the date the Company stopped operating the station pursuant to an LMA with the buyer.

Other Pending Transactions

On February 1, 2007, the Company entered into an agreement to purchase selected assets of radio station KTRO-AM, in Portland, Oregon subject to certain conditions, for $4.5 million. The company began operating the station under an LMA effective the same date. The accompanying Consolidated Statement of Operations includes the operating results of this radio station as of the LMA date. This transaction is subject to FCC approval and is not expected to close during the year ended December 31, 2008.

On October 17, 2007, the Company entered into an agreement to purchase selected assets of radio station WMCU-AM in Miami, Florida, subject to certain conditions for $12.25 million. The Company began operating the station under an LMA effective on October 18, 2007. This transaction is subject to FCC approval and is expected to close before the end of the second quarter of 2008.

On November 29, 2007, the Company entered into an agreement to sell radio station KTEK in Houston, Texas for approximately $7.8 million. The buyer will begin to operate the station under a Time Brokerage Agreement ("TBA") on February 1, 2008. The sale is expected to close in March 2008.

In 2007, the Company had a plan in place to sell radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin. During January 2008, the Company entered agreements to sell WRRD-AM for approximately $3.8 million and to sell WFZH-FM for approximately $8.1 million. The accompanying Consolidated Balance Sheets and Statements of Operations reflect the operating results and net assets of these entities as discontinued operations for the twelve months ended December 31, 2007. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

During the year ended December 31, 2006, the Company completed the following acquisitions, none of which were material to our financial position as of the date of acquisition:

Acquisition Date	Station(s)	Market Served	Acquisition Cost		Format Changed
			(Dollars in thousands)		
January 23, 2006	WTLN-AM (1)	Orlando, FL	$	5,497	No
January 23, 2006	WHIM-AM (1)	Orlando, FL		4,503	No
February 3, 2006	WORL-AM (2)	Orlando, FL		3,998	Yes
February 10, 2006	WLQV-AM (2)	Detroit, MI		8,813	No
May 12, 2006	KKFS-FM (2)	Sacramento, CA		21,835	Yes
October 1, 2006	KORL-AM (2)	Honolulu, HI		1,546	Yes
			$	46,192	

(1) Acquisition was that of a business, all others were acquisitions of assets
(2) Indicates that the station was acquired through an exchange as detailed below.

The purchase price was allocated to the assets acquired as follows:

		Amount
		(Dollars in thousands)
Asset		
Property and equipment	$	4,305
Amortizable intangible assets		406
Goodwill		211
Broadcast licenses		41,270
	$	46,192

The accompanying Consolidated Balance Sheets includes the acquired assets and liabilities of each acquired entity as of their respective date of acquisition. With the exception of WTLN-AM, WHIM-AM, and KKFS-FM, the results of operations are included in the accompanying Consolidated Statements of Operations as of the date of acquisition. The operating results for both WTLN-AM and WHIM-AM were included in the accompanying Consolidated Statements of Operations beginning on October 1, 2005, the date on which the Company began operating each station under a local marketing agreement ("LMA") with the seller pending approval of the acquisition by the Federal Communication Commission ("FCC"). The operating results of KKFS-FM were included in the accompanying Consolidated Statements of Operations beginning on July 28, 2005, the date on which the Company began operating the station under an LMA agreement with the seller pending approval of the exchange by the FCC.

On February 3, 2006, the Company exchanged radio station KNIT-AM, Dallas, Texas, for selected assets of radio station WORL-AM, Orlando, Florida. The exchange was accounted for under SFAS No. 153, “Exchanges of Nonmonetary Assets an Amendment of APB Opinion No. 29,” which was adopted on January 1, 2006, resulting in a pre-tax gain on the exchange of $3.5 million.

On February 10, 2006, the Company exchanged radio stations WTSJ-AM, Cincinnati, Ohio, and WBOB-AM, Cincinnati, Ohio and $6.7 million in cash for selected assets of radio station WLQV-AM, Detroit, Michigan. The accompanying Consolidated Statements of Operations for the year ended December 31, 2006 reflect WTSJ-AM and WBOB-AM as discontinued operations. All prior periods have been revised to reflect the operating results of these stations as discontinued operations to conform to the current period presentation. The exchange was accounted for under SFAS No. 153, and resulted in a pre-tax gain on the exchange of $0.7 million.

On May 12, 2006, the Company exchanged radio station KLMG-FM, Sacramento, California, for selected assets of radio station KKFS-FM, Sacramento, California. The exchange was accounted for under SFAS No. 153 and resulted in a pre-tax gain on the exchange of $14.6 million. Additionally, the Company sold radio station KBAA-FM, Sacramento, California, for $0.5 million, resulting in a pre-tax loss of $0.6 million.

On May 31, 2006, the Company sold radio station WCCD-AM in Cleveland, Ohio, for $2.1 million resulting in a pre-tax gain of $1.6 million.

On July 17, 2006, the Company completed the sale of radio station WBTK-AM, Richmond, Virginia, for $1.5 million resulting in a pre-tax gain of $0.6 million. The accompanying Consolidated Statements of Operations for the year ended December 31, 2006 reflect WBTK-AM as a discontinued operation. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

On September 18, 2006, the Company completed the sale of radio station WBGB-FM, Jacksonville, Florida for $7.6 million resulting in a pre-tax gain of $0.8 million. The accompanying Consolidated Statements of Operations for the year ended December 31, 2006 reflect WBGB-FM as a discontinued operation. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

On October 1, 2006, the Company exchanged radio station KHCM-AM, Honolulu, Hawaii and $1.0 million in cash for selected assets of radio station KORL-AM, Honolulu, Hawaii. The Company retained the call letters of the station. The exchange was accounted for under SFAS No. 153 and resulted in a pre-tax loss on the exchange of $0.04 million.

On December 1, 2006, the Company completed the sale of radio stations WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida and WZAZ-AM, Jacksonville, Florida for $2.8 million resulting in a pre-tax gain of $0.1 million. The assets were sold to Chesapeake-Portsmouth Broadcasting Corporation (“Chesapeake-Portsmouth”). Chesapeake-Portsmouth is a company controlled by Nancy Epperson, wife of Salem's Chairman of the Board Stuart W. Epperson and sister of CEO Edward G. Atsinger III. The accompanying Consolidated Statements of Operations for the year ended December 31, 2006 reflect WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida and WZAZ-AM, Jacksonville, Florida as discontinued operations. All prior periods have been revised to reflect the operating results and net assets of these stations as discontinued operations to conform to the current period presentation.

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

Other Completed Transactions:

On January 1, 2006, the Company acquired The Singing News, a Christian music publication, and its related operations for $4.4 million, which includes $0.2 million of goodwill and $0.6 million of deferred revenue liabilities assumed.

On February 13, 2006, the Company acquired the Internet website CrossDaily.com and its related operations for $2.3 million, which includes $0.6 million of goodwill.

On April 28, 2006, the Company acquired the Internet website Townhall.com and its related operations for $4.8 million, upon which a $2.6 million seller financed non-interest bearing note was issued. The purchase price includes $1.3 million of goodwill.

On June 1, 2006, the Company acquired Preaching Magazine and its companion web properties and related operations for $0.3 million, which includes $10,000 of goodwill.

On June 1, 2006, the Company acquired Xulon Press, an on-demand digital publisher of books targeting the Christian audience, and its related operations, for $1.5 million, which includes $0.1 million of goodwill and $0.7 million of deferred revenue liabilities.

The purchase price for these transactions was allocated as follows:

	Amount
	(Dollars in thousands)
Asset	
Property and equipment	$ 391
Amortizable intangible assets	7,806
Goodwill	2,099
Mastheads	2,892
	$ 13,188

During the year ended December 31, 2005, the Company completed the following acquisitions, none of which were material to our financial position as of the date of acquisition:

Acquisition Date	Station(s)	Market Served	Acquisition Cost	Format Changed
			(Dollars in thousands)	
January 19, 2005	KAST-FM	Portland, OR	$ 8,000	Yes
January 31, 2005	WKAT-AM	Miami, FL	10,000	Yes
January 31, 2005	KGBI-FM	Omaha, NE	10,000	No
March 15, 2005	WRMR-AM	Cleveland, OH	10,000	Yes
August 12, 2005	WGUL-AM and WLSS-AM	Tampa, FL and Sarasota, FL	8,700	Yes
September 1, 2005	KCRO-AM	Omaha, NE	3,150	No
December 7, 2005	KHLP-AM	Omaha, NE	900	No
			$ 50,750	

The purchase price was allocated to the assets acquired as follows:

	Amount
	(Dollars in thousands)
Asset	
Property and equipment	$ 3,953
Amortizable intangible assets	198
Goodwill	616
Broadcast licenses	45,983
	$ 50,750

Other Completed Transactions:

On January 3, 2005, the Company exchanged radio stations KHNR-AM and KHCM-AM, both in Honolulu, Hawaii, for selected assets of radio station KGMZ-FM, Honolulu, Hawaii. The net carrying amount of the assets exchanged approximated $1.2 million. No gain or loss was recognized by the Company as a result of this exchange.

On February 11, 2005, the Company acquired the Internet website Christianity.com and its related operations for $3.4 million, which included $2.0 million of goodwill.

On March 31, 2005, the Company exchanged radio station WZFS-FM, Chicago, Illinois for selected assets of radio stations WIND-AM, Chicago, Illinois, KOBT-FM, Houston, Texas and KHCK-AM, Dallas, Texas. The net carrying amount of the assets exchanged approximated $3.9 million. No gain or loss was recognized by the Company as a result of this exchange. The accompanying Consolidated Statement of Operations reflect this transaction as of November 1, 2004, the date the parties entered an LMA pending FCC approval of the exchange.

On June 30, 2005, the Company exchanged radio station KSFB-FM, San Francisco, California for selected assets of radio station KOSL-FM, Sacramento, California. The net carrying amount of the assets exchanged approximated $7.2 million. No gain or loss was recognized by the Company as a result of this exchange. The accompanying Consolidated Statement of Operations reflect this transaction as of November 15, 2004, the date the parties entered an LMA pending FCC approval of the exchange.

On December 15, 2005, the Company purchased Churchstaffing.com, an online job information site, for $3.1 million.

With the exception of the acquisition of KGMZ-FM, Honolulu Hawaii, KGBI-FM, Omaha, Nebraska, KCRO-AM, Omaha, Nebraska, Christianity.com and Churchstaffing.com, which were the acquisitions of businesses, the above radio station acquisitions were acquisitions of assets.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	December 31,			
	2006		**2007**	
	(Dollars in thousands)			
Land	$	30,491	**$**	**30,426**
Buildings		24,641		**24,467**
Office furnishings and equipment		27,625		**30,810**
Antennae, towers and transmitting equipment		61,981		**69,255**
Studio and production equipment		26,938		**27,604**
Computer software and website development costs		3,212		**5,448**
Record and tape libraries		184		**64**
Automobiles		1,031		**1,097**
Leasehold improvements		12,190		**14,548**
Construction-in-progress		13,714		**10,164**
		202,007		**213,883**
Less accumulated depreciation		74,051		**82,796**
	$	127,956	**$**	**131,087**

NOTE 4. NOTES PAYABLE AND LONG-TERM DEBT

On October 24, 2007, the Company amended its credit facilities. Effective upon the close of the purchase of WMCU-AM, the leverage ratio covenant will increase to 6.75 to 1 through March 30, 2009. Additionally, the senior leverage ratio covenant will increase to 5.0 to 1 and the interest coverage ratio will remain at 2.0 to 1 through March 30, 2009. Prior amendments to the credit facilities allow for loan commitments to $315 million; allowing for the payment of up to $5.0 million per year in dividends and the payment of an additional $30.0 million in dividends during the life of the credit facility; allowing for the repurchase of stock and payment of dividends, in addition to amounts repurchased prior to June 9, 2006, up to $50.0 million when total leverage is greater than 4.00 to 1.00 but less than 5.50 to 1.00 and up to $15 million when total leverage is greater than 5.50 to 1.00; and allowing for the repurchase of stock or the payment of additional dividends with a portion of the proceeds of asset sales.

Long-term debt consisted of the following:

	December 31,			
	2006		**2007**	
	(Dollars in thousands)			
Term loans under credit facility	$	238,125	**$**	**234,900**
Revolving line of credit under credit facility		19,100		**13,000**
Swingline credit facility		1,241		**2,952**
7¾% Senior Subordinated Notes due 2010		100,000		**100,000**
Seller financed note to acquire Townhall.com		2,444		**2,546**
Capital leases and other loans		116		**886**
		361,026		**354,284**
Less current portion		2,048		**6,667**
	$	358,978	**$**	**347,617**

Since the revolving line of credit under the credit facilities and the term loan under the credit facilities carry floating interest rates, the carrying amounts approximate fair market value. The 7¾% Notes were issued in December 2002 at par. At December 31, 2007, the fair market value of the 7¾% Notes was approximately $99.6 million.

In addition to the amounts listed above, the Company also had interest payments related to its long-term debt as follows as of December 31, 2007:

- Outstanding borrowings of $247.9 million on term loans and $13.0 million on the revolver with interest payments due at LIBOR plus 1.25% to 1.75% or at prime rate plus 0.25% to 0.75%, depending on the Company's Total Leverage Ratio;
- $100 million senior subordinated notes with semi-annual interest payments at 7 ¾%; and
- Commitment fee of 0.375% on the unused portion of the Company's credit facilities.

Revolving Line of Credit with Banks

The wholly-owned subsidiary, Salem Communications Holding Corporation ("Salem Holding"), is the borrower under the Company's credit facilities. The maximum amount that Salem Holding may borrow under the credit facilities is limited by a ratio of the consolidated existing total adjusted funded debt to pro forma twelve-month cash flow (the "Total Leverage Ratio"). The credit facilities will allow the Company to adjust its total debt as used in such calculation by the lesser of (i) 50% of the aggregate purchase price of acquisitions of newly acquired radio stations that the Company will reformat to a religious talk, News Talk or religious music format or (ii) $45.0 million, and the cash flow from such stations will not be considered in the calculation of the ratio during the period in which such acquisition gives rise to an adjustment to total debt. The Total Leverage Ratio allowed under the credit facilities was 5.98 to 1 as of December 31, 2007. The ratio will decline periodically until December 31, 2009, at which point it will remain at 5.5 to 1 through the remaining term of the credit facilities. The Total Leverage Ratio under the credit facilities at December 31, 2007, on a pro forma basis, was 5.05 to 1.

The Company amended its credit facilities on October 24, 2007 to increase its Total Leverage Ratio covenant ratio to 6.75 to 1 through March 30, 2009. Additionally, the senior leverage ratio covenant will increase to 5.0 to 1 and the interest coverage ratio will remain at 2.0 to 1 through March 30, 2009. These covenant changes are effective upon the close of the acquisition of WMCU-AM. Because the acquisition of WMCU-AM did not close before December 31, 2007, the Total Leverage Ratio stepped down to 6.25 to 1 and the senior leverage ratio stepped down to 4.75 to 1 on December 31, 2007. The credit facilities include a $75.0 million senior secured reducing revolving credit facility ("revolving credit facility"), a $75.0 million term loan B facility ("term loan B facility") and a $165.0 million term loan C facility ("term loan C facility"). As of December 31, 2007, the borrowing capacity and aggregate commitments were $60.0 million under its revolving credit facility, $72.4 million under its term loan B facility and $162.5 million under the term loan C facility. The amount the Company can borrow, however, is subject to certain restrictions as described below. As of December 31, 2007, the Company could borrow $15.9 million under its credit facilities.

On December 31, 2007, $72.4 million was outstanding under the term loan B facility, $162.5 million was outstanding under the term loan C facility and $13.0 million was outstanding under the revolving credit facility. The borrowing capacity under the revolving credit facility steps down in three 10% increments on June 30, 2007, December 31, 2007 and June 30, 2008, and matures on March 25, 2009. The borrowing capacity under the term loan B facility steps down 0.5% each December 31 and June 30. The term loan B facility matures on the earlier of March 25, 2010, or the date that is six months prior to the maturity of any subordinated indebtedness of Salem or Salem Holding. The borrowing capacity under the term loan C facility steps down 0.5% each December 31 and June 30, commencing December 31, 2008. The term loan C facility matures on the earlier of June 30, 2012, or the date that is six months prior to the maturity of any subordinated indebtedness of Salem or Salem Holding. The credit facilities require the Company, under certain circumstances, to prepay borrowings under the credit facilities with excess cash flow and the net proceeds from the sale of assets, the issuance of equity interests and the issuance of subordinated notes. If the Company is required to make these prepayments, its borrowing capacity and the aggregate commitments under the facilities will be reduced, but such reduction shall not, in any event, reduce the borrowing capacity and aggregate commitments under the facilities below $50.0 million.

Amounts outstanding under the credit facilities bear interest at a rate based on, at Salem Holding's option, the bank's prime rate or LIBOR, in each case plus a spread. For purposes of determining the interest rate under the revolving credit facility, the prime rate spread ranges from 0.00% to 1.00%, and the LIBOR spread ranges from 1.00% to 2.00%. For both the term loan B facility and the term loan C facility, the prime rate spread ranges from 0.25% to 0.75%, and the LIBOR spread ranges from 1.25% to 1.75%. In each case, the spread is based on the Total Leverage Ratio on the date of determination. If an event of default occurs, the rate may increase by 2.0%. At December 31, 2007, the blended interest rate on amounts outstanding under the credit facilities was 6.64%.

The credit facilities contain additional restrictive covenants customary for facilities of their size, type and purpose which, with specified exceptions, limits the Company's ability to incur debt, have liens, enter into affiliate transactions, pay dividends, consolidate, merge or effect certain asset sales, make specified investments, acquisitions and loans and change the nature of its business. The credit facilities also require the Company to satisfy specified financial covenants, which covenants require the Company on a consolidated basis to maintain specified financial ratios and comply with certain financial tests, including ratios for maximum leverage as described above, minimum interest coverage (not less than 2.0 to 1 through March 31, 2009 increasing in increments until June 30, 2009, at which point it will remain at 2.5 to 1 through the remaining term of the credit facilities), minimum debt service coverage (a static ratio of not less than 1.25 to 1), a maximum consolidated senior leverage ratio (currently 5.0 to 1, which will decline periodically until December 31, 2008, at which point it will remain at 4.0 to 1 through the remaining term of the credit facilities), and minimum fixed charge coverage (a static ratio of not less than 1.1 to 1). Salem and all of its subsidiaries, except for Salem Holding, are guarantors of borrowings under the credit facilities. The credit facilities are secured by liens on all of the Company's assets and its subsidiaries' assets and pledges of all of the capital stock of its subsidiaries.

On October 18, 2006, the Company purchased two interest rate caps for $0.1 million to mitigate exposure to rising interest rates based on LIBOR. The first interest rate cap covers $50.0 million of borrowings under the credit facilities for a three year period. The second interest rate cap covers $50.0 million of borrowings under the credit facilities for a four year period. Both interest rate caps are at 7.25%.

Swingline Credit Facility

On June 1, 2005, the Company entered into an agreement for a swingline credit facility ("Swingline") with a borrowing capacity of $5.0 million. This agreement was amended on June 1, 2007. As collateral for the Swingline, the Company pledged its corporate office building. Amounts outstanding under the Swingline bear interest at a rate based on the bank's prime rate. As of December 31, 2007, $2.9 million was outstanding under the Swingline bearing interest of 7.00%.

9% Senior Subordinated Notes due 2011

In June 2001, HoldCo issued $150.0 million principal amount of 9% Notes due 2011. HoldCo used the net proceeds to repay approximately $145.5 million in borrowings under the credit facility. The 9% Notes were redeemable at the option of the Company, in whole or in part, at any time on or after July 1, 2006, at the redemption prices specified in the indenture.

During the quarter ended June 30, 2004, the Company repurchased an aggregate amount of $55.6 million of its 9% Notes through a combination of redemptions and open market repurchases (the "Redemption") pursuant to the terms of the indenture governing the 9% Notes. The Redemption resulted in a loss of approximately $6.6 million. The Company used the proceeds from its follow-on offering of 2.3 million shares of Class A common stock issued in May 2004, to complete the Redemption.

During the year ended December 31, 2005, the Company repurchased an aggregate amount of $0.3 million of its 9% Notes through open market repurchases. As a result, the Company reported $24,000 as a loss on early redemption of long-term debt in the Consolidated Statement of Operations.

On July 6, 2006, the Company, through the borrowings under its term loan C facility, redeemed the remainder of its outstanding 9% Notes. The redemption price, as set for in the notes, of 104.5% of the principal outstanding of $94.0 million, resulted in a pre-tax loss of approximately $3.6 million, including the write-off of unamortized bond issued costs and interest rate swap settlement amounts, which is reported as a loss on early retirement of long-term debt.

7¾% Senior Subordinated Notes due 2010

In December 2002, HoldCo issued $100.0 million of 7¾% Senior Subordinated Notes, the proceeds of which were used to redeem the 9½% senior subordinated notes on January 22, 2003.

The 7¾% Notes have interest payment dates on June 15 and December 15. Principal is due on the maturity date, December 15, 2010. The 7¾% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after December 15, 2007, at the redemption prices specified in the indenture. The 7¾% Notes are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated basis by the Guarantors (Salem Communications Corporation and all of its subsidiaries (other than HoldCo)). The 7¾% Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior indebtedness, including the Company's obligations under the Credit Agreement. The indenture limits the incurrence of additional indebtedness by the Company, the payment of dividends, the use of proceeds of certain asset sales, and contains certain other restrictive covenants affecting the Company.

Other Debt

The Company has several capital leases related to various data processing equipment. The obligation recorded at December 31, 2006 and 2007 represents the present value of future commitments under the lease agreements.

Maturities of Long-Term Debt

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

	Amount
	(Dollars in thousands)
2008	$ 6,667
2009	16,719
2010	330,138
2011	33
2012	38
Thereafter	689
	354,284
Fair value of interest rate swap	2,489
	$ 356,773

NOTE 5. INCOME TAXES

The consolidated provision (benefit) for income taxes from continuing operations for Salem consisted of the following at December 31:

	2005	2006	**2007**
		(Dollars in thousands)	
Current:			
Federal	$ 149	$ (46)	**$ —**
State	251	351	**452**
	400	305	**452**
Deferred:			
Federal	7,623	9,924	**5,743**
State	515	867	**425**
	8,138	10,791	**6,168**
Provision for income taxes	$ 8,538	$ 11,096	**$ 6,620**

Discontinued operations are reported net of the tax provision (benefit) of ($0.2) million in 2005, $1.6 million in 2006 and $0.2 million in 2007.

The consolidated deferred tax asset and liability consisted of the following:

	December 31, 2006	December 31, 2007
	(Dollars in thousands)	
Deferred tax assets:		
Financial statement accruals not currently deductible	$ 4,898	**$ 5,407**
Net operating loss, AMT credit and other carryforwards	35,275	**36,997**
State taxes	122	**158**
Other	988	**1,655**
Total deferred tax assets	41,283	**44,217**
Valuation allowance for deferred tax assets	(4,752)	**(1,788)**
Net deferred tax assets	$ 36,531	**$ 42,429**
Deferred tax liabilities:		
Excess of net book value of property, plant, equipment and software for financial reporting purposes over tax basis	$ 10,537	**$ 9,521**
Excess of net book value of intangible assets for financial reporting purposes over tax basis	74,395	**85,823**
Unrecognized tax benefits	—	**3,894**
Other	514	**(995)**
Total deferred tax liabilities	85,446	**98,243**
Net deferred tax liabilities	$ 48,915	**$ 55,814**

The following table reconciles the above net deferred tax liabilities to the financial statements:

	December 31, 2006	December 31, 2007
	(Dollars in thousands)	
Deferred income tax asset per balance sheet	$ 5,020	**$ 5,567**
Deferred income tax liability per balance sheet	(53,935)	**(61,381)**
	$ (48,915)	**$ (55,814)**

A reconciliation of the statutory federal income tax rate to the provision for income tax is as follows:

	Year Ended December 31, 2005	2006	2007
	(Dollars in thousands)		
Statutory federal income tax rate (at 35%)	$ 7,563	$ 9,700	**$ 5,120**
Effect of state taxes, net of federal	486	767	**570**
Permanent items	289	777	**779**
Other, net	200	(148)	**151**
Provision for income taxes	$ 8,538	$ 11,096	**$ 6,620**

At December 31, 2007, the Company has net operating loss carryforwards for federal income tax purposes of approximately $69.2 million which expire in 2020 through 2025 and for state income tax purposes of approximately $557.9 million which expire in years 2007 through 2025. For financial reporting purposes at December 31, 2007 the Company has a valuation allowance of $1.8 million, net of federal benefit, to offset a portion of the deferred tax assets related to state net operating loss carryforwards which may not be realized.

NOTE 6. COMMITMENTS AND CONTINGENCIES

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

Salem leases various land, offices, studios and other equipment under operating leases that generally expire over the next ten to twenty-five years. The majority of these leases are subject to escalation clauses and may be renewed for successive periods ranging from one to five years on terms similar to current agreements and except for specified increases in lease payments. Rental expense included in operating expense under all lease agreements was $12.7 million, $13.9 million and $15.1 million in 2005, 2006 and 2007, respectively.

Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2007, are as follows:

	Related Parties	Other	Total
		(Dollars in thousands)	
2008	$ 1,234	$ 8,636	$ 9,870
2009	980	8,246	9,226
2010	698	7,723	8,421
2011	611	6,666	7,277
2012	263	6,396	6,659
Thereafter	2,711	41,548	44,259
	$ 6,497	$ 79,215	$ 85,712

NOTE 7. STOCK OPTION PLAN

The Company has one stock option plan. The Amended and Restated 1999 Stock Incentive Plan (the "Plan") allows the Company to grant stock options to employees, directors, officers and advisors of the Company. A maximum of 3,100,000 shares are authorized under the Plan. Options generally vest over four or five years and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated in certain corporate transactions of the Company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options.

Prior to January 1, 2006, the Company accounted for its employee stock-based compensation under the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." APB No. 25 did not require the recognition of compensation expense for its stock options because the exercise price of these instruments was equal to the market value of the underlying common stock on the date of grant, and the related number of shares granted were fixed at that point in time.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R). SFAS No. 123(R) requires the recognition of compensation expense related to the estimated fair value of stock options granted. The Company adopted SFAS No. 123(R) using the modified-prospective-transition method. Under this transition method, compensation expense recognized subsequent to adoption includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested, as of December 31, 2005 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005, based on the grant-date fair values estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified-prospective-transition method, the Company's results of operations for prior periods have not been adjusted to reflect the impact of SFAS 123(R). SFAS No. 123(R) also requires a classification change in the statement of cash flows, whereby the income tax benefits from stock option exercises are reported as a financing cash flow rather than an operating cash flow as previously reported.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in the FASB staff position for calculating the tax effects of share-based compensation according to SFAS No. 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC Pool and Consolidated Statements of Cash Flows of the tax effects of employee and director share-based awards that are outstanding upon adoption of SFAS No. 123(R).

As a result of recognizing compensation expense for stock options pursuant to the provisions of SFAS No. 123(R), the Company's income from continuing operations before income taxes for the year ended December 31, 2006, and 2007 was lower by $4.3 million and $3.4 million, respectively than if the Company had continued to account for stock options under APB No. 25. Additionally, the Company's net income was lower by $2.6 million and $1.9 million for the year ended December 31, 2006 and 2007, respectively. Basic earnings per share and diluted earnings per share for the year ended December 31, 2006 and 2007 were lower by $0.11and $0.08, respectively, than if the Company had continued to account for stock options under APB No. 25.

The following table reflects the components of stock-based compensation expense recognized in the Consolidated Statements of Operations for the years ended December 31, 2006 and 2007:

	Year Ended December 31, 2006	Year Ended December 31, 2007
	(Dollars in thousands)	
Stock option compensation expense included in corporate expenses	$ 3,372	**$ 2,338**
Restricted stock shares compensation expense included in corporate expenses	91	**59**
Stock option compensation expense included in broadcast operating expenses	798	**830**
Stock option compensation expense included in non-broadcast operating expenses	73	**154**
Total stock-based compensation expense, pre-tax	$ 4,334	**$ 3,381**
Tax benefit from stock-based compensation expense	(1,746)	**(1,499)**
Total stock-based compensation expense, net of tax	$ 2,588	**$ 1,882**

The above table does not reflect any stock option compensation for the years ended December 31, 2005 as the Company did not record stock option expense under APB No. 25, as discussed above.

The following table illustrates the effect on net income and earnings per share for the year ended December 31, 2005 if the Company had applied the fair value recognition provisions to its stock options as provided under SFAS No. 123:

		Year Ended December 31, 2005
		(Dollars in thousands)
Net income, as reported	$	12,662
Add: Stock-based compensation, as reported		—
Deduct: Total stock-based compensation determined under fair value based method for all awards, net of tax		(3,346)
Pro forma net income	$	9,316
Earnings per share:		
Basic earnings per share - as reported	$	0.49
Basic earnings per share - pro forma	$	0.36
Diluted earnings per share - as reported	$	0.49
Diluted earnings per share - pro forma	$	0.36

For purposes of this pro forma disclosure, the fair values of stock options were estimated using the Black-Scholes option valuation model and amortized to expense over the options' vesting periods.

Employee stock option and restricted stock grants

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

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of stock options. The expected volatility reflects the consideration of the historical volatility of the Company stock as determined by the closing price over a six to nine year term that is generally commensurate with the expected term of the option. The expected term of the option is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted. Upon adoption of SFAS 123(R), the Company began using historical data to estimate forfeiture rates applied to the gross amount of expense determined using the option valuation model. Prior to adoption of SFAS 123(R), the Company recognized forfeitures as they occurred. There was no material impact upon adoption of SFAS 123(R) between these methods of accounting for forfeitures. The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model were as follows for the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
	2005	2006	**2007**
Expected volatility	50.0% - 57.6%	47.2% - 55.0%	**43.18% - 46.4%**
Expected dividends	0.0%	0.0%	**0.0%**
Expected term (in years)	4	5 - 8	**6 - 9**
Risk-free interest rate	4.20%	4.93%	**4.55%**

Stock option information with respect to the Company's stock-based compensation plans during the three years ended December 31, 2007 is as follows (Dollars in thousands, except share amounts, weighted average exercise price and weighted average grant date fair value):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2005	1,467,966	$ 25.53	$ 12.61		$ 37,513
Granted	487,603	18.48	5.35		9,013
Exercised	(2,250)	14.75	7.35		17
Forfeited or expired	(29,050)	21.28	10.44		652
Outstanding at December 31, 2005	1,924,269	23.82	10.81	5.1 years	$ 45,841
Exercisable at December 31, 2005	1,024,385	24.71	12.30	3.4 years	$ 25,316
Outstanding at January 1, 2006	1,924,269	$ 23.82	$ 10.81		$ —
Granted	350,950	13.63	6.27		—
Exercised	(8,250)	11.58	8.74		9
Forfeited or expired	(120,405)	22.19	15.50		—
Outstanding at December 31, 2006	2,146,564	22.30	13.88	4.5 years	—
Exercisable at December 31, 2006	1,347,787	25.14	15.82	3.1 years	—
Outstanding at January 1, 2007	**2,146,564**	**$ 22.30**	**$ 13.88**		—
Granted	**395,400**	**11.78**	**8.08**		
Exercised	**(2,500)**	**11.81**	—		**$ 4**
Forfeited or expired	**(117,440)**	**19.59**	**13.75**		
Outstanding at December 31, 2007	**2,422,024**	**20.73**	**13.98**	**4.3 years**	**$ —**
Exercisable at December 31, 2007	**1,475,337**	**24.24**	**15.07**	**2.7 years**	**$ —**

The fair values of shares of restricted stock are determined based on the closing price of the Company common stock on the grant dates. Information regarding the Company's restricted stock during the three years ended December 31, 2007 is as follows:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Non-Vested at January 1, 2005	—	
Granted	5,000	$ 17.90
Lapsed	—	—
Forfeited	—	—
Non-Vested at December 31, 2005	5,000	$ 17.90
Non-Vested at January 1, 2006	5,000	$ 17.90
Granted	6,000	11.15
Lapsed	(5,000)	17.90
Forfeited	—	—
Non-Vested at December 31, 2006	6,000	$ 11.15
Non-Vested at January 1, 2007	**6,000**	**$ 11.15**
Granted	**5,000**	**10.15**
Lapsed	**(6,000)**	**11.15**
Forfeited	**—**	—
Non-Vested at December 31, 2007	**5,000**	**$ 10.15**

As of December 31, 2007, there was $4.2 million of total unrecognized compensation cost related to non-vested awards of stock options and restricted shares. That cost is expected to be recognized over a weighted-average period of 1.5 years.

Additional information regarding options outstanding as of December 31, 2007, is as follows:

Range of Exercise Prices	Options	Weighted Average Contractual Life Remaining (Years)	Weighted Average Exercise Price	Exercisable Options	Weighted Average Exercise Price
$ 7.00 - $12.00	382,400	6.4	$ 11.63	28,750	$ 11.23
$12.01 - $15.00	426,200	6.4	$ 13.80	148,613	$ 14.16
$15.01 - $18.00	227,920	4.6	$ 16.72	123,420	$ 16.69
$18.01 - $21.00	186,500	6.2	$ 19.08	75,750	$ 19.07
$21.01 - $24.00	340,278	2.3	$ 22.57	315,728	$ 22.61
$24.01 - $27.00	103,726	3.5	$ 24.97	78,076	$ 25.21
$27.01 - $30.00	755,000	2.8	$ 29.45	705,000	$ 29.41
$ 7.00 - $30.00	2,422,024	4.3	$ 20.73	1,475,337	$ 24.24

NOTE 8. RELATED PARTY TRANSACTIONS

Leases with Principal Stockholders

A trust controlled by the Chief Executive Officer of the Company, Edward G. Atsinger III, owns real estate on which assets of one radio station are located. Salem has entered into a lease agreement with this trust. Rental expense related to this lease included in operating expense for 2005, 2006 and 2007 amounted to $127,000, $122,000 and $138,000, respectively.

Land and buildings occupied by various Salem radio stations are leased from entities owned by the Company's CEO and its Chairman of the Board. Rental expense under these leases included in operating expense for 2005, 2006 and 2007 amounted to $1.1 million, $1.1 million and $1.2 million, respectively.

Radio Stations Owned by the Eppersons

Nancy A. Epperson, the wife of the Chairman of the Board, Stuart W. Epperson, currently serves as an officer, director and stockholder of six radio stations in Virginia, five radio stations in North Carolina, and five radio stations in Florida.

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

The markets where these radio stations are located are not currently served by stations owned and operated by the Company. Under his employment agreement, Mr. Epperson is required to offer the Company a right of first refusal of opportunities related to the Company's business.

Radio Stations Owned by Mr. Hinz

Mr. Hinz, a director of the Company, through companies or entities controlled by him, operates three radio stations in Southern California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language. Operating radio stations with such programming in the markets reached by such stations is not currently part of Salem's current business strategy.

Truth For Life - Mr. Hinz and Mr. Weinberg

Truth For Life is a non-profit organization that is a customer of Salem Communications. During 2005, 2006 and 2007, the Company was paid approximately $1.6 million, $2.0 million and $2.2 million, respectively, by Truth For Life for airtime on its stations. Mr. Hinz is an active member of the board of directors of Truth for Life. Mr. Weinberg served on the board of directors of Truth For Life through June of 2007.

Split-Dollar Life Insurance

The Company purchased split-dollar life insurance policies for its Chairman and Chief Executive Officer in 1997. The premiums were $230,000, for each of the years ended December 31, 2005, 2006 and 2007, respectively. The Company is the owner of the policies and is entitled to recover all of the premiums paid on these policies. The Company records an asset based on the lower of the aggregate premiums paid or insurance cash surrender value. As of December 31, 2006 and 2007, the Company recorded an asset of $1.0 million and $1.5 million, respectively. Benefits above and beyond the cumulative premiums paid will go to the beneficiary trusts established by each of the Chairman and Chief Executive Officer.

Transportation Services Supplied by Atsinger Aviation

From time to time, the Company rents aircraft from a company which is owned by Edward G. Atsinger III. As approved by the independent members of the Company's board of directors, the Company rents these aircraft on an hourly basis at what the Company believes are market rates and uses them for general corporate needs. Total rental expense for these aircraft for 2005, 2006 and 2007 amounted to approximately $226,000, $235,000 and $368,000 respectively.

Americans of Faith - Mr. Atsinger

Edward G. Atsinger III is the co-chair of the board of directors of Americans of Faith, a non-profit organization. The Company made charitable contributions to Americans of Faith of $30,000 in the year ended December 31, 2005.

Employment of Edward C. Atsinger

Edward C. Atsinger, son of Edward G. Atsinger, III and beneficial owner of approximately 5.78% of the Company's Class A common stock, was employed in the capacity of Producer until June 2, 2005. In 2005 he was paid $29,000 for his services.

NOTE 9. DEFINED CONTRIBUTION PLAN

The Company maintains a 401(k) defined contribution plan (the "401(k) Plan"), which covers all eligible employees (as defined in the 401(k) Plan). Participants are allowed to make nonforfeitable contributions up to 60% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The Company matches 50% on the first 3% of the amounts contributed by each participant and 25% on the next 3% contributed but does not match participants' contributions in excess of 6% of their compensation per pay period. The Company contributed and expensed $1.2 million, $1.0 million and $1.1 million to the 401(k) Plan in 2005, 2006 and 2007, respectively.

NOTE 10. STOCKHOLDERS' EQUITY

Holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share, except for specified related party transactions. Holders of Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders, except that holders of Class A common stock vote separately for two independent directors.

On May 5, 2004, Salem sold 2,325,000 shares of its Class A common stock at $30.00 per share in a public offering, generating offering proceeds of approximately $65.7 million, net of approximately $4.0 million of offering commissions and costs. In addition, the Chairman and Chief Executive Officer sold 290,000 shares and 485,000 shares of Class A common stock, respectively, in the public offering in May 2004, which was beneficially owned by them. Salem did not receive any monies from the sale of shares by these selling stockholders.

In November 2004, the Company's Board of Directors authorized a $25.0 million stock repurchase program subject to the Company remaining in compliance with its credit facilities and bond indenture, which limit the Company's ability to repurchase shares. The Company's Board of Directors authorized a $25.0 million share repurchase program in May 2005. In February 2006, the Board of Directors increased Salem's existing share repurchase program to permit the repurchase of up to an additional $25.0 million of shares of Salem's Class A common stock. This repurchase program terminated on December 31, 2007. The amount the Company may repurchase may be limited by certain restrictions under its credit facilities.

During the year ended December 31, 2007, Salem had repurchased 2,317,650 shares of Class A common stock for approximately $34.0 million at an average price of $14.67 per share, and had 23,668,788 shares of its Class A and Class B common stock outstanding. During the year ended December 31, 2006, Salem had repurchased 1,490,625 shares of Class A common stock for approximately $20.7 million at an average price of $13.87 per share.

Additional repurchases, if any are made, could occur through open-market or privately negotiated transactions, block transactions, a trading plan satisfying the safe harbor provisions of Rule 10b5-1 under the Exchange Act, as otherwise permitted by law, or any combination of the foregoing. In making any repurchases, the Company (a) intends to be opportunistic and will evaluate potential repurchases based on the market's valuation of the Company stock, available acquisition opportunities, indebtedness and other factors, (b) may use available borrowings under its credit facilities to pay for all or part of the cost of repurchasing shares, and (c) will either retire or keep all repurchased shares as treasury shares.

On August 23, 2007, the Company paid a special cash dividend of $0.42 per share on its Class A and Class B common stock to shareholders of record as of the close of business on August 20, 2007. The cash payment amounted to approximately $10.0 million. On July 28, 2006, the Company paid a special cash dividend of $0.60 per share on its Class A and Class B common stock to shareholders of record as of the close of business on July 17, 2006. The cash payment amounted to approximately $14.6 million.

As discussed in Note 1, the Company accounts for stock-based compensation expense in accordance with SFAS No. 123(R). As a result, $3.4 million of stock-based compensation expense has been recorded to additional paid-in capital for the year ended December 31, 2007 in comparison to $4.3 million for the year ended December 31, 2006.

NOTE 11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

As of December 2007, the Company had a plan in place to sell radio station WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin. Formal sale agreements were entered in January 2008. The accompanying Consolidated Balance Sheets and Statements of Operations reflect the net assets of WRRD-AM and WFZH-FM as assets held for sale. The financial results of these stations are reported as discontinued operations. All prior periods have been revised to reflect the operating results of these stations as discontinued operations to conform to current period presentation.

	March 31		**June 30**		**September 30**		**December 31**	
	2006	2007	2006	2007	2006	2007	2006	2007
	(Dollars in thousands, except per share data)							
Total revenue	$ 51,539	**$ 55,596**	$ 57,547	**$ 59,437**	$ 57,410	**$ 57,565**	$ 59,240	**$ 59,128**
Operating income	10,658	**11,826**	26,102	**10,831**	10,980	**10,015**	9,970	**7,097**
Net income before discontinued operations	2,364	**2,928**	11,575	**2,867**	628	**2,050**	1,870	**163**
Net income	$ 2,715	**$ 2,965**	$ 11,566	**$ 2,924**	$ 1,453	**$ 2,098**	$ 3,265	**$ 188**
Basic earnings per share from continuing operations	$ 0.10	**$ 0.12**	$ 0.48	**$ 0.12**	$ 0.03	**$ 0.09**	$ 0.08	**$ 0.01**
Diluted earnings per share from continuing operations	$ 0.10	**$ 0.12**	$ 0.48	**$ 0.12**	$ 0.03	**$ 0.09**	$ 0.08	**$ 0.01**
Basic and diluted earnings per share	$ 0.11	**$ 0.12**	$ 0.48	**$ 0.12**	$ 0.06	**$ 0.09**	$ 0.14	**$ 0.01**
Basic and diluted earnings per share	$ 0.11	**$ 0.12**	$ 0.47	**$ 0.12**	$ 0.06	**$ 0.09**	$ 0.14	**$ 0.01**

NOTE 12. SEGMENT DATA

SFAS No. 131, “Disclosures About Segments of An Enterprise and Related Information” requires companies to provide certain information about their operating segments. The Company has one reportable operating segment - radio broadcasting. The remaining non-reportable segments consist of SWN and Salem Publishing, which do not meet the reportable segment quantitative thresholds and accordingly are aggregated below as non-broadcast. The radio broadcasting segment also operates various radio networks.

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

	Radio Broadcasting	Non-broadcast	Corporate	Consolidated
	(Dollars in thousands)			
December 31, 2007				
Net revenue	$ 206,596	$ 25,130	$ —	$ 231,726
Operating expenses	131,796	23,093	22,314	177,203
Operating income (loss before depreciation, amortization, legal settlement, impairment of goodwill and (gain) loss on disposal of assets)	74,800	2,037	(22,314)	54,523
Depreciation	10,174	761	1,112	12,047
Amortization	148	2,868	19	3,035
Operating income (loss) before income taxes	$ 64,478	$ (1,592)	$ (23,445)	$ 39,441
December 31, 2006				
Net revenue	$ 206,367	$ 19,369	$ —	$ 225,736
Operating expenses	129,438	18,172	24,043	171,653
Operating income (loss before depreciation, amortization, legal settlement, impairment of goodwill and (gain) loss on disposal of assets)	76,929	1,197	(24,043)	54,083
Depreciation	9,859	862	1,185	11,906
Amortization	696	2,405	19	3,120
Operating income (loss) before income taxes	$ 66,374	$ (2,070)	$ (25,247)	$ 39,057
December 31, 2005				
Net revenue	$ 196,885	$ 10,790	$ —	$ 207,675
Operating expenses	119,740	9,889	19,607	149,236
Operating income (loss) before depreciation, amortization, legal settlement, impairment of goodwill and (gain) loss on disposal of assets)	77,145	901	(19,607)	58,439
Depreciation	9,960	394	1,045	11,399
Amortization	927	518	15	1,460
Operating income (loss) before income taxes	$ 66,258	$ (11)	$ (20,667)	$ 45,580

	Radio Broadcasting	Non-broadcast	Corporate	Consolidated
	(Dollars in thousands)			
December 31, 2007				
Total property, plant and equipment, net	$ 115,025	$ 5,524	$ 10,538	$ 131,087
Goodwill	4,858	13,770	8	18,636
December 31, 2006				
Total property, plant and equipment, net	$ 114,847	$ 2,830	$ 10,279	$ 127,956
Goodwill	5,011	15,587	8	20,606

NOTE 12. SEGMENT DATA (CONTINUED).

Reconciliation of operating income before depreciation, amortization, legal settlement, impairment of goodwill, cost of terminated offering and gain (loss) on disposal of assets to pretax income;

	2005	2006	**2007**
		(Dollars in thousands)	
Operating income before depreciation, amortization, legal settlement, impairment and gain/loss on disposal of assets	$ 58,439	$ 54,083	**$ 54,523**
Depreciation expense	(11,399)	(11,906)	**(12,047)**
Amortization expense	(1,460)	(3,120)	**(3,035)**
Legal settlement	(650)	—	—
Impairment of goodwill	—	—	**(1,862)**
Interest income	207	210	**183**
Gain / (loss) on disposal of assets	(522)	18,653	**2,190**
Interest expense	(22,559)	(26,342)	**(25,488)**
Loss on early redemption of long-term debt	(24)	(3,625)	—
Other income (expense), net	(506)	(420)	**164**
Income from continuing operations before income taxes	$ 21,526	**$** 27,533	**$ 14,628**

NOTE 13. CONSOLIDATING FINANCIAL INFORMATION

The following is the consolidating information of Salem Communications Corporation for purposes of presenting the financial position and operating results of HoldCo as the issuer of the 7¾% Notes and its guarantor subsidiaries on a consolidated basis and the financial position and operating results of the other guarantors, which are consolidated within the Company. Separate financial information of HoldCo on an unconsolidated basis is not presented because HoldCo has substantially no assets, operations or cash other than its investments in subsidiaries. Each guarantor has given its full and unconditional guarantee, on a joint and several basis, of indebtedness under the 7¾% Notes. HoldCo and AcquisitionCo are 100% owned by Salem and HoldCo owns 100% of all of its subsidiaries. All subsidiaries of HoldCo are guarantors. The net assets of HoldCo are subject to certain restrictions which, among other things, require HoldCo to maintain certain financial covenant ratios, and restrict HoldCo and its subsidiaries from transferring funds in the form of dividends, loans or advances without the consent of the holders of the 7¾% Notes. The restricted net assets of HoldCo as of December 31, 2007, amounted to $223.7 million. Included in intercompany receivables of HoldCo presented in the consolidating balance sheet below is $82.7 million of amounts due from Salem and AcquisitionCo as of December 31, 2007.

NOTE 13. CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

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

	As of December 31, 2007					
		Guarantors		Issuer and Guarantor Subsidiaries		
	Parent	AcquisitionCo	Other Media	HoldCo	Adjustments	Salem Consolidated
Current assets:						
Cash and cash equivalents	$ —	$ 94	$ 157	$ 196	$ —	$ 447
Trade accounts receivable, net	—	2,896	236	26,898	—	30,030
Other receivables	—	4	—	631	—	635
Prepaid expenses	—	103	282	2,236	—	2,621
Deferred income taxes	—	450	98	5,019	—	5,567
Assets of discontinued operations	—	1,631	—	6,968	—	8,599
Total current assets	—	5,178	773	41,948	—	47,899
Investment in subsidiaries	226,162	—	—	—	(226,162)	—
Property, plant and equipment, net	—	8,807	609	121,671	—	131,087
Broadcast licenses	—	93,108	—	371,441	—	464,549
Goodwill	—	10,281	712	7,643	—	18,636
Other indefinite-lived intangible assets	—	—	2,892	—	—	2,892
Amortizable intangible assets, net	—	3,855	963	1,261	—	6,079
Bond issue costs	—	—	—	444	—	444
Bank loan fees	—	—	—	1,994	—	1,994
Intercompany receivables	101,799	11,277	—	141,957	(255,033)	—
Other assets	—	75	30	6,113	—	6,218
Total assets	$ 327,961	$ 132,581	$ 5,979	$ 694,472	$ (481,195)	$ 679,798
Current liabilities:						
Accounts payable	$ —	$ (10)	$ 96	$ 1,239	$ —	$ 1,325
Accrued expenses	—	612	474	5,048	—	6,134
Accrued compensation and related expenses	—	728	148	6,421	—	7,297
Accrued interest	—	—	—	553	—	553
Deferred revenue	—	346	2,113	1,746	—	4,205
Income taxes payable	—	(8)	2	115	—	109
Current maturities of long-term debt	—	1,242	—	5,425	—	6,667
Total current liabilities	—	2,910	2,833	20,547	—	26,290
Intercompany payables	93,972	110,917	16,399	33,745	(255,033)	—
Long-term debt	—	1,342	—	346,275	—	347,617
Fair value of interest rate swap agreements	—	—	—	2,489	—	2,489
Deferred income taxes	811	12,321	(10,789)	59,038	—	61,381
Deferred revenue	—	155	—	7,345	—	7,500
Other liabilities	—	19	—	1,324	—	1,343
Total stockholders' equity	233,178	4,917	(2,464)	223,709	(226,162)	233,178
Total liabilities and stockholders' equity	$ 327,961	$ 132,581	$ 5,979	$ 694,472	$ (481,195)	$ 679,798

NOTE 13. CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

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

	Year Ended December 31, 2007					
	Guarantors			Issuer and Guarantor Subsidiaries		
	Parent	AcquisitionCo	Other Media	HoldCo	Adjustments	Salem Consolidated
Net broadcasting revenue	$ —	$ 10,818	$ —	$198,439	$ (2,661)	$ 206,596
Non-broadcast revenue	—	13,335	7,293	5,589	(1,087)	25,130
Total revenue	—	24,153	7,293	204,028	(3,748)	231,726
Operating expenses:						
Broadcasting operating expenses	—	7,330	—	124,329	137	131,796
Non-broadcast operating expenses	—	12,966	8,658	4,352	(2,883)	23,093
Corporate expenses	—	1,342	—	21,974	(1,002)	22,314
Impairment of goodwill		—	1,862	—		1,862
Amortization	—	1,677	490	868	—	3,035
Depreciation	—	1,073	171	10,803	—	12,047
(Gain) loss on disposal of assets		10	—	(2,200)	—	(2,190)
Total operating expenses	—	24,398	11,181	160,126	(3,748)	191,957
Operating income (loss)	—	(245)	(3,888)	43,902	—	39,769
Other income (expense):						
Equity in earnings of consolidated subsidiaries, net	9,080	—	—	—	(9,080)	—
Interest income	7,807	13	—	13,789	(21,426)	183
Interest expense	(9,370)	(9,957)	(1,603)	(25,984)	21,426	(25,488)
Other income (expense), net	—	—	—	164	—	164
Income (loss) before income taxes	7,517	(10,189)	(5,491)	31,871	(9,080)	14,628
Provision (benefit) for income taxes	(658)	(3,292)	(1,766)	12,336	—	6,620
Income from continuing operations	8,175	(6,897)	(3,725)	19,535	(9,080)	8,008
Income from discontinued operations, net of tax	—	109	—	58	—	167
Net income (loss)	$ 8,175	$ (6,788)	$ (3,725)	$ 19,593	$ (9,080)	$ 8,175
Other comprehensive income (loss)	(2,267)	—	—	(2,267)	2,267	(2,267)
Comprehensive income (loss)	$ 5,908	$ (6,788)	$ (3,725)	$ 17,326	$ (6,813)	$ 5,908

NOTE 14. SUBSEQUENT EVENTS (UNAUDITED)

On January 9, 2008, the Company entered into an agreement to sell radio station WRRD-AM in Milwaukee, Wisconsin for approximately $3.8 million. The Company entered an LMA agreement with the buyer effective as of February 14, 2008, under which the buyer will begin programming the station. The transaction is subject to approval of the FCC and is expected to close in the first quarter of 2008.

On January 10, 2008, the Company entered into an agreement to sell radio station WHKZ-AM in Cleveland (Warren), Ohio, for approximately $0.6 million. The transaction is subject to approval of the FCC and is expected to close in the third quarter of 2008.

On January 16, 2008, the Company entered into an agreement to sell radio station WFZH-FM in Milwaukee, Wisconsin for approximately $8.1 million. The Company entered an LMA agreement with the buyer effective as of February 15, 2008, under which the buyer will begin programming the station and pay a majority of operational costs of the station. The transaction is subject to approval of the FCC and is expected to close in the second quarter of 2008.

On January 16, 2008, the Company announced its plan to discontinue publishing the *CCM Magazine* as of the April 2008 issue. The magazine will be shut down, resulting in the termination of employees and refunds to customers for subscriptions paid in advance. As a result of this decision, the Company recorded an impairment charge in the fourth quarter of 2007 of $1.9 million equal to the value of goodwill associated with *CCM Magazine*. The operating results for *CCM Magazine* will be reported as a discontinued operation as of the date operations cease, or during the first quarter of 2008. This decision does not impact the other publications printed by Salem Publishing.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded accurately, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rules 13a-15(b) and 15d-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of senior management, including our Chief Executive Officer and our Chief Financial Officer, of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

(b) Management’s Annual Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2007 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under that framework and applicable Securities and Exchange Commission rules, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

(c) Attestation Report of Registered Public Accounting Firm The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Singer Lewak Greenbaum & Goldstein LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(d) Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during our fourth fiscal quarter for 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Salem Communications Corporation

We have audited Salem Communications Corporation and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Salem Communications Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Salem Communications Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule of Salem Communications Corporation and subsidiaries and our report dated March 13, 2008 expressed an unqualified opinion.

/s/ SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, CA
March 13, 2008

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading "DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT," expected to be filed within 120 days of our fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading "EXECUTIVE COMPENSATION," expected to be filed within 120 days of our fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS" expected to be filed within 120 days of our fiscal year end.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading "UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS" expected to be filed within 120 days of our fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item relating to "Certain Relationships and Related Party Transactions" is incorporated by reference to our Definitive Proxy Statement under the heading "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS" expected to be filed within 120 days of our fiscal year end.

The information required by this item relating to "Director Independence" is incorporated by reference to our Definitive Proxy Statement under the heading "DIRECTOR INDEPENDENCE" expected to be filed within 120 days of our fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading "PRINCIPAL ACCOUNTING FEES AND SERVICES," expected to be filed within 120 days of our fiscal year end.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)

1. Financial Statements. The financial statements required to be filed hereunder are included in Item 8.

2. Financial Statement Schedule. The following financial statement schedule for the years ended December 31, 2005, 2006 and 2007 is filed as part of this report and should be read in conjunction with the consolidated financial statements.

SALEM COMMUNICATIONS CORPORATION
Schedule II – Valuation & Qualifying Accounts
(Dollars in thousands)

Description	Balance Beginning of Period	Additions Charged to Cost and Expense	Deductions Bad Debt Write-offs	Balance at End of Period
Year Ended December 31, 2005 Allowance for Doubtful Accounts	$ 8,109	$ 2,793	$ (3,687)	$ 7,215
Year Ended December 31, 2006 Allowance for Doubtful Accounts	7,215	3,566	(3,175)	7,606
Year Ended December 31, 2007 Allowance for Doubtful Accounts	7,606	3,233	(2,708)	8,131

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Exhibits.

EXHIBIT LIST

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
3.01	Amended and Restated Certificate of Incorporation of Salem Communications Corporation, a Delaware corporation.	8-K	333-41733-29	04/14/99	3.1	
3.02.01	Bylaws of Salem Communications Corporation, a Delaware Corporation.	8-K	333-41733-29	04/14/99	3.2	
3.02.02	Amended and Restated Bylaws of Salem Communications Corporation, a Delaware Corporation.	8-K	000-26497	06/26/07	3.1	
3.03	Certificate of Incorporation of Salem Communications Holding Corporation.	8-K	000-26497	09/08/00	2.01	
3.04.01	Bylaws of Salem Communications Holding Corporation.	8-K	000-26497	09/08/00	2.02	
3.04.02	Amended and Restated Bylaws of Salem Communications Holding Corporation, a Delaware Corporation.	10-Q	000-26497	08/09/07	3.04.01	
3.05	Certificate of Incorporation of Salem Communications Acquisition Corporation.	8-K	000-26497	09/08/00	2.03	
3.06	Bylaws of Salem Communications Acquisition Corporation.	8-K	000-26497	09/08/00	2.04	
3.07	Certificate of Incorporation of SCA License Corporation.	8-K	000-26497	09/08/00	2.06	
3.08	Bylaws of SCA License Corporation.	8-K	000-26497	09/08/00	2.06	
4.01	Specimen of Class A common stock certificate.	S-1/A	333-76649	Declared Effective 6/30/99	4.09	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
4.02	Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, Suntrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto.	10-Q	000-26497	11/06/03	4.09	
4.03	Second Amended and Restated Parent Security Agreement dated as of June 15, 2001, by and among Salem Communications Corporation, a Delaware corporation, Salem Communications Holding Corporation, a Delaware corporation, and The Bank of New York, as Administrative Agent.	10-Q	000-26497	08/14/01	4.24.02	
4.04	Amendment #1, dated as of May 19, 2004, to the Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, Suntrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto.	10-Q	000-26497	08/06/04	4.11	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
4.05	Amendment #2, dated as of July 7, 2005, to the Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, Suntrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto.	8-K	000-26497	07/13/05	4.12	
4.06	Indenture between Salem Communications Holding Corporation, a Delaware corporation, certain named guarantors and The Bank of New York, as Trustee, dated as of June 25, 2001, relating to the 9% Series A and Series B Senior Subordinated Notes due 2011.	10-Q	000-26497	08/14/01	4.10.03	
4.07	Form of 9% Senior Subordinated Notes (filed as part of exhibit 4.06).	10-Q	000-26497	08/14/01		
4.08	Form of Note Guarantee (filed as part of exhibit 4.06).	10-Q	000-26497	08/14/01		
4.09	Registration Rights Agreement dated as of June 25, 2001, by and among Salem Communications Holding Corporation, the guarantors and initial purchasers named therein.	10-Q	000-26497	08/14/01	4.28	
4.1	Indenture, dated as of December 23, 2002, relating to the 7¾% Senior Subordinated Notes due 2010 by and among Salem Holding, the Company and The Bank of New York, as trustee, with form of Note incorporated	8-K	000-26497	12/23/02	4.1	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
4.11	Form of 7¾% Senior Subordinated Notes (filed as part of exhibit 4.10).	8-K	000-26497	12/23/02		
4.12	Form of Note Guarantee (filed as part of exhibit 4.10).	8-K	000-26497	12/23/02		
4.13	Supplemental Indenture No. 1 to the 7¾% Senior Subordinated Notes, dated as of December 23, 2002, between Salem Communications Corporation and its guarantors, and Bank of New York.	10-K	000-26497	03/31/03	4.22	
4.14	Supplemental Indenture No. 1 to the 9% Senior Subordinated Notes, dated as of December 16, 2002, between Salem Communications Corporation and its guarantors, and Bank of New York.	10-K	000-26497	03/31/03	4.23	
4.15	Supplemental Indenture No. 2 to the 7¾% Senior Subordinated Notes, dated as of June 12, 2003, between Salem Communications Corporation and its guarantors, and Bank of New York.	10-Q	000-26497	08/06/03	4.24	
4.16	Supplemental Indenture No. 2 to the 9% Senior Subordinated Notes, dated as of June 12, 2003, between Salem Communications Corporation and its guarantors, and Bank of New York.	10-Q	000-26497	08/06/03	4.25	
4.17	Consent No. 2, dated as of July 23, 2003, under the Fourth Amended and Restated Credit Agreement between Salem Communications Corporation and its guarantors, and The Bank of New York.	10-Q	000-26497	08/06/03	4.26	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
4.18	Amendment #3, dated as of June 9, 2006, to the Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, Suntrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto.	8-K	000-26497	06/15/06	4.13	
4.19	Amendment #4, dated as of October 24, 2007, to the Fifth Amended and Restated Credit Agreement, dated as of September 25, 2003, by and among Salem Communications Corporation, Salem Communications Holding Corporation, General Electric Capital Corporation, as Syndication Agent, SunTrust Bank, as Syndication Agent, Fleet National Bank, as Documentation Agent, ING (U.S.) Capital, LLC, as Documentation Agent, The Bank of New York, as Administrative Agent, and the Lenders party thereto.	8-K	000-26497	10/30/07	4.19	
10.01.01	Employment Agreement, dated July 1, 2004, between Salem Communications Holding Corporation and Edward G. Atsinger III.	10-Q	000-26497	08/06/04	10.01.01	
10.01.02	Employment Agreement, dated July 1, 2007, between Salem Communications Holding Corporation and Edward G. Atsinger III.	8-K	000-26497	06/26/07	10.2	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.02.01	Employment Agreement, dated July 1, 2004, between Salem Communications Holding Corporation and Stuart W. Epperson.	10-Q	000-26497	08/06/04	10.02.01	
10.02.02	Employment Agreement, dated July 1, 2007, between Salem Communications Holding Corporation and Stuart W. Epperson.	8-K	000-26497	06/26/07	10.1	
10.03.01	Employment Agreement, dated July 1, 2007, between Salem Communications Holding Corporation and Eric H. Halvorson.	8-K	000-26497	06/26/07	10.3	
10.04.01	Employment Agreement, effective as of September 1, 2005, between Salem Communications Holding Corporation and Joe D. Davis	8-K/A	000-26497	05/25/05	99.1	
10.04.02	Employment Agreement, effective as of July 1, 2007, between Salem Communications Holding Corporation and Joe D. Davis	8-K	000-26497	06/26/07	10.4	
10.05.01	Employment Agreement, effective as of September 1, 2005, between Salem Communications Holding Corporation and David A.R. Evans.	8-K	000-26497	09/27/05	99.1	
10.06.01	Antenna/tower/studio lease between Common Ground Broadcasting, Inc. (KKMS-AM/Eagan, Minnesota) and Messrs. Atsinger and Epperson expiring in 2016.	S-4	333-41733-29	01/29/98	10.05.04	
10.06.03	Antenna/tower lease (KFAX-FM/Hayward, California) and Salem Broadcasting Company, a partnership consisting of Messrs. Atsinger and Epperson, expiring in 2013.	S-4	333-41733-29	01/29/98	10.05.06	
10.06.04	Antenna/tower lease between Inspiration Media, Inc. (KGNW-AM/Seattle, Washington) and Messrs. Atsinger and Epperson expiring in 2012.	S-4	333-41733-29	01/29/98	10.05.08	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.06.05	Antenna/tower lease between Inspiration Media, Inc. (KLFE-AM/Seattle, Washington) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring in 2014.	S-4	333-41733-29	01/29/98	10.05.09	
10.06.06	Antenna/tower/studio lease between Pennsylvania Media Associates, Inc. (WNTP-AM/WFIL-AM/Philadelphia, Pennsylvania) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2014.	S-4	333-41733-29	01/29/98	10.05.11.02	
10.06.07	Antenna/tower lease between New Inspiration Broadcasting Co., Inc.: as successor in interest to Radio 1210, Inc. (KPRZ-AM/San Marcos, California) and The Atsinger Family Trust expiring in 2028.	S-4	333-41733-29	01/29/98	10.05.12	
10.06.08	Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Atsinger Family Trust/Epperson Family Limited Partnership expiring 2009.	10-K	000-26497	03/30/00	10.05.13	
10.06.09	Antenna/tower lease between Salem Media of Colorado, Inc. (KNUS-AM/Denver-Boulder, Colorado) and Messrs. Atsinger and Epperson expiring 2016.	S-4	333-41733-29	01/29/98	10.05.15	
10.06.10	Antenna/tower lease between Salem Media of Colorado, Inc. and Atsinger Family Trust/Epperson Family Limited Partnership (KRKS-AM/KBJD-AM/Denver, Colorado) expiring 2009.	10-K	000-26497	03/30/00	10.05.16	
10.06.11	Antenna/tower lease between Salem Media of Oregon, Inc. (KPDQ-AM/FM/Portland, Oregon), and Messrs. Atsinger and Epperson expiring 2012.	S-4	333-41733-29	01/29/98	10.05.17.02	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.06.12	Antenna/tower lease between Salem Media of Pennsylvania, Inc. (WORD-FM/WPIT-AM/Pittsburgh, Pennsylvania) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2013.	S-4	333-41733-29	01/29/98	10.05.18	
10.06.13	Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.	S-4	333-41733-29	01/29/98	10.05.19	
10.06.13.01	Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.	-	-	-		X
10.06.13.02	Second Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.	-	-	-		X
10.06.14	Antenna/tower lease between South Texas Broadcasting, Inc. (KNTH-AM/Houston-Galveston, Texas) and Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2015.	S-4	333-41733-29	01/29/98	10.05.20	
10.06.15	Antenna/tower lease between New Inspiration Broadcasting Co., Inc. successor in interest to Vista Broadcasting, Inc. (KFIA-AM/Sacramento, California) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2016.	S-4	333-41733-29	10/29/98	10.05.21	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.06.17	Antenna/tower lease between Inspiration Media of Texas, Inc. (KTEK-AM/Alvin, Texas) and the Atsinger Family Trust and The Stuart W. Epperson Revocable Living Trust expiring 2018.	10-K 405	000-26497	03/31/99	10.05.23	
10.06.18	Studio building lease between Salem Radio Properties, Inc. and Thomas H. Moffit Jr.	10-K	000-26497	03/31/06	10.05.24	
10.06.19	Antenna/tower lease between Pennsylvania Media Associates Inc. (WTLN-AM/ Orlando, Florida) and Atsinger Family Trust and Stuart W. Epperson, revocable living trust expiring 2045.	10-K	000-26497	03/16/07	10.05.25	
10.07.01	Asset Purchase Agreement, dated August 18, 2006, by and between Caron Broadcasting, Inc. and Chesapeake-Portsmouth Broadcasting Corporation (WJGR-AM, Jacksonville, Florida, and WZNZ-AM, Jacksonville, Florida)	10-Q	000-26497	11/09/06	10.06.02	
10.07.02	Asset Purchase Agreement, dated September 14, 2006, by and between Caron Broadcasting, Inc. and Chesapeake-Portsmouth Broadcasting Corporation (WZAZ-AM, Jacksonville, Florida)	10-Q	000-26497	11/09/06	10.06.03	
10.07.03	Local Programming and Marketing Agreement, dated September 14, 2006, by and between Caron Broadcasting, Inc. and Chesapeake-Portsmouth Broadcasting Corporation (WJGR-AM, Jacksonville, Florida, and WZNZ-AM, Jacksonville, Florida)	10-Q	000-26497	11/09/06	10.06.04	
10.07.04	Local Programming and Marketing Agreement, dated September 14, 2006, by and between Caron Broadcasting, Inc. and Chesapeake-Portsmouth Broadcasting Corporation (WZAZ-AM, Jacksonville, Florida)	10-Q	000-26497	11/09/06	10.06.05	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.08.01	Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to previously filed Appendix B).	DEF 14A	000-26497	04/29/03	Appendix B	
10.08.02	Form of stock option grant for Amended and Restated 1999 Stock Incentive Plan.	10-K	000-26497	03/16/05	10.08.02	
10.08.03	Form of restricted stock option grant for Amended and Restated 1999 Stock Incentive Plan.	10-Q	000-26497	11/09/05	10.01	
10.08.04	Amended and Restated 1999 Stock Incentive Plan as amended and restated through May 18, 2005.	DEF 14A	000-26497	04/18/05	Propsal No. 2	
10.09	Management Services Agreement by and among Salem and Salem Communications Holding Corporation, dated August 25, 2000 (incorporated by reference to previously filed exhibit 10.11). (7)	10-Q	000-26497	05/15/01	10.11	
10.1	Employment Agreement dated January 1, 2008, between Salem Communications Holding Corporation and Evan D. Masyr	8-K	000-26497	12/19/07	99.1	
16.01	Letter from Ernst & Young LLP regarding change in certifying accountant	8-K	000-26497	06/12/07	16.1	
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	X	
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	X	
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.	-	-	-	X	
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.	-	-	-	X	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	SALEM COMMUNICATIONS CORPORATION
March 13, 2008	By: /s/ EDWARD G. ATSINGER III
	Edward G. Atsinger III Chief Executive Officer
March 13, 2008	By: /s/ EVAN D. MASYR
	Evan D. Masyr Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EDWARD G. ATSINGER III Edward G. Atsinger III	Chief Executive Officer (Principal Executive Officer)	March 13, 2008
/s/ ERIC H. HALVORSON Eric H. Halvorson	President and Chief Operating Officer	March 13, 2008
/s/ EVAN D. MASYR Evan D. Masyr	Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 13, 2008
/s/ STUART W. EPPERSON Stuart W. Epperson	Chairman	March 13, 2008
/s/ DAVID DAVENPORT David Davenport	Director	March 13, 2008
/s/ ROLAND S. HINZ Roland S. Hinz	Director	March 13, 2008
/s/ PAUL PRESSLER Paul Pressler	Director	March 13, 2008
/s/ RICHARD A. RIDDLE Richard A. Riddle	Director	March 13, 2008
/s/ DENNIS M. WEINBERG Dennis M. Weinberg	Director	March 13, 2008

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
10.06.13.01	Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.
10.06.13.02	Second Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.
21.01	Subsidiaries of Salem Communications Corporation
23.1	Consent of Singer Lewak Greenbaum & Goldstein LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (No. 333-40494 and 333-113794) on Form S-8 and in the Registration Statement (No. 333-86580) on Form S-3 of Salem Communications Corporation and subsidiaries of our report dated March 13, 2008 relating to our audit of the consolidated financial statements, and the financial statement schedule and internal control over financial reporting, which appear in this Annual Report on Form 10-K of Salem Communications Corporation and subsidiaries for the year ended December 31, 2007.

/s/ SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
March 13, 2008

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-40494 and 333-113794) pertaining to the Amended and Restated 1999 Stock Incentive Plan of Salem Communications Corporation and in the Registration Statement (Form S-3 No. 333-86580) of Salem Communications Corporation and in the related Prospectus of our report dated March 15, 2007, except for the accounting for discontinued operations as discussed in Note 1 and Note 2, as to which the date is March 11, 2008, included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 11, 2008

EXHIBIT 31.1

I, Edward G. Atsinger III, certify that:

1. I have reviewed this annual report on Form 10-K of Salem Communications Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2008

/s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer

EXHIBIT 31.2

I, Evan D. Masyr, certify that:

1. I have reviewed this annual report on Form 10-K of Salem Communications Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2008

/s/ EVAN D. MASYR

Evan D. Masyr
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as Chief Executive Officer of Salem Communications Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Annual Report of the Company on Form 10-K for the period ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2008

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, in his capacity as Senior Vice President and Chief Financial Officer of Salem Communications Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Annual Report of the Company on Form 10-K for the period ended December 31, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 13, 2008

By: /s/ EVAN D. MASYR

Evan D. Masyr
Senior Vice President and Chief Financial Officer

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