

SALEM COMMUNICATIONS CORP /DE/  
Form 424B3  
February 04, 2010  
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Filed pursuant to Rule 424(b)(3)  
File No. 333-164002

PROSPECTUS

**\$300,000,000**

## **Salem Communications Corporation**

### **9.625% Senior Secured Second Lien Notes due 2016**

**Offer to Exchange All of Our Outstanding**

**9.625% Senior Secured Second Lien Notes due 2016**

**(CUSIP Nos. 794093 AE4 and U78735 AA2)**

**For**

**Our new 9.625% Senior Secured Second Lien Notes due 2016**

**That Have Been Registered**

**Under the Securities Act of 1933**

*This exchange offer will expire at 5:00 p.m., New York City time,*

*on Monday, March 8, 2010, unless extended.*

#### **The Exchange Notes:**

The terms of the registered 9.625% Senior Secured Second Lien Notes due 2016 to be issued in the exchange offer are substantially identical to the terms of the outstanding 9.625% Senior Secured Second Lien Notes due 2016, except that provisions relating to transfer restrictions, registration rights, and additional interest will not apply to the exchange notes.

We are offering the exchange notes pursuant to a registration rights agreement that we entered into in connection with the issuance of the outstanding notes.

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The exchange notes will bear interest at the rate of 9.625% per year, payable on June 15 and December 15 of each year, commencing on June 15, 2010. The exchange notes will mature on December 15, 2016.

The exchange notes will be fully and unconditionally guaranteed on a joint and several basis by all of Salem Communications Corporation's existing subsidiaries and certain future domestic restricted subsidiaries.

We may redeem some or all of the notes as described more fully in this prospectus.

### **Material Terms of the Exchange Offer:**

The exchange offer expires at 5:00 p.m., New York City time, on Monday, March 8, 2010, unless extended.

Upon completion of the exchange offer, all outstanding notes that are validly tendered and not properly withdrawn will be exchanged for an equal principal amount of exchange notes, the issuance of which are registered under the Securities Act of 1933, as amended (the Securities Act).

Tenders of outstanding notes may be withdrawn at any time prior to the expiration of the exchange offer.

Completion of the exchange offer is subject to customary conditions, some of which we may waive.

The exchange of exchange notes for outstanding notes will not be a taxable exchange for U.S. Federal income tax purposes.

We will not receive any proceeds from the exchange offer.

Each broker-dealer that receives exchange notes for its own account in the exchange offer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such exchange notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. Salem Communications Corporation has agreed that, starting on the effective date of the registration statement to which this prospectus relates and ending on the close of business 90 days after such date, it will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

There is no existing public market for the outstanding notes or the exchange notes. We do not intend to list the exchange notes on any securities exchange or quotation system.

**See Risk Factors beginning on page 14**

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.*

**The date of this prospectus is February 2, 2010**

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You should rely only upon the information in this prospectus. We have not authorized anyone to give any information or make any representation about us that is different from or in addition to, that contained in this prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it as authorized by us. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this prospectus are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this prospectus does not extend to you. Neither the delivery of this prospectus, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in our affairs since the date on the front cover of this prospectus.

We have filed with the SEC a registration statement on Form S-4 (Registration No. 333-164002) with respect to the exchange notes. This prospectus, which forms part of this registration statement, does not contain all the information included in the registration statement, including its exhibits and schedules. For further information about us and the notes described in this prospectus, you should refer to the registration statement and its exhibits and schedules. Statements we make in this prospectus about certain contracts or other documents are not necessarily complete. When we make such statements, we refer you to the copies of the contracts or documents that are filed as exhibits to the registration statement, because those statements are qualified in all respects by reference to those exhibits. The registration statement, including the exhibits and schedules, is on file at the offices of the SEC and may be inspected without charge. Our SEC filings are also available to the public at the SEC's website at [www.sec.gov](http://www.sec.gov).

You may also obtain this information without charge by writing or telephoning us at the following address and telephone number:

Salem Communications Corporation

4880 Santa Rosa Road

Camarillo, California 93012

Telephone (805) 987-0400

Attention: Christopher J. Henderson, Secretary

**In order to ensure timely delivery, you must request the information no later than five business days before the expiration of the exchange offer.**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

From time to time, including in this prospectus, in particular, the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," we make forward-looking statements within the meaning of federal and state securities laws. Disclosures that use words such as "the company believes," "anticipates," "expects," "estimates," "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 our current expectations and are based upon data available to us 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 reports on Forms 10-K, 10-Q and 8-K filed with the SEC as well as the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus. All forward-looking statements in this prospectus are qualified by these cautionary statements and are made only as of the date of this prospectus. Any such forward-looking statements, whether made in this prospectus or elsewhere, should be considered in context with the various disclosures made by us about our business. The following risks related to our business, among others, could cause actual results to differ materially from those described in the forward-looking statements:

We have, and after issuance of the exchange notes we will have, a significant amount of debt, which could restrict our future operating and strategic flexibility and expose us to the risks of financial leverage.

Our ability to meet our debt service obligations on the exchange notes and our other debt will depend on our future performance, which will be subject to many factors that are beyond our control.

We depend significantly upon the success of the religious and family issues format segment of the radio broadcasting industry.

Our ability to successfully grow through acquisitions by acquiring radio stations in new and existing markets, as well as by expanding into non-broadcast media and acquiring businesses that share our commitment to serving our targeted audience, depends on many factors, some of which are beyond our control.

We are subject to risks of competition from other commercial and non-commercial radio stations as well as from other media, including broadcast and cable television, the Internet, newspapers, magazines, direct mail and billboard advertising.

We are subject to risks and limitations due to government regulation of the broadcasting industry, including Federal Communications Commission (FCC or the Commission) control over the renewal and transfer of broadcasting licenses, which could materially adversely affect our operations and growth strategy.

We urge you to review carefully the section "Risk Factors" in this prospectus for a more complete discussion of the risks of an investment in the exchange notes.

Except as required by law, we assume no, and hereby disclaim any, obligation to update any of the foregoing or any other forward-looking statements. We nonetheless reserve the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this prospectus. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

**INDUSTRY AND MARKET DATA**

This prospectus includes industry data that we obtained from periodic industry publications, including the Fall 2009 Radio Market Survey Schedule & Population Rankings published by Arbitron. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein.



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**PROSPECTUS SUMMARY**

*The following summary highlights selected information from this prospectus and does not contain all of the information that is important to you. For a more complete understanding of our company and this exchange offer, we encourage you to read this entire prospectus, including Risk Factors and the financial statements included in this prospectus. In addition, certain statements are forward-looking statements, which involve risks and uncertainties. See Special Note Regarding Forward-Looking Statements. Unless otherwise indicated or required by the context, the terms Salem, we, our, us and the Company refer to Salem Communications Corporation and all of its subsidiaries that are consolidated under GAAP. Our fiscal years for the years 2006, 2007 and 2008 all ended on December 31, respectively. When we refer to a year, we are referring to the fiscal year ended on those respective dates. Data in this summary is as of December 30, 2009 unless indicated otherwise.*

**Our Company**

**General**

In 1974, our CEO Edward G. Atsinger, III, launched his first full-time Christian format radio station, KDAR-AM in Oxnard, California. Mr. Atsinger and Stuart W. Epperson, our Chairman of the Board, then partnered together with a goal of establishing a network of radio stations focused on reaching the Christian audience. Through a series of station acquisitions starting with WEZE-AM in Boston in 1978, we developed station clusters throughout the major markets in the United States. Since our initial public offering in July 1999, we have grown from 45 stations to 94 stations.

We believe that we are the largest commercial U.S. radio broadcasting company that provides programming targeted at audiences interested in Christian and family-themed radio content, as measured by number of stations and audience coverage. 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 94 radio stations in 36 markets, which consists of 27 FM stations and 67 AM stations, including 58 stations in 22 of the top 25 markets. We are one of only three 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. We also program the Family Talk Christian-themed talk format station on XM Radio, channel 170.

In addition to our radio broadcast business, we also own and operate a non-broadcast media division. This division consists of Salem Web Network ( SWN ), a provider of online Christian and conservative-themed content and streaming, Salem Publishing, publisher of Christian magazines and Xulon Press, a provider of print-on-demand publishing services targeting the Christian audience. SWN's content, both in text and audio, can be accessed through our national portals which include OnePlace.com, Crosswalk.com®, Christianity.com and Townhall.com®. SWN's content can also be accessed through our local radio station websites, which provide content of interest to local listeners.

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 and Salem Media Representatives ( SMR ), a national radio advertising sales firm with offices in 12 U.S. cities.

**Radio Broadcasting**

Our radio business is focused on the clustering of strategic formats, mainly Christian Teaching and Talk, Contemporary Christian Music and conservative News Talk. In late 2007, we introduced a fourth strategic format, Spanish language Christian Teaching and Talk.

**Salem Radio Network®**

We own and operate 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.





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SMR is a sales representation company specializing in placing national advertising on religious format radio stations. SRN and our radio stations each have relationships with SMR for the sale of available SRN spot advertising. SMR 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 Media Representatives formerly called Vista Radio Representatives, a sales representation company specializing in placing national advertising on non-religious radio stations.

### **Non-broadcast Media**

*Salem Web Network and Townhall.com*<sup>®</sup>. 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 radio station websites, which provide content of interest to our local radio station listeners. In 2006 we acquired CrossDaily.com and Townhall.com. In 2008 we acquired intercristo.com and theconservativevoice.com. These acquisitions enhanced our web leadership as a provider and distributor of Christian and conservative content and services for our target audience.

*Salem Publishing*. Our distribution of Christian and conservative content also extends into print through Salem Publishing, a magazine publisher serving the Christian and conservative audience and Xulon Press, a provider of print-on-demand publishing services targeted to the Christian audience. Salem Publishing is well positioned to grow its magazines: *Homecoming*<sup>®</sup> *The Magazine*, *YouthWorker Journal*, *The Singing News*, *FaithTalk Magazine*, *Preaching* and *Townhall 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<sup>®</sup> brand, including www.ChristianMusicPlanet.com, a leading Christian music web portal and CMCentral.com, a Christian music website and online community. In 2008, we ceased the publication of *CCM Magazine* and launched *Townhall Magazine*.

### **Business Strategy**

Our principal business strategy is to improve our national radio platform and to invest in and build non-broadcast businesses as the breadth of the media marketplace also expands 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 powerful way to broadly reach Christian audiences.

We program 42 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 religious and charitable organizations that create compelling radio programs. Typically, more than 90% of our block programming partners annually renew their respective relationships with us. Based on these renewal rates, we believe that block programming provides a steady and consistent stream of revenue and cash flow. The top ten programmers have averaged over 15 years on the air and have remained relatively constant. Total programming revenue has comprised 35% to 40% of total broadcast revenue from 2006 through the last twelve months ended September 30, 2009. We also program 24 News Talk stations, 11 Contemporary Christian Music stations, and seven Spanish-language Christian Teaching and Talk 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 and books that target similar audiences in order to provide cross-platform synergies.

We are fundamentally committed to broadcasting, Internet and publishing formats and programming emphasizing Christian, conservative news talk and family themes. As part of this business philosophy, we may choose not to switch to other formats or pursue potentially more profitable business opportunities in response to changing audience preferences.

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 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 each owned and operated radio stations for more than 40 years.



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### **Loyal and Growing Niche Target Audience**

We believe our operations focus on a highly attractive and stable market niche. We believe this market is very loyal and has significant growth potential based upon the following demographic data:

Christian radio is one of the fastest growing radio formats with a 39% national audience share increase from 2002 to 2008;

46% of adults nationally read the bible at least weekly;

61% of Americans are members of a church or synagogue;

54% of Americans view religion as very important; and

Our top 10 Christian Teaching and Talk programs have averaged over 15 consecutive years on our stations most airing in the same time slots Monday through Friday, enabling us to serve an audience that we believe sees our stations as must listen daily.

### **Growth and Operating Strategies**

***Continue to Focus on and Serve Targeted Audience.*** A key attribute of our success is our consistent emphasis on reaching the audiences interested in Judeo-Christian religious and family issues. We have demonstrated a long-term commitment to these audiences by operating radio stations and providing non-broadcast media outlets with formats directed to our listeners specific needs and interests. This consistent focus and commitment builds loyalty and trust from our listening audience, block program customers and advertisers.

***Emphasize Compelling Program Content.*** As more listening, reading and viewing options become available to consumers, compelling program content is vital to expanding our listening audience and increasing audience response to block programmers and advertisers. Our national radio network will continue to seek to identify new block programming customers, compete aggressively for talk show talent, expand and refine our music formats, and develop compelling news and public affairs features.

***Continue Clustering Development.*** We build clusters of radio stations in our markets, with each radio station targeting different demographic segments of the audience interested in religious and family issues. This strategy allows us to: (a) broaden our appeal to target audiences by broadcasting a range of formats; (b) offer customers multiple programming options to advertise; (c) achieve cost savings by integrating our operations; (d) offer advertisers multiple audiences; and (e) bundle our radio stations for advertising sales purposes when advantageous.

***Build Format Awareness.*** We seek to build local format awareness for each of our radio stations in order to retain and increase its listening audience, expand our base of advertisers and provide increased audience response to our block program customers. We emphasize the development of a radio station's identity to allow each radio station to better compete by developing local on-air personalities, improving production quality and technical facilities, and increasing promotional activities.

### **Corporate Information**

We are a Delaware corporation. Our executive offices are located at 4880 Santa Rosa Road, Camarillo, CA 93012, and our telephone number at that location is (805) 987-0400. Our website address is [www.salem.cc](http://www.salem.cc). The information on our website is not a part of this prospectus.

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**Organizational Structure**

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 of 2000. In May of 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 of 2000, Salem Communications Corporation assigned substantially all of its assets and liabilities (other than the stock of each 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. On December 12, 2008, we formed Salem Investment Corporation ( SIC ), a wholly-owned subsidiary of Salem Communications Corporation. All of Salem Communications Corporation's subsidiaries are guarantors of (1) the borrowings under the new \$30.0 million senior credit facility (the senior credit facility ) pursuant to a credit agreement by and among Salem, as Borrower, Bank of America, N.A., as Administrative Agent, Swingline Lender, L/C Issuer and a Lender, the other Lenders party thereto, Banc of America Securities LLC, as Joint Lead Arranger and Sole Book Manager, Barclays Capital and ING Capital LLC, as Joint Lead Arrangers, Barclays Capital, as Syndication Agent, and ING Capital LLC, as Documentation Agent, and (2) the outstanding notes.

The chart below sets forth our current organizational structure.

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**The Exchange Offer**

*The following is a summary of the principal terms of the exchange offer. A more detailed description is contained in the section The Exchange Offer. The term outstanding notes refers to our outstanding 9.625% Senior Secured Second Lien Notes due 2016, which were issued on December 1, 2009. The term exchange notes refers to our 9.625% Senior Secured Second Lien Notes due 2016 offered by this prospectus, the issuance of which have been registered under the Securities Act. The term notes refers collectively to the outstanding notes and the exchange notes. The term indenture refers to the indenture that governs both the outstanding notes and the exchange notes.*

**The Exchange Offer**

We are offering to exchange \$1,000 in principal amount of our new 9.625% Senior Secured Second Lien Notes due 2016, the issuance of which have been registered under the Securities Act, for each \$1,000 in principal amount of our outstanding 9.625% Senior Secured Second Lien Notes due 2016 issued on December 1, 2009, subject to a minimum exchange denomination of \$2,000. The exchange notes are substantially identical to the outstanding notes, except that the transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes will not apply to the exchange notes. As of the date of this prospectus, \$300,000,000 in aggregate principal amount of outstanding notes is outstanding.

**Expiration Time**

The exchange offer will expire at 5:00 p.m., New York City time, on Monday, March 8, 2010, unless the exchange offer is extended, in which case the expiration time will be the latest date and time to which the exchange offer is extended. See The Exchange Offer Terms of the Exchange Offer; Expiration Time.

**Procedures for Tendering Outstanding Notes**

In order to exchange your outstanding notes for exchange notes, you must validly tender them at or before the expiration time. You may tender your outstanding notes through book-entry transfer in accordance with The Depository Trust Company's Automated Tender Offer Program, known as ATOP. If you wish to accept the exchange offer, you must:

Complete, sign, and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, in accordance with the instructions contained in the letter of transmittal, and mail or otherwise deliver the letter of transmittal, together with your outstanding notes, to the exchange agent at the address set forth under The Exchange Offer The Exchange Agent prior to the expiration time; or

arrange for The Depository Trust Company to transmit to the exchange agent certain required information, including an agent's message forming part of a book-entry transfer in which you agree to be bound by the terms of the letter of transmittal, and transfer the outstanding notes being tendered into the exchange agent's account at The Depository Trust Company prior to the expiration time.

You may tender your outstanding notes for exchange notes in whole or in part in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000. See The Exchange Offer How to Tender Outstanding Notes for Exchange.

**Guaranteed Delivery Procedures**

If you wish to tender your outstanding notes and time will not permit your required documents to reach the exchange agent by the expiration time, or the



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procedures for book-entry transfer cannot be completed by the expiration time, you may tender your outstanding notes according to the guaranteed delivery procedures described in The Exchange Offer Guaranteed Delivery Procedures.

**Withdrawal of Tenders**

You may withdraw your tender of outstanding notes at any time at or prior to the expiration time by delivering a written notice of withdrawal to the exchange agent in conformity with the procedures discussed under The Exchange Offer Withdrawal Rights.

**Special Procedures for Beneficial Owners**

If you beneficially own outstanding notes registered in the name of a broker, dealer, commercial bank, trust company, or other nominee and you wish to tender your outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf. See The Exchange Offer How to Tender Outstanding Notes for Exchange.

**Conditions to the Exchange Offer**

The exchange offer is subject to customary conditions, some of which we may waive. The exchange offer is not conditioned upon any minimum principal amount of outstanding notes being tendered. We reserve the right to terminate or amend the exchange offer at any time before the expiration time if any condition to the exchange offer is not met. See The Exchange Offer Conditions to the Exchange Offer.

**Acceptance of Outstanding Notes and Delivery of Exchange Notes**

Upon consummation of the exchange offer, we will accept any and all outstanding notes that are validly tendered in the exchange offer and not properly withdrawn at or prior to the expiration time. The exchange notes issued pursuant to the exchange offer will be delivered promptly after acceptance of the tendered outstanding notes. See The Exchange Offer Terms of the Exchange Offer; Expiration Time.

**Registration Rights Agreement**

We are making the exchange offer pursuant to the registration rights agreement that we entered into on December 1, 2009 with the initial purchasers of the outstanding notes.

**Resales of Exchange Notes**

We believe that the exchange notes issued in the exchange offer may be offered for resale, resold, or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

the exchange notes you receive pursuant to the exchange offer are being acquired in the ordinary course of your business;

you have no arrangement or understanding with any person to participate, and are not participating, in the distribution of the exchange notes within the meaning of the Securities Act;

you are not an affiliate of ours as such term is interpreted by the SEC;

you are not holding outstanding notes that have, or that are reasonably likely to have, the status of an unsold allotment of the initial placement of the outstanding notes;

if you are not a broker-dealer, you are not engaged in, and do not intend to engage in, a distribution of the exchange notes; and



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if you are a broker-dealer, you will receive the exchange notes for your own account, the outstanding notes were acquired by you as a result of market-making or other trading activities, and you will deliver a prospectus in connection with any resale of such exchange notes.

If you do not meet these requirements, your resale of the exchange notes must comply with the registration and prospectus delivery requirements of the Securities Act.

Our belief is based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties. The staff of the SEC has not considered the exchange offer in the context of a no-action letter, and we cannot assure you that the staff of the SEC would make a similar determination with respect to the exchange offer.

If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability.

See The Exchange Offer Consequences of Exchanging Outstanding Notes.

**Broker Dealer Prospectus Delivery Requirements** Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See Plan of Distribution.

**Consequences of Failure to Exchange Your Outstanding Notes** If you do not exchange your outstanding notes in the exchange offer, your outstanding notes will continue to be subject to the restrictions on transfer provided in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold unless registered or sold in a transaction exempt from registration under the Securities Act and applicable state securities laws. If a substantial amount of the outstanding notes is exchanged for a like amount of the exchange notes, the liquidity and the trading market for your untendered outstanding notes could be adversely affected. See The Exchange Offer Consequences of Failure to Exchange Outstanding Notes.

**Use of Proceeds** We will not receive any cash proceeds from the issuance of the exchange notes. See Use of Proceeds.

**Certain U.S. Federal Income Tax Considerations** The exchange of your outstanding notes for exchange notes will not be a taxable exchange for U.S. federal income tax purposes. You should consult your own tax advisor as to the tax consequences to you of the exchange offer, as well as tax consequences of the ownership and disposition of the exchange notes. See Certain U.S. Federal Income Tax Considerations.

**Exchange Agent**

The exchange agent for the exchange offer is The Bank of New York Mellon Trust Company, N.A. See The Exchange Offer The Exchange Agent and the accompanying letter of transmittal.

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**The Exchange Notes**

*The terms of the exchange notes are substantially the same as the outstanding notes, except that provisions relating to transfer restrictions, registration rights, and additional interest will not apply to the exchange notes. The following is a summary of the principal terms of the exchange notes. A more detailed description is contained in the section "Description of Exchange Notes" in this prospectus.*

Issuer	Salem Communications Corporation
Notes Offered	\$300,000,000 aggregate principal amount of new 9.625% senior secured second lien notes due 2016, the issuance of which have been registered under the Securities Act.
Maturity Date	December 15, 2016.
Interest	Interest on the exchange notes will accrue at a rate of 9.625% per annum, payable semi-annually in cash in arrears on June 15 and December 15 of each year, commencing June 15, 2010.
Guarantees	The exchange notes will be fully and unconditionally guaranteed on a joint and several basis by all of our existing and certain future domestic restricted subsidiaries.
Ranking	<p>The exchange notes and the guarantees will be our and the guarantors' senior secured obligations and will:</p> <ul style="list-style-type: none"> <li>rank senior in right of payment to our and the guarantors' existing and future debt and other obligations that expressly provide for their subordination to the notes and the guarantees;</li> <li>be effectively senior to all of our and the guarantors' existing and future unsecured debt to the extent of the value of the collateral securing the exchange notes, after giving effect to first-priority liens on the collateral and permitted liens;</li> <li>be effectively junior to our and the guarantors' debt that is either (i) secured by priority liens on the collateral, including indebtedness under our senior credit facility, or (ii) secured by assets that are not part of the collateral that is securing the exchange notes, in each case to the extent of the value of the collateral securing such debt; and</li> <li>be structurally subordinated to all of the existing and future liabilities, including trade payables, of our subsidiaries that do not guarantee the exchange notes.</li> </ul>

At December 1, 2009, the Company and the guarantors had approximately \$315 million aggregate principal amount of total debt, all of which is senior debt (including the exchange notes offered hereby), of which approximately \$15 million is effectively ranked senior to the notes to the extent of the assets securing such debt. All of our subsidiaries are currently guarantors of the outstanding notes.



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Security

The exchange notes and the guarantees will be secured by a second priority lien on the assets owned by us and the guarantors that also secure obligations under our senior credit facility (subject to limited exceptions) and obligations under certain hedging and cash management arrangements, subject to certain exceptions. The lenders under our senior credit facility, and such lenders and their affiliates providing hedging and cash management arrangements, benefit from first priority liens on the collateral. Under the security agreement, we and the guarantors have, subject to certain exceptions, granted security interests in substantially all of our and their real, personal and fixture property, including (i) machinery and equipment, inventory and other goods, accounts receivable, owned real estate, fixtures, bank accounts, general intangibles (other than FCC licenses), financial assets, investment property, license rights, patents, trademarks, trade names, copyrights, other intellectual property, chattel paper, insurance proceeds, contract rights, hedge agreements, documents, instruments, indemnification rights, tax refunds and cash, (ii) all of the equity interests held by us in subsidiaries (but, (a) as to the voting stock of any foreign subsidiary, not to exceed 66% of the outstanding voting stock and (b) excluding any capital stock of a subsidiary to the extent necessary for such subsidiary not to be subject to any requirement pursuant to Rule 3-16 or Rule 3-10 of Regulation S-X under the Exchange Act, due to the fact that such subsidiary's capital stock secured the notes or guarantees, to file separate financial statements with the SEC), (iii) FCC licenses except to the extent prohibited by law or regulation, and (iv) all proceeds and products of the foregoing. For more details, see Description of Notes Security.

The value of collateral at any time depends on market and other economic conditions, including the availability of suitable buyers for the collateral. The liens on the collateral may be released without the consent of the holders of the notes if collateral is disposed of in a transaction that complies with the indenture and the related security documents or in accordance with the provisions of an intercreditor agreement entered into relating to the collateral securing the notes and our senior credit facility. See Risk Factors Risks Relating to the Notes It may be difficult to realize the value of the collateral securing the notes and Description of Notes Security and Intercreditor Agreement.

Certain security interests, including mortgages on certain of our owned real properties intended to constitute collateral that secures the exchange notes, may not be in place on the date of issuance of the exchange notes. We were required to file or cause to be filed UCC financing statements to perfect the security interests in the collateral that can be perfected by such filings on the date of issuance of the outstanding notes. With respect to the portion of the collateral securing the notes for which a valid and perfected security interest in favor of the collateral agent was not created or perfected on or prior to December 1, 2009 and which cannot be perfected by the filing of UCC financing statements, we have agreed to use commercially reasonable efforts to complete those actions required to create and perfect such security interests on or before May 30, 2010.

Intercreditor Agreement

Pursuant to an intercreditor agreement, the liens securing the notes are second priority liens that are expressly junior in priority to the liens that secure obligations under our senior credit facility and obligations under certain hedging and cash management arrangements. Pursuant to the intercreditor agreement, the liens securing the exchange notes may not be enforced at any time when first priority lien obligations are outstanding, except for certain limited exceptions. The holders of the first priority lien obligations will receive all proceeds from any realization of the collateral or from the collateral or proceeds thereof in any insolvency or liquidation proceeding, in each case until the first priority lien obligations are paid in full. See Description of Notes Intercreditor Agreement.

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Optional Redemption	On or after December 15, 2013 we may redeem the exchange notes, in whole or in part, at any time at the redemption prices described under <a href="#">Description of Notes</a> <a href="#">Optional Redemption</a> . In addition we may redeem up to 35% of the aggregate principal amount of the exchange notes before December 15, 2012 with the net cash proceeds from certain equity offerings at a redemption price of 109.625% of the principal amount plus accrued and unpaid interest, if any, to the redemption date. We may also redeem up to \$30 million in aggregate principal amount of the exchange notes per twelve month period before December 15, 2013 at a redemption price of 103% of the principal amount plus accrued and unpaid interest. We may also redeem some or all of the exchange notes before December 15, 2013 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus a <a href="#">make whole</a> premium.
Change of Control	If we experience certain kinds of changes of control, we must offer to purchase the exchange notes at 101% of their principal amount, plus accrued and unpaid interest. For more details, see <a href="#">Description of Notes</a> <a href="#">Change of Control</a> .
Mandatory Offer to Repurchase Following Certain Asset Sales and Certain Events of Loss	If we sell certain assets, or upon certain events of loss, under certain circumstances we must offer to repurchase the exchange notes at the prices listed under <a href="#">Description of Notes</a> <a href="#">Certain Covenants</a> <a href="#">Limitation on Asset Sales</a> and <a href="#">Events of Loss</a> .
Certain Covenants	<p>The indenture contains covenants that limit, among other things, our ability and the ability of our restricted subsidiaries to:</p> <ul style="list-style-type: none"> <li style="margin-bottom: 10px;">incur additional debt;</li> <li style="margin-bottom: 10px;">declare or pay dividends, redeem stock or make other distributions to stockholders;</li> <li style="margin-bottom: 10px;">make investments;</li> <li style="margin-bottom: 10px;">create liens or use assets as security in other transactions;</li> <li style="margin-bottom: 10px;">merge or consolidate, or sell, transfer, lease or dispose of substantially all of our assets;</li> <li style="margin-bottom: 10px;">engage in transactions with affiliates; and</li> <li style="margin-bottom: 10px;">sell or transfer assets.</li> </ul> <p>These covenants are subject to a number of important qualifications and limitations. See <a href="#">Description of Notes</a> <a href="#">Certain Covenants</a>.</p>
Absence of an Established Market for the Notes	There is no existing public market for the outstanding notes or the exchange notes. We cannot assure you that a liquid market for the outstanding notes or the exchange notes

will develop or be maintained.

Risk Factors

**See Risk Factors for a discussion of certain risks you should carefully consider.**

**Table of Contents****Summary Historical and Consolidated Financial and Other Data**

We have derived the following summary historical financial data for each of the three years ended December 31, 2006, 2007 and 2008 from our audited consolidated financial statements. We have derived the summary historical financial data for the nine months ended September 30, 2008 and 2009 from our unaudited condensed consolidated financial statements, which include all adjustments, consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of our results of operations for such periods. The results of operations for the nine months ended September 30, 2008 and September 30, 2009, are not necessarily indicative of the results for the full year. The information below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements, and notes thereto, included elsewhere in this prospectus.

The amounts presented below have been reclassified to reflect the operating results of WRFD-AM, Columbus, Ohio in continuing operations from discontinued operations. We had entered into an asset purchase agreement on July 31, 2008, to sell this radio station and exit the Columbus market. At that time, the Consolidated Balance Sheets and Statements of Operations for all periods presented were reclassified to reflect the operating results and net assets of this market as a discontinued operation as of the date of the asset purchase agreement through December 2009. The sale was expected to close in the fourth quarter of 2009. On December 30, 2009, the buyer of the radio station advised us that they would not be able to meet the terms of the asset purchase agreement. Because of the buyer terminating the agreement, and uncertainty surrounding our ability to exit the market, we have reclassified the accompanying Consolidated Balance Sheets and Statements of Operations for all periods presented to reflect the operating results and net assets of this market in continuing operations. In January 2010, we collected a \$0.2 million termination fee from the buyer pursuant to the asset purchase agreement.

	Year Ended December 31, (dollars in thousands)			Nine Months Ended September 30, (Unaudited)	
	2006	2007	2008	2008	2009
<b>Statement of Operations Data:</b>					
Net broadcast revenue	\$ 206,367	\$ 206,055	\$ 194,113	\$ 146,583	\$ 128,708
Non-broadcast revenue	17,896	24,622	28,377	20,723	19,667
Total revenue	224,263	230,677	222,490	167,306	148,375
Broadcast operating expenses	129,438	130,844	124,881	95,666	81,900
Non-Broadcast operating expenses	16,680	22,921	25,867	19,565	17,400
Corporate expenses	24,043	22,314	20,040	16,314	10,054
Cost of denied tower site, abandoned projects and terminated transactions			1,275		1,111
Impairment of goodwill and indefinite-lived assets			73,010	20,320	27,809
Depreciation and amortization	15,026	15,082	16,136	12,070	11,423
(Gain) loss on disposal of assets	(18,653)	(2,190)	(6,892)	(5,862)	1,670
Operating income (loss) from continuing operations	57,729	41,706	(31,827)	9,233	(2,992)
Interest income	210	183	247	181	238
Interest expense	(26,342)	(25,488)	(22,381)	(17,015)	(12,929)
Change in fair value of interest rate swaps			(4,827)		1,534
Gain on bargain purchase					1,634
Gain (loss) on early redemption of long-term debt	(3,625)		4,664		660
Other income (expense)	(420)	164	121	178	(72)
Income (loss) from continuing operations before income taxes	27,552	16,565	(54,003)	(7,423)	(11,927)
Provision for (benefit from) income taxes	11,103	7,379	(19,151)	(2,978)	(5,155)
Income (loss) from continuing operations	16,449	9,186	(34,852)	(4,445)	(6,772)
Income (loss) from discontinued operations, net of tax	2,550	(1,011)	1,766	1,950	8



Net income (loss)	\$ 18,999	\$ 8,175	\$ (33,086)	\$ (2,495)	\$ (6,764)
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	Year Ended December 31, (dollars in thousands)			Nine Months Ended September 30, (Unaudited)	
	2006	2007	2008	2008	2009
	<b>Other Data:</b>				
Station Operating Income(1)	\$ 76,929	\$ 75,211	\$ 69,232	\$ 50,917	\$ 46,808
Station Operating Income Margin	37.3%	36.5%	35.7%	34.7%	36.4%
EBITDA(1)	71,260	55,941	(9,140)	23,431	10,661
Adjusted EBITDA(1)	58,016	58,144	55,197	39,269	39,328

	As of December 31, (dollars in thousands, except per share amounts)			As of September 30, (Unaudited)	
	2006	2007	2008	2008	2009
	<b>Balance Sheet Data and Other Financial Data:</b>				
Cash and cash equivalents	\$ 710	\$ 447	\$ 1,892	\$ 184	\$ 31,666
Total assets	686,264	679,798	607,718	665,568	594,704
Total debt (including current portion)	361,026	354,284	325,375	335,944	321,874
Total stockholders' equity	237,716	233,178	203,116	233,532	197,125
Book value per share(2)	(10.31)	(10.51)	(9.01)	(10.02)	(8.25)
Book value per share with FCC licenses(3)	9.04	9.02	7.81	9.08	7.55
Cash dividends per share	0.60	0.42			

- (1) We define Station Operating Income ( SOI ) as net broadcasting revenues from continuing operations less net broadcasting expenses from continuing operations before depreciation and amortization. We define EBITDA as net operating income from continuing operations before depreciation, amortization and income taxes. We define Adjusted EBITDA as EBITDA exclusive of non-cash stock based compensation expense, impairment charges, costs of denied tower sites, abandoned projects and terminated transaction costs, gains on bargain purchases, gains (losses) on early retirement of debt, and gains (losses) on sales of assets. The table on the following page provides supplemental information reconciling these non-GAAP measures to the most directly comparable financial measures prepared in accordance with GAAP. Although SOI, EBITDA and Adjusted EBITDA are not measures of performance calculated in accordance with GAAP, we believe that they are useful because they are measures widely used in the radio broadcast industry to evaluate a radio company's operating performance. However, you should not consider SOI, EBITDA and Adjusted EBITDA as substitutes for net income, cash flows from operating activities and other statement of operations or cash flows data prepared in accordance with GAAP as a measure of liquidity or profitability. These measures are not necessarily comparable to similarly titled measures employed by other companies.
- (2) We define book value per share as net assets excluding all intangible assets.
- (3) We have presented a dual calculation of book value per share including the value of our FCC licenses that can be sold separately from the other assets of our business.

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	Year Ended December 31, <i>(dollars in thousands)</i>			Nine Months Ended September 30, <i>(Unaudited)</i>	
	2006	2007	2008	2008	2009
<b>Reconciliation of Station Operating Income and Non-Broadcast Operating Income to Operating Income (Loss)</b>					
Station operating income	\$ 76,929	\$ 75,211	\$ 69,232	\$ 50,917	\$ 46,808
Non-broadcast operating income	1,216	1,701	2,510	1,158	2,267
Less:					
Corporate expenses	(24,043)	(22,314)	(20,040)	(16,314)	(10,054)
Depreciation and amortization	(15,026)	(15,082)	(16,136)	(12,070)	(11,423)
Cost of denied tower site, abandoned projects and terminated transactions			(1,275)		(1,111)
Impairment of goodwill and indefinite-lived assets			(73,010)	(20,320)	(27,809)
Gain (loss) on disposal of assets	18,653	2,190	6,892	5,862	(1,670)
<b>Operating income (loss)</b>	<b>\$ 57,729</b>	<b>\$ 41,706</b>	<b>\$ (31,827)</b>	<b>\$ 9,233</b>	<b>\$ (2,992)</b>
<b>Reconciliation of Adjusted EBITDA to EBITDA to Net Income (Loss)</b>					
Adjusted EBITDA	\$ 58,016	\$ 58,144	\$ 55,197	\$ 39,269	\$ 39,328
Less:					
Stock-based compensation	(4,334)	(3,382)	(3,374)	(3,330)	(379)
Impairment of goodwill and indefinite-lived assets			(73,010)	(20,320)	(27,809)
Cost of denied tower site, abandoned projects and terminated transactions			(1,275)		(1,111)
Gain (loss) on early redemption of long-term debt	(3,625)		4,664		660
Gain on bargain purchase					1,634
Discontinued operations, net of tax	2,550	(1,011)	1,766	1,950	8
Gain (loss) on disposal of assets	18,653	2,190	6,892	5,862	(1,670)
<b>EBITDA</b>	<b>\$ 71,260</b>	<b>\$ 55,941</b>	<b>\$ (9,140)</b>	<b>\$ 23,431</b>	<b>\$ 10,661</b>
Plus:					
Interest income	210	183	247	181	238
Less:					
Depreciation and amortization	(15,026)	(15,082)	(16,136)	(12,070)	(11,423)
Interest expense	(26,342)	(25,488)	(22,381)	(17,015)	(12,929)
Change in fair value of interest rate swaps			(4,827)		1,534
Provision for (benefit from) income taxes	(11,103)	(7,379)	19,151	2,978	5,155
<b>Net income (loss)</b>	<b>\$ 18,999</b>	<b>\$ 8,175</b>	<b>\$ (33,086)</b>	<b>\$ (2,495)</b>	<b>\$ (6,764)</b>

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**RISK FACTORS**

*The exchange notes involve substantial risks similar to those associated with the outstanding notes. To understand these risks you should carefully consider the risk factors set forth below, as well as the other information included in this prospectus.*

**Risks Related to Us and Our Business**

**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 broadcast 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 broadcast programming inconsistent with our programming standards might result in lower operating revenues and profits than we might otherwise achieve.

**We may be adversely affected by a continued 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.

Domestic radio revenues continue to decline. We believe this is primarily the result of the struggling United States economy and corresponding reductions in discretionary advertising spending by our customers. Beginning in July 2007, our advertising revenue has been negatively impacted by declining advertising from our customers, particularly in the financial services and auto industries. The decline in advertising revenue impacts both our broadcasting segment and non-broadcasting segment. We expect this trend to continue for as long as the United States economy is weak; however, we cannot quantify the financial impact on our future operating results. In response to these economic challenges, we have initiated several cost reduction strategies including (1) reducing headcount by approximately 15%, (2) temporarily suspending the Company match on 401(k) contributions as of July 2008, (3) temporarily suspending the management bonus program, (4) limiting capital expenditures, (5) reducing the base salary for all employees by 5% as of February 1, 2009 with certain members of executive management reduced by 10%, and (6) requiring all employees to use accrued vacation balances by March 31, 2009. We continue to pursue opportunities to sell assets, particularly stations that are in non-strategic formats or are underperforming. We cannot assure you that our cost reduction initiatives or asset sales will be sufficient to offset any decline in our business.

This period of economic uncertainty increases our exposure to several risks, including but not limited to:

Increasing pressure to sell advertising and block programming time at discounted rates;

Increasing uncollectible accounts as our customers face tight credit markets;

Ministries are experiencing lower levels of donations that could negatively impact their ability to purchase and pay for block programming time;

Limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions and other corporate requirements; and

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Material impairment losses on the value of our FCC licenses and other long-lived intangible assets including goodwill.

**We must respond to the rapid changes in technology, services and standards of our industry in order to remain competitive.**

The radio broadcast industry is 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

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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;

High definition radio; 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 broadcast 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 Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) Topic 350, Intangibles Goodwill and Other, goodwill and indefinite-lived intangibles, including FCC licenses and mastheads, are not amortized but instead are tested for impairment at least annually, or more frequently if events or circumstances indicate that there may be an impairment. Impairment is measured as the excess of the carrying value of the goodwill or intangible asset over its fair value. Intangible assets that have finite useful lives continue to be amortized over their useful lives and are also measured for impairment if events or circumstances indicate that they may be impaired. Impairment losses are recorded as operating expenses.

We have incurred significant impairment losses with regard to our broadcast non-amortizable intangible assets. These losses are attributable to the following variables as the primary drivers used in our assumptions that lead to our impairment of FCC licenses and goodwill balances associated with our broadcast segment: (1) an increase in the weighted average cost of capital from 8.0% as of the testing period ended December 31, 2007 to 9.5% for the testing period ended September 30, 2009, (2) a decline in the estimated terminal or exit values assigned to the licenses as a result of industry wide declines in radio station transaction multiples, (3) a decrease in projected future cash flows from a range of 2.0% to 3.5% for the testing period ended December 31, 2007 to a range of 1.5% to 2.5% for the testing period ended September 30, 2009, and (4) a significant decline in projected revenues from up to a 12.6% increase projected at the end of 2007 for the 2009 year to a 12.0% decline at the end of 2008 for 2009, followed by a 2.0% projected decline in 2010 as compared to 2009.

We have also incurred significant impairment losses with regard to our non-broadcast non-amortizable intangible assets. These losses were incurred as of the testing period ended June 30, 2009. There was no impairment as of the testing period for the three months ended September 30, 2009. The losses were attributable to the following variables as the primary drivers used in our assumptions that lead to our impairment of mastheads and goodwill balances associated with our non-broadcast segment: (1) an increase in the weighted average cost of

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capital from 8.0% as of the testing period ended December 31, 2007 to 9.0% for the testing period ended June 30, 2009, (2) a decline in the estimated terminal or exit values assigned to the assets as a result of industry wide declines in the total number of magazines sold, (3) a decrease in projected future cash flows from 2.9% for the testing period ended December 31, 2007 to 2.0% for the testing period ended June 30, 2009, and (4) a significant decline in projected profit margins from a range of 3.0% to 10.0% as of the December 31, 2007 testing period to a range of 0.5% to 6.0% as of the June 30, 2009, testing period.

The valuation of intangible assets is subjective and based on estimates rather than precise calculations. If actual future results are not consistent with the assumptions and estimates used, we may be exposed to impairment charges in the future. The fair value measurements for both our goodwill and broadcast licenses use significant unobservable inputs which reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk.

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Given the current economic environment and uncertainties surrounding the potential negative impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period and strength of recovery, made for the purpose of our non-amortizable intangible fair value estimates will prove to be accurate.

If actual future results are not consistent with the assumptions and estimates used, we may be exposed to impairment charges in the future, the amount of which may be material. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective market clusters and reporting units.

The impairment charges recognized to date are non-cash in nature and do not result in a violation of our existing credit facilities. However, the potential of future impairment charges can be viewed as a negative factor with regard to forecasted future performance and cash flows. We believe that we have adequately considered the economic downturn in our valuation models and do not believe that the impairments in and of themselves are a liquidity risk.

### **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, 2009, we have acquired two radio stations. During 2008, we acquired one radio station and two Internet businesses. We expect to make acquisitions of other stations and related non-broadcast businesses in the future. There can be no assurance 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 and non-broadcast portfolio than historically has been the case. Our inability to integrate and manage newly acquired stations or non-broadcast 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 or may take 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, as reported in the BIA database. 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





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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 2010, the FCC will be opening a new phase of rulemaking concerning its broadcast ownership rules. The FCC will seek public comments on the existing rules, including arguments and factual data on their impact on competition, localism, and diversity and is planning to hold public meetings around the country on the issue of media ownership rules.

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 or affecting 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. 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 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

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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.

### **Our advertising revenues in certain markets are ratings sensitive and subject to decline based on agency projections.**

Arbitron has developed new technology to collect data for its ratings service. The Portable People Meter™ (PPM™) is a small, pager-sized device that does not require active manipulation by the end user and is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals that are encoded for the service by the broadcaster. The PPM offers a number of advantages over the traditional diary ratings collection system including ease of use, more reliable ratings data and shorter time periods between when advertising runs and when audience listening or viewing habits can be reported. This service is already in a number of our markets and is scheduled to be introduced in more markets in the future. In markets where we subscribe to Arbitron that have switched to PPM, our ratings have been less consistent. It is not yet clear what long-term impact PPM will have on our financial results.

### **Capital requirements necessary to implement acquisitions could pose risks.**

We face 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.

### **If we are unable to execute our acquisition strategy successfully, our business may not continue to grow.**

We intend to continue to selectively 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.

### **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

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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 senior credit facility at any time is 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.

### **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 38.6% of our net broadcast revenue for the year ended December 31, 2008, and 40.9% of our net broadcast operating revenue for the nine months ended September 31, 2009. 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 revenues.**

We derive a substantial part of our total revenues from the sale of advertising on our radio stations. For the year ended December 31, 2008, advertising revenue accounted for 46.2% of our total net broadcast revenues, compared to 43.1% of our total net broadcast revenue for the nine months ended September 30, 2009. We are particularly dependent on revenue from stations in the Los Angeles and Dallas markets, which generated 17.2% and 20.5%, respectively of our total net advertising revenues for the year ended December 31, 2008 and 16.8% and 17.5%, respectively of our total net advertising revenues for the nine months ended September 30, 2009. 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.

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### **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 consequently 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. Future acts of war and terrorism against the United States, and the country's response thereto, including the current military actions in Iraq and Afghanistan, 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 future acts of war or terrorism occur or the current weak economic conditions continue or worsen, our financial condition and results of operations may be materially and adversely affected.

### **We are controlled by a few controlling stockholders.**

As of December 31, 2009, Edward G. Atsinger III, Stuart W. Epperson, Nancy A. Epperson and Edward C. Atsinger controlled approximately 86.2% in aggregate 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 bondholders and other stockholders in a material manner.

### **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 what proposed legislation, if any, will become law, and what significance this royalty would have on our results from operations, cash flows or financial position.



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### **We may be unable to increase or maintain our Internet advertising revenues, which could have a material adverse effect on our business and operating results.**

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 effect 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 websites and our services.

## **Risks Related to Our Indebtedness**

### **We have substantial debt and have the ability to incur additional debt. The principal and interest payment obligations of such debt may restrict our future operations and impair our ability to meet our obligations under the notes.**

At December 1, 2009, we and the guarantors have approximately \$315 million aggregate principal amount of outstanding indebtedness, of which all is senior debt (including the outstanding notes), and of which approximately \$15 million effectively ranks senior to the outstanding notes to the extent of the assets securing such debt. In addition, the terms of our senior credit facility and the indenture permit us to incur additional indebtedness, including up to approximately \$15 million that would be available under our senior credit facility, subject to our ability to meet certain borrowing conditions.

Our substantial debt may have important consequences to you. For instance, it could:

make it more difficult for us to satisfy our financial obligations, including those relating to the exchange notes;

require us to dedicate a substantial portion of any cash flow from operations to the payment of interest and principal due under our debt, which will reduce funds available for other business purposes, including capital expenditures and acquisitions;

place us at a competitive disadvantage compared with some of our competitors that may have less debt and better access to capital resources; and

limit our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings

may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business strategy.



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**The agreements governing our various debt obligations impose restrictions on our business and adversely affect our ability to undertake certain corporate actions.**

The agreements governing our various debt obligations, including the indenture governing the exchange notes offered hereby and the agreements governing our senior credit facility, include covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

incur additional debt;

declare or pay dividends, redeem stock or make other distributions to stockholders;

make investments;

create liens or use assets as security in other transactions;

merge or consolidate, or sell, transfer, lease or dispose of substantially all of our assets;

engage in transactions with affiliates; and

sell or transfer assets.

Our senior credit facility also requires us to comply with a number of financial ratios and covenants and restricts our ability to make certain capital expenditures.

Our ability to comply with these agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities. The breach of any of these covenants or restrictions could result in a default under the indenture governing the exchange notes offered hereby or the senior credit facility. An event of default under any of our debt agreements could permit some of our lenders, including the lenders under the senior credit facility, to declare all amounts borrowed from them to be immediately due and payable, together with accrued and unpaid interest, which could, in turn, trigger defaults under other debt obligations and the commitments of the lenders to make further extensions of credit under our senior credit facility could be terminated. If we were unable to repay debt to our lenders, or are otherwise in default under any provision governing our outstanding secured debt obligations, our secured lenders could proceed against us and the subsidiary guarantors and against the collateral securing that debt. In addition, acceleration of our other indebtedness may cause us to be unable to make interest payments on the exchange notes and repay the principal amount of or repurchase the exchange notes or may cause the subsidiary guarantors to be unable to make payments under the guarantees.

**To service our indebtedness, we will require a significant amount of cash. However, our ability to generate cash depends on many factors beyond our control.**

Our ability to make payments on, and to refinance, our indebtedness, including the exchange notes, and to fund planned capital expenditures, will depend on our ability to generate cash in the future, which, in turn, is subject to general economic, financial, competitive, regulatory and other factors, many of which are beyond our control.

Our business may not generate sufficient cash flow from operations and we may not have available to us future borrowings in an amount sufficient to enable us to pay our indebtedness, including the exchange notes, or to fund our other liquidity needs. In these circumstances, we may need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness,

including our senior credit facility and the exchange notes, on commercially reasonable terms, or at all. Without this financing, we could be forced to sell assets or secure additional financing to make up for any shortfall in our payment obligations under unfavorable circumstances. However, we may not be able to secure additional financing on terms favorable to us or at all and, in addition, the terms of our senior credit facility and the indenture governing the exchange notes limit our ability to sell assets and also restrict the use of proceeds from such a sale. In addition, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations, including our obligations under the exchange notes.

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**Risks Related to the Exchange Notes and the Exchange Offer**

**The lien on the collateral securing the exchange notes and the guarantees is junior and subordinate to the lien on the collateral securing our senior credit facility and certain other first lien obligations.**

The exchange notes and the guarantees are secured by second priority liens granted by us and the existing guarantors and any future guarantor on our assets and the assets of the guarantors that secure obligations under our senior credit facility and certain hedging and cash management obligations, subject to certain permitted liens, exceptions and encumbrances described in the indenture governing the exchange notes and the security documents relating to the exchange notes. As set out in more detail under Description of Notes, the lenders under our senior credit facility and holders of certain of our hedging and cash management obligations will be entitled to receive all proceeds from the realization of the collateral under certain circumstances, including upon default in payment on, or the acceleration of, any obligations under our senior credit facility, or in the event of our, or any of our subsidiary guarantors', bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding, to repay such obligations in full before the holders of the exchange notes will be entitled to any recovery from such collateral. In addition, the indenture governing the exchange notes permits us and the guarantors to create additional liens under specified circumstances, including liens senior in priority to the liens securing the exchange notes. Any obligations secured by such liens may further limit the recovery from the realization of the collateral available to satisfy holders of the exchange notes.

**Holders of the exchange notes will not control decisions regarding collateral.**

The lenders under our senior credit facility, as holders of first priority lien obligations, control substantially all matters related to the collateral pursuant to the terms of the intercreditor agreement. The holders of the first priority lien obligations may cause the collateral agent thereunder (the first lien agent) to dispose of, release, or foreclose on, or take other actions with respect to, the collateral (including amendments of and waivers under the security documents) with which holders of the exchange notes may disagree or that may be contrary to the interests of holders of the exchange notes, even after a default under the exchange notes. To the extent collateral is released from securing the first priority lien obligations, the intercreditor agreement provides that in certain circumstances, the second priority liens securing the exchange notes will also be released. In addition, the security documents related to the second priority lien generally provide that, so long as the first priority lien obligations are in effect, the holders of the first priority lien obligations may change, waive, modify or vary the security documents governing such first priority liens without the consent of the holders of the exchange notes (except under certain limited circumstances) and that the security documents governing the second priority liens will be automatically changed, waived and modified in the same manner. Further, the security documents governing the second priority liens may not be amended in any manner adverse to the holders of the first-priority obligations without the consent of the first lien agent until the first priority lien obligations are paid in full. The security agreement governing the second priority liens prohibit second priority lienholders from foreclosing on the collateral until payment in full of the first priority lien obligations. We cannot assure you that in the event of a foreclosure by the holders of the first priority lien obligations, the proceeds from the sale of collateral would be sufficient to satisfy all or any of the amounts outstanding under the exchange notes after payment in full of the obligations secured by first priority liens on the collateral.

**The right of the collateral agent to foreclose upon and sell the collateral after an event of default has occurred may also be subject to limitations under the Communications Act and the regulations under the FCC.**

Under the Communications Act of 1934, as amended (the Communications Act), and implementing rules and regulations of the Federal Communications Commission (the FCC), the prior consent of the FCC must be obtained prior to any change in direct or indirect control of an entity holding licenses issued by the FCC. We and certain of our subsidiaries hold licenses issued by the FCC. The foreclosure of our capital stock or of the capital stock of our subsidiaries which directly or indirectly hold such licenses could result in a transfer of control of an entity holding FCC licenses. In the event of default, the collateral agent may be required to obtain the prior consent of the FCC prior to exercising foreclosure rights or selling the collateral securing the exchange notes and the guarantees. Furthermore, security interests in FCC licenses are limited to the extent such security interests are prohibited by law or regulation. This limitation could complicate the ability of the second lien collateral agent to foreclose upon and sell the collateral. We can give no assurance that such consent can be obtained by the second lien collateral agent.

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**Security over all of the collateral may not be in place upon the date of issuance of the exchange notes or may not be perfected on such date.**

Certain security interests, including mortgages and related documentation, may not be in place on the date of issuance of the exchange notes or may not be perfected on such date. We were required as of December 1, 2009 to file or cause to be filed financing statements under the Uniform Commercial Code to perfect the security interests that can be perfected by such filings. We will be required to use commercially reasonable efforts to have all security interests that are required to be perfected by the security documents to be in place perfected no later than May 30, 2010, except to the extent any such security interest cannot be perfected with commercially reasonable efforts. Any issues that we are not able to resolve in connection with the delivery and recordation of such mortgages and security interests may negatively impact the value of the collateral. To the extent a security interest in certain collateral is perfected following the date of the indenture, it might be avoidable in bankruptcy. See below Any Future Pledge of Collateral Might be Avoidable in Bankruptcy.

**It may be difficult to realize the value of the collateral securing the exchange notes.**

The collateral securing the exchange notes is subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the trustee for the exchange notes and the second lien collateral agent and any other creditors that have the benefit of first liens on the collateral securing the exchange notes from time to time, whether on or after the date the exchange notes are issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the collateral securing the exchange notes as well as the ability of the second lien collateral agent to realize or foreclose on such collateral.

The value of the collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers. By their nature, some or all of the pledged assets may be illiquid and may have no readily ascertainable market value. We cannot assure you that the fair market value of the collateral as of the date of this prospectus exceeds the principal amount of the debt secured thereby. The value of the assets pledged as collateral for the exchange notes could be impaired in the future as a result of changing economic conditions, our failure to implement our business strategy, competition, unforeseen liabilities and other future events. Accordingly, there may not be sufficient collateral to pay all or any of the amounts due on the exchange notes. Any claim for the difference between the amount, if any, realized by holders of the exchange notes from the sale of the collateral securing the exchange notes and the obligations under the exchange notes will rank equally in right of payment with all of our other unsecured unsubordinated indebtedness and other obligations, including trade payables. Additionally, in the event that a bankruptcy case is commenced by or against us, if the value of the collateral is less than the amount of principal and accrued and unpaid interest on the exchange notes and all other senior secured obligations, interest may cease to accrue on the exchange notes from and after the date the bankruptcy petition is filed.

In the future, the obligation to grant additional security over assets, or a particular type or class of assets, whether as a result of the acquisition or creation of future assets or subsidiaries, the designation of a previously unrestricted subsidiary or otherwise, is subject to the provisions of the intercreditor agreement. The intercreditor agreement sets out a number of limitations on the rights of the holders of the exchange notes offered hereby to require security in certain circumstances, which may result in, among other things, the amount recoverable under any security provided by any subsidiary being limited and/or security not being granted over a particular type or class of assets. Accordingly, this may affect the value of the security provided by us and our subsidiaries. Furthermore, upon enforcement against any collateral or in insolvency, under the terms of the intercreditor agreement the claims of the holders of the exchange notes offered hereby to the proceeds of such enforcement will rank behind the claims of the holders of obligations under our senior credit facility, which are first priority obligations, and holders of additional secured indebtedness (to the extent permitted to have priority by the indenture).

The security interest of the second lien collateral agent is subject to practical problems generally associated with the realization of security interests in collateral. For example, the second lien collateral agent may need to obtain the consent of a third party to obtain or enforce a security interest in a contract. We cannot assure you that the collateral agent will be able to obtain any such consent. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the second lien collateral agent may not have the ability to foreclose upon those assets and the value of the collateral may significantly decrease.

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**Bankruptcy laws may limit your ability to realize value from the collateral.**

The right of the second lien collateral agent to repossess and dispose of the collateral upon the occurrence of an event of default under the indenture governing the exchange notes is likely to be significantly impaired by applicable bankruptcy law if a bankruptcy case were to be commenced by or against us before the second lien collateral agent repossessed and disposed of the collateral. Upon the commencement of a case under the bankruptcy code, a secured creditor such as the second lien collateral agent is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from such debtor, without bankruptcy court approval, which may not be given. Moreover, the bankruptcy code permits the debtor to continue to retain and use collateral even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given adequate protection. The meaning of the term adequate protection may vary according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral as of the commencement of the bankruptcy case and may include cash payments or the granting of additional security if and at such times as the bankruptcy court in its discretion determines that the value of the secured creditor's interest in the collateral is declining during the pendency of the bankruptcy case. A bankruptcy court may determine that a secured creditor may not require compensation for a diminution in the value of its collateral if the value of the collateral exceeds the debt it secures.

In view of the lack of a precise definition of the term adequate protection and the broad discretionary power of a bankruptcy court, it is impossible to predict:

how long payments under the exchange notes could be delayed following commencement of a bankruptcy case;

whether or when the collateral agent could repossess or dispose of the collateral;

the value of the collateral at the time of the bankruptcy petition; or

whether or to what extent holders of the exchange notes would be compensated for any delay in payment or loss of value of the collateral through the requirement of adequate protection.

In addition, the intercreditor agreement provides that, in the event of a bankruptcy, the trustee and the second lien collateral agent may not object to a number of important matters following the filing of a bankruptcy petition so long as any first priority lien obligations are outstanding. After such a filing, the value of the collateral securing the exchange notes could materially deteriorate and the holders of the exchange notes would be unable to raise an objection. The right of the holders of obligations secured by first priority liens on the collateral to foreclose upon and sell the collateral upon the occurrence of an event of default also would be subject to limitations under applicable bankruptcy laws if we or any of our subsidiaries become subject to a bankruptcy proceeding.

Any disposition of the collateral during a bankruptcy case would also require permission from the bankruptcy court. Furthermore, in the event a bankruptcy court determines the value of the collateral is not sufficient to repay all amounts due on first priority lien debt and, thereafter, the exchange notes, the holders of the exchange notes would hold a secured claim only to the extent of the value of the collateral to which the holders of the exchange notes are entitled and unsecured claims with respect to such shortfall. The bankruptcy code only permits the payment and accrual of post-petition interest, costs and attorney's fees to a secured creditor during a debtor's bankruptcy case to the extent the value of its collateral is determined by the bankruptcy court to exceed the aggregate outstanding principal amount of the obligations secured by the collateral.

**A court could void our subsidiaries' guarantees of the exchange notes and the liens securing such guarantees under fraudulent transfer laws.**

Although the guarantees provide you with a direct claim against the assets of the subsidiary guarantors and the guarantees will be secured by the collateral owned by the guarantors, under the federal bankruptcy laws and comparable provisions of state fraudulent transfer laws, a guarantee or lien could be voided, or claims with respect to a guarantee or lien could be subordinated to all other debts of that guarantor. In addition, a bankruptcy court could void (i.e., cancel) any payments by that guarantor pursuant to its guarantee and require those payments and enforcement proceeds from the collateral to be returned to the guarantor or to a fund for the benefit of the other creditors of the guarantor. Each guarantee will contain a provision intended to limit the guarantor's liability to the maximum amount that it could incur without causing the incurrence of

obligations under its guarantee to be a fraudulent transfer. This provision may not be effective to protect the guarantees from being voided under fraudulent transfer law, or may eliminate the guarantor's obligations or reduce the guarantor's obligations to an amount that effectively makes the guarantee worthless. In a recent Florida bankruptcy case, this kind of provision was found to be ineffective to protect the guarantees.

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The bankruptcy court might take these actions if it found, among other things, that when a subsidiary guarantor executed its guarantee or granted its lien (or, in some jurisdictions, when it became obligated to make payments under its guarantee):

such subsidiary guarantor received less than reasonably equivalent value or fair consideration for the incurrence of its guarantee or granting of the lien; and

such subsidiary guarantor:

was (or was rendered) insolvent by the incurrence of the guarantee;

was engaged or about to engage in a business or transaction for which its assets constituted unreasonably small capital to carry on its business;

intended to incur, or believed that it would incur, obligations beyond its ability to pay as those obligations matured; or

was a defendant in an action for money damages, or had a judgment for money damages docketed against it and, in either case, after final judgment, the judgment was unsatisfied.

A bankruptcy court would likely find that a subsidiary guarantor received less than fair consideration or reasonably equivalent value for its guarantee or lien to the extent that it did not receive direct or indirect benefit from the issuance of the exchange notes. A bankruptcy court could also void a guarantee or lien if it found that the subsidiary issued its guarantee or granted its lien with actual intent to hinder, delay or defraud creditors.

Although courts in different jurisdictions measure solvency differently, in general, an entity would be deemed insolvent if the sum of its debts, including contingent and unliquidated debts, exceeds the fair value of its assets, or if the present fair salable value of its assets is less than the amount that would be required to pay the expected liability on its debts, including contingent and unliquidated debts, as they become due.

If a court voided a guarantee or lien, it could require that exchange noteholders return any amounts previously paid under such guarantee or enforcement proceeds from the collateral. If any guarantee or lien were voided, exchange noteholders would retain their rights against us and any other subsidiary guarantors, although there is no assurance that those entities' assets would be sufficient to pay the exchange notes in full.

**Any future pledge of collateral might be avoidable in bankruptcy.**

Any future pledge of collateral in favor of the second lien collateral agent, including pursuant to mortgages and other security documents delivered after the date of the indenture governing the exchange notes, might be avoidable by the pledgor (as debtor-in-possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the holders of the exchange notes to receive a greater recovery than if the pledge had not been given and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the pledge or, in certain circumstances, a longer period.

**The collateral is subject to casualty risks.**

We maintain insurance or otherwise insure against certain hazards. There are, however, losses that may be not be insured. If there is a total or partial loss of any of the pledged collateral, we cannot assure you that any insurance proceeds received by us will be sufficient to satisfy all the secured obligations, including the exchange notes and the guarantees.

**The exchange notes will be effectively subordinated to the claims of the creditors of our non-guarantor subsidiaries.**

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We conduct a substantial portion of our business through our subsidiaries, all of which are currently guarantors of the outstanding notes. However, the indenture governing the exchange notes in certain circumstances permits non-guarantor subsidiaries. Claims of creditors of any non-guarantor subsidiaries, including trade creditors, will generally have priority with respect to the assets and earnings of such subsidiaries over the claims of creditors of Salem Communications Corporation, including holders of the exchange notes. The indenture governing the exchange notes will permit the incurrence of certain additional indebtedness by our non-guarantor subsidiaries in the future. See Description of Notes Subsidiary Guarantees and Description of Notes Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock.



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### **We may be unable to purchase the exchange notes upon a change of control.**

Upon the occurrence of a change of control, as defined in the indenture governing the exchange notes, we will be required to offer to purchase the notes in cash at a price equal to 101% of the principal amount of the exchange notes, plus accrued interest and additional interest, if any. A change of control will constitute an event of default under our senior credit facility that permits the lenders to accelerate the maturity of the borrowings thereunder and may trigger similar rights under our other indebtedness then outstanding. Our senior credit facility will prohibit us from repurchasing any exchange notes. The failure to repurchase the exchange notes would result in an event of default under the exchange notes. In the event of a change of control, we may not have sufficient funds to purchase all of the exchange notes and to repay the amounts outstanding under our senior credit facility or other indebtedness.

### **We cannot be sure that a market for the exchange notes, if any, will develop or continue.**

We cannot assure you as to:

the liquidity of any trading market for the exchange notes;

your ability to sell your exchange notes; or

the price at which you may be able to sell your exchange notes.

The exchange notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar securities and other factors, including general economic conditions, our financial condition, performance and prospects and prospects for companies in our industry generally. In addition, the liquidity of the trading market in the exchange notes and the market prices quoted for the exchange notes may be adversely affected by changes in the overall market for high-yield securities.

Prior to completion of this exchange offer for the exchange notes, the outstanding notes may not be publicly offered, sold or otherwise transferred in any jurisdiction where registration may be required. Under the exchange and registration rights agreement applicable to the outstanding notes, we have agreed to use commercially reasonable efforts to exchange the outstanding notes for the exchange notes offered hereby or, if we are unable to effect the exchange offer, to register resales of the outstanding notes under the Securities Act. However, we may not be successful in consummating the exchange or having the registration statement declared effective.

### **In the event we register the outstanding notes or the exchange notes with the SEC, the capital stock securing the outstanding notes or the exchange notes will automatically be released from the collateral to the extent the pledge of such collateral would require the filing of separate financial statements for any of our subsidiaries with the SEC.**

The indenture governing the exchange notes and the security documents provide that, to the extent that any rule would, or is adopted, amended or interpreted which would, require the filing with the SEC (or any other governmental agency) of separate financial statements of any of our subsidiaries due to the fact that such subsidiary's capital stock or other securities secure the outstanding notes or exchange notes, then such capital stock or other securities will automatically be deemed, for so long as such requirement would be in effect, not to be part of the collateral securing the outstanding notes or the exchange notes to the extent necessary not to be subject to such requirement. In such event, the security documents may be amended, without the consent of the holders of the outstanding notes or the exchange notes, to the extent necessary to evidence the absence of any liens on such capital stock or other securities. As a result, holders of the exchange notes could lose their security interest in such portion of the collateral if and for so long as any such rule is in effect. In addition, the absence of a lien on a portion of the capital stock of a subsidiary pursuant to this provision in certain circumstances could result in less than a majority of the capital stock of a subsidiary being pledged to secure the outstanding notes or the exchange notes, which could impair the ability of the collateral agent, acting on behalf of the holders of the outstanding notes or the exchange notes, to sell a controlling interest in such subsidiary or to otherwise realize value on its security interest in such subsidiary's stock or assets.

### **You may have difficulty selling any outstanding notes that you do not exchange.**

If you do not exchange your outstanding note for exchange notes in the exchange offer, you will continue to hold outstanding notes subject to restriction on their transfer. Those transfer restrictions are described in the indenture governing the notes and in the legend contained on the

outstanding notes, and arose because we originally issued the outstanding notes under an exemption from the registration requirements of the Securities Act.

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In general, outstanding notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will take any action to register under the Securities Act or under any state securities laws the outstanding notes that are not tendered in the exchange offer or that are tendered in the exchange offer but are not accepted for exchange.

If a substantial amount of the outstanding notes is exchanged for a like amount of exchange notes in the exchange offer, the liquidity of outstanding notes could be adversely affected. In addition, once the exchange offer is completed, holders of outstanding notes will no longer be entitled to exchange outstanding notes for notes that are registered or, except in certain limited circumstances pursuant to the registration rights agreement, to have those outstanding notes registered under the Securities Act. See [The Exchange Offer](#) [Consequences of Failure to Exchange Outstanding Notes](#) for a discussion of additional consequences of failing to exchange your outstanding notes.

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**USE OF PROCEEDS**

We will not receive any cash proceeds from the issuance of the exchange notes. In consideration for issuing the exchange notes as contemplated in this prospectus, we will receive outstanding notes in like principal amount. We will cancel all outstanding notes so received.

The net proceeds from the private placement of the outstanding notes was approximately \$291.7 million. We used all of the net proceeds, cash on hand and borrowings under our senior credit facility to repay Salem Holding's then existing credit facilities and to repurchase all of Salem Holding's 7/4 % Notes due 2010, which were tendered and accepted for payment in a tender offer made upon the terms and conditions of an offer to purchase dated November 21, 2009 that was settled on December 1, 2009 (the "Tender Offer").

**Table of Contents****CAPITALIZATION**

The following table sets forth our actual cash and cash equivalents and capitalization as of September 30, 2009, and as adjusted to give effect to the issuance of the outstanding notes, the completion of the Tender Offer, the commitment of the senior credit facility, and the use of net proceeds therefrom. Please read this table in conjunction with Use of Proceeds and Summary Historical and Consolidated Financial and Other Data as well as the consolidated financial statements, and notes thereto, included elsewhere in this prospectus.

	As of September 30, 2009	
	Actual	As Adjusted
	<i>(dollars in millions)</i>	
Cash and cash equivalents	\$ 31.7	\$ 5.0
Long-term debt (including current maturities)		
Term Loan B	\$ 71.2	\$
Term Loan C	160.0	
Senior credit facility(1)		15.6
Swingline credit facility		
7 <sup>3</sup> / <sub>4</sub> % senior subordinated notes due 2010(2)	89.7	
Outstanding notes(3)		298.1
Capitalized leases and other loans	1.0	1.0
Total long-term debt	321.9	314.7
Stockholders' equity	197.1	197.1
Total capitalization	\$ 519.0	\$ 511.8

- (1) Our senior credit facility has aggregate commitments of \$30.0 million.
- (2) All \$89.7 million in aggregate principal amount of the 7<sup>3</sup>/<sub>4</sub>% Notes were tendered and accepted for payment in the Tender Offer as part of the early settlement on the early settlement date thereof.
- (3) The outstanding notes were issued at a price of 99.365% of their face value. This discount of approximately \$1.9 million will be amortized over the life of the exchange notes as interest expense.

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**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 prospectus. 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 included in this prospectus.

**OVERVIEW**

As a radio broadcasting company with a national radio network, we derive our broadcast 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 broadcast revenue for each broadcast revenue source.

**Year Ended December 31,**

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	2006		2007		2008	
Net National Program	41,307	20.0%	45,598	22.1%	42,781	22.0%
Net Local Program	30,805	14.9%	30,740	14.9%	32,099	16.5%
Net Programming	72,112	34.9%	76,338	37.0%	74,880	38.6%
Net National Spot	17,136	8.3%	15,022	7.3%	13,531	7.0%
Net Local Spot	90,424	43.8%	85,527	41.5%	76,137	39.2%
Net Advertising	107,560	52.1%	100,549	48.8%	89,668	46.2%
Net Infomercials	7,798	3.8%	8,511	4.1%	8,691	4.5%
Net Network Revenue	14,834	7.2%	15,247	7.4%	15,583	8.0%
Net Misc	4,063	2.0%	5,410	2.6%	5,291	2.7%
Net Broadcast Revenue	206,367	100.0%	206,055	100.0%	194,113	100.0%

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Our broadcast 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 do subscribe to Arbitron, which develops quarterly reports to measure a radio station's audience share in the demographic groups targeted by advertisers. Each of our radio stations and our networks has a pre-determined level of time that they make available for block programming and/or advertising, which may vary at different times of the day.

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

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds with quarterly fluctuations in the retail advertising industry. 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 2008, 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 expect to continue to incur significant depreciation, amortization and interest expense as a result of completed and future acquisitions 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 generally 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.

**KNOWN TRENDS AND UNCERTAINTIES**

Domestic radio revenues continue to decline. We believe this is primarily the result of the struggling United States economy and corresponding reductions in discretionary advertising spending by our customers. Beginning in July 2007, our advertising revenue has been negatively impacted by declining advertising from our customers, particularly in the financial services and auto industries. The decline in advertising revenue impacts both our broadcast segment and non-broadcast segment. We expect this trend to continue as long as the United States economy is weak; however, we cannot quantify the financial impact on our future operating results. In response to these economic challenges, we have initiated several cost reduction strategies including (1) reducing headcount, (2) temporarily suspending the Company match on 401(k) contributions as of July 2008, (3) temporarily suspending the management bonus program, (4) limiting capital expenditures, (5) reducing the base salary for all employees by 5% as of February 1, 2009 with certain members of executive management reduced by 10%, (6) requiring all employees to use accrued vacation balances by March 31, 2009 and (7) consolidating programming on most of our Contemporary Christian Music stations. We continue to pursue opportunities to sell assets, particularly stations that are in non-strategic formats or are underperforming.





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This period of economic uncertainty increases our exposure to several risks, including but not limited to:

Increasing pressure to sell advertising and block programming time at discounted rates;

Increasing uncollectible accounts as our customers face tight credit markets;

Ministries are experiencing lower levels of donations that could negatively impact their ability to purchase and pay for block programming time;

Limiting our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions and other corporate requirements; and

Impairment losses on the value of our FCC licenses and other long-lived intangible assets including goodwill.

**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**

The amounts presented below have been reclassified to reflect the operating results of WRFD-AM, Columbus, Ohio in continuing operations from discontinued operations. We had entered into an asset purchase agreement on July 31, 2008, to sell this radio station and exit the Columbus market. At that time, the Consolidated Balance Sheets and Statements of Operations for all periods presented were reclassified to reflect the operating results and net assets of this market as a discontinued operation as of the date of the asset purchase agreement through December 2009. The sale was expected to close in the fourth quarter of 2009. On December 30, 2009, the buyer of the radio station advised us that they would not be able to meet the terms of the asset purchase agreement. Because of the buyer terminating the agreement, and uncertainty surrounding our ability to exit the market, we have reclassified the accompanying Consolidated Balance Sheets and Statements of Operations for all periods presented to reflect the operating results and net assets of this market in continuing operations. In January 2010, we collected a \$0.2 million termination fee from the buyer pursuant to the asset purchase agreement.

**Nine months ended September 30, 2009 compared to nine months ended September 30, 2008**

*NET BROADCAST REVENUE.* Net broadcast revenue decreased \$17.9 million, or 12.2%, to \$128.7 million for the nine months ended September 30, 2009, from \$146.6 million for the same period of the prior year. On a same-station basis, net broadcast revenue declined \$18.1 million, or 12.7%, to \$124.5 million for the nine months ended September 30, 2009, from \$142.6 million for the same period of the prior year. Revenue from advertising as a percentage of our net broadcast revenue decreased to 43.1% for the nine months ended September 30, 2009, from 46.2% for the same period of the prior year. Revenue from block program time as a percentage of our net broadcast revenue increased to 40.9% for the nine months ended September 30, 2009, from 38.3% for the same period of the prior year. The decline in net broadcast revenue is comprised of an \$12.1 million decrease in local advertising revenues across all formats, a \$3.2 million decrease in national program revenue primarily on our Christian Teaching and Talk format and News Talk stations, a \$1.2 million decrease in infomercial revenue primarily on our Christian Teaching and Talk and News Talk formats, a \$0.4 million decrease in local program revenue across all formats, a \$0.3 million decrease in network revenue, and a \$0.5 million decrease in event revenue primarily associated with our Celebrate Freedom festivals. The trend in the radio broadcast industry is of declining advertising revenues resulting in the use of block programming or infomercials to offset the declines. The growth of block programming and infomercial revenue has slowed. We expect these trends to continue; however, we cannot quantify the financial impact on our future operating results.

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*NON-BROADCAST REVENUE.* Non-broadcast revenue decreased \$1.0 million, or 5.1%, to \$19.7 million for the nine months ended September 30, 2009, from \$20.7 million for the same period of the prior year. The decrease is comprised of a \$0.8 million decrease in publishing revenue associated with books and print magazines and a \$0.2 million decrease in advertising revenues associated with our Internet businesses.

*BROADCAST OPERATING EXPENSES.* Broadcast operating expenses decreased \$13.8 million, or 14.4%, to \$81.9 million for the nine months ended September 30, 2009, from \$95.7 million for the same period of the prior year. On a same-station basis, broadcast operating expense decreased \$14.1 million, or 15.3%, to \$78.2 million for the nine months ended September 30, 2009, compared to \$92.3 million for the same period of the prior year. The decline in broadcast operating expenses reflects our overall cost reduction initiative that includes a \$10.5 million decrease in personnel-related costs due to reductions in work force and salary reductions, a \$2.0 million decrease in advertising expenses, a \$0.2 million decrease in local marketing agreement ( LMA ) fees, a \$0.3 million decrease in production and programming, a \$0.2 million decrease in facility-related costs, and a \$0.2 million reduction in professional services. We expect our staffing levels to remain at reduced levels given the weakened United States economy. We also expect increasing levels of bad debt charges that may have a material impact on our consolidated financial position, results of operations, and cash flows.

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**NON-BROADCAST OPERATING EXPENSES.** Non-broadcast operating expenses decreased \$2.2 million, or 11.1%, to \$17.4 million for the nine months ended September 30, 2009, compared to \$19.6 million for the same period of the prior year. The decrease includes a \$1.4 million decline in personnel and circulation expenses associated with print magazines and books on Salem Publishing and a \$1.0 million reduction in advertising, promotion and streaming expenses on OnePlace partially offset by an increase of \$0.1 million in operating expenses on Salem Consumer Products.

**CORPORATE EXPENSES.** Corporate expenses decreased \$6.2 million, or 38.4%, to \$10.1 million for the nine months ended September 30, 2009, compared to \$16.3 million for the same period of the prior year. The decrease is attributable to an overall cost reduction initiative, including a reduction in work force, salary reductions and redemption of accrued vacation benefits required by March 31, 2009, resulting in a \$3.7 million reduction in personnel-related costs, and a \$2.6 million decrease in non-cash stock based compensation expenses, including \$1.6 million of non-cash stock-based compensation expense recognized in September 2008 as a result of accelerated vesting of unvested options voluntarily surrendered by members of senior management.

**DEPRECIATION.** Depreciation expense increased \$0.1 million, or 1.0%, to \$10.1 million for the nine months ended September 30, 2009, compared to \$10.0 million for the same period of the prior year. The increase reflects the impact of recent capital expenditures associated with computer software, data processing and office equipment that have shorter estimated useful lives than towers and broadcast assets.

**AMORTIZATION.** Amortization expense decreased \$0.8 million, or 34.8%, to \$1.3 million for the nine months ended September 30, 2009, compared to \$2.1 million for the same period of the prior year. The decrease is due to higher amortization recognized in early 2008 on intangibles such as advertising agreements and other business contracts that were acquired in 2007 with an estimated useful life of one year.

**COST OF DENIED TOWER SITE, ABANDONED PROJECTS AND TERMINATED TRANSACTIONS.** Costs associated with a tower relocation project for radio station KDOWN-AM, San Francisco, California, which was rejected by the City of Hayward, of \$0.9 million were recognized during the nine months ended September 30, 2009 along with costs of \$0.2 million associated with capital projects that will not be pursued.

**IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED ASSETS.** We reviewed the recorded values of our FCC broadcast licenses, goodwill, and other non-amortizable intangible assets as of the nine months ended September 30, 2009 due to declining revenues that may indicate impairment. We recorded an impairment charge of \$26.6 million associated with the FCC Licenses and goodwill in the Dallas, Atlanta, Detroit, Portland and Cleveland markets and \$1.2 million associated with the value of goodwill and Mastheads in the non-broadcast segment during the nine months ended September 30, 2009 compared to a \$20.3 million impairment charge as of the same period of the prior year associated with FCC Licenses in our Cleveland, Ohio markets.

The impairment charge resulted from weakening radio station valuations as a result of lower revenues and lower growth expectations. These trends are not specific to any of our individual market clusters, but rather are affecting valuations in the industry as a whole. We acquired radio stations at various times over the last thirty-four years, many of which were amortized prior to the adoption of certain provisions of FASB ASC Topic 350 Intangibles Goodwill and Other. As a result of this prior amortization, the fair value of our FCC licenses and resulting goodwill may exceed the carrying value in certain markets. The markets and entities for which impairment charges were recorded during the nine months ended September 30, 2009 accounted for 14.3% of total revenues for the period.

**(GAIN) LOSS ON DISPOSAL OF ASSETS.** The loss on disposal of assets of \$1.7 million for the nine months ended September 30, 2009, includes the sale of radio station KPXI-FM, Tyler-Longview, Texas for \$0.4 million, resulting in a pre-tax loss of \$1.6 million. The gain on disposal of assets of \$5.9 million for the nine months ended September 30, 2008 includes the sale of radio station KTEK, Houston, Texas for \$7.8 million, resulting in a pre-tax gain of \$6.1 million, partially offset by various fixed assets disposals.

**GAIN ON BARGAIN PURCHASE.** In accordance with FASB ASC Topic 805, effective as of January 1, 2009, any excess of fair value of the acquired net assets over the acquisition consideration shall be recognized as a gain on a bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. We underwent such a reassessment, and as a result, have recorded a gain on the bargain purchase of WZAB-AM in Miami, Florida, for \$1.6 million. If new information is obtained during the measurement period about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized for assets acquired and liabilities assumed, we will retrospectively adjust the amounts recognized as of the acquisition date. We believe that the gain on bargain purchase resulted from various factors that may have impacted the acquisition price of WZAB-AM, including, without limitation, significant declines in broadcast revenues throughout the industry.



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**OTHER INCOME (EXPENSE).** Interest income represents interest earned on excess cash and remained at \$0.2 million for the nine months ended September 30, 2009 compared to the same period of the prior year. Interest expense decreased \$4.1 million, or 24.0%, to \$12.9 million for the nine months ended September 30, 2009, from \$17.0 million for the same period of the prior year due to an overall lower outstanding debt balance and lower interest rates. Change in fair value of interest rate swaps of \$1.5 million for the nine months ended September 30, 2009, represents the change in the fair market value of our swaps including a discount based on the credit risk associated with our Company. Other expense, net, of \$0.1 million consists of bank commitment fees associated with our credit facility offset with royalty income from real estate properties. Other income, net, of \$0.2 million for the nine months ended September 30, 2008 consists of non-recurring reimbursements received, including \$0.2 million associated with the terminated sale of KKMO-AM in Seattle, Washington, offset with bank commitment fees associated with our existing credit facilities.

**BENEFIT FROM INCOME TAXES.** In accordance with FASB ASC Topic 740 Income Taxes, our benefit from income taxes was \$5.2 million for the nine months ended September 30, 2009 compared to \$3.0 million for the same period of the prior year. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 43.2% for the nine months ended September 30, 2009 compared to 40.1% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

**INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX.** The income from discontinued operations of \$8,000, net of tax, for the nine months ended September 30, 2009, relates to fixed assets previously abandoned that were placed back in service in other markets. The income from discontinued operations of \$2.0 million, net of taxes, for the nine months ended September 30, 2008 includes the pre-tax gain of \$2.0 million on the sale of WRRD-AM, Milwaukee, Wisconsin, a \$1.4 million pre-tax gain on the sale of WFZH-FM, Milwaukee, Wisconsin, and operating results of our *CCM Magazine*.

**NET LOSS.** We recognized a net loss of \$6.8 million for the nine months ended September 30, 2009 compared to \$2.5 million for the same period of the prior year. The increase of \$4.3 million is due to an increase in operating losses of \$12.2 million, including a \$7.5 million increase in impairment losses and a \$7.5 million increase in losses from station sales and an \$18.7 million decrease in revenues offset by \$22.0 million reduced operating expenses for broadcast, non-broadcast and corporate segments, offset by \$4.1 million in lower interest expense, \$2.2 million savings in income taxes, a \$1.6 million gain on bargain purchase related to the acquisition of WZAB-AM, Miami, Florida, and a \$0.7 million gain on the early redemption of 7<sup>3</sup>/<sub>4</sub>% Notes.

**Year Ended December 31, 2008 Compared To Year Ended December 31, 2007**

**NET BROADCAST REVENUE.** Net broadcast revenue decreased \$12.0 million, or 5.8%, to \$194.1 million for the year ended December 31, 2008, from \$206.0 million for the same period of the prior year. On a same-station basis, net broadcast revenue declined \$12.1 million, or 6.1%, to \$186.7 million for the year ended December 31, 2008, from \$198.9 million for the same period of the prior year. The decline in revenue includes a \$9.4 million decrease in local advertising revenue on all of our radio station formats, a \$2.8 million decrease in national program revenue principally on our Christian Teaching and Talk stations, and a \$0.5 million decline in event revenue on our Contemporary Christian Music format stations, offset by a \$0.2 million increase in infomercial revenue. Revenue from advertising as a percentage of our net broadcast revenue decreased to 46.2% for the year ended December 31, 2008, from 48.8% for the same period of the prior year. Revenue from block program time as a percentage of our net broadcast revenue increased to 38.6% for the year ended December 31, 2008, from 37.0% for the same period of the prior year. Block programming revenue has continued to increase as a percentage of our total broadcast revenue, particularly on our Christian Teaching and Talk stations. 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. Additionally, the growth of block programming and infomercial revenue has slowed. We expect these trends to continue; however, we cannot quantify the financial impact on our future operating results.

**NON-BROADCAST REVENUE.** Non-broadcast revenue increased \$3.8 million, or 15.2%, to \$28.4 million for the year ended December 31, 2008, from \$24.6 million for the same period of the prior year. The increase is comprised of a \$0.9 million increase in revenue on Xulon Press, a \$0.7 million increase in advertising revenue on Townhall.com, a \$0.9 million increase in ministry streaming and banner advertising revenue on OnePlace.com, a \$0.3 million increase in revenue from Salem Consumer Products, an entity launched in the second half of 2007, a \$0.4 million increase in revenue associated with Townhall Magazine, a new publication launched in early 2008, and a \$1.0 million increase in revenue generated from our radio station websites that were redesigned and launched beginning in the second half of 2007 offset by a \$0.2 million decrease in our *CCM Magazine*.

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**BROADCAST OPERATING EXPENSES.** Broadcast operating expenses decreased \$5.9 million, or 4.6%, to \$124.9 million for the year ended December 31, 2008, from \$130.8 million for the same period of the prior year. On a same-station basis, broadcast operating expense decreased \$7.3 million, or 5.8%, to \$118.0 million for the year ended December 31, 2008, compared to \$125.2 million for the same period of the prior year. The decline in broadcast operating expenses includes a \$4.7 million decrease in advertising expenses, a \$5.1 million decrease in personnel-related costs and a \$0.3 million decrease in national commissions associated with lower revenues, offset by a \$0.3 million increase in music license fees, a \$1.6 million increase in bad debt expense, a \$1.2 million increase in facility-related expenses of which \$0.5 million is attributable to higher utility costs, a \$0.3 million increase in production and programming, and a \$0.2 million increase in LMA fees associated with operating radio station KTRO-AM in Portland, Oregon. We expect the trend of increasing bad debt expense to continue given the weakened United States economy.

**COST OF DENIED TOWER SITE, ABANDONED PROJECTS AND TERMINATED TRANSACTIONS.** Terminated transaction costs and abandoned license upgrades of \$1.3 million for the year ended December 31, 2008 consist of capital projects that were abandoned during the year and fees associated with the termination of our agreement to purchase KTRO-AM in Portland, Oregon.

**NON-BROADCAST OPERATING EXPENSES.** Non-broadcast operating expenses increased \$3.0 million, or 12.8%, to \$25.9 million for the year ended December 31, 2008, compared to \$22.9 million for the same period of the prior year. The increase includes \$1.2 million of costs associated with Townhall Magazine, a \$0.6 million increase in advertising costs, a \$0.3 million increase in production costs associated with Xulon Press, a \$0.3 million increase in streaming expenses on OnePlace.com, a \$0.2 million increase in operating costs associated with Salem Consumer Products, a \$0.6 million increase in salary and related expenses on Townhall.com, and a \$0.3 million increase in costs associated with maintenance of radio station websites.

**CORPORATE EXPENSES.** Corporate expenses decreased \$2.3 million, or 10.2%, to \$20.0 million for the year ended December 31, 2008, compared to \$22.3 million for the same period of the prior year. The decrease is attributable to an overall cost reduction initiative, including a reduction in headcount that resulted in lower personnel-related costs of \$3.0 million, a decrease of \$1.2 million of non-cash stock based compensation expense due primarily to substantially no new grants being offered, and a decrease of \$1.3 million in accounting service fees and public reporting costs, offset by a \$1.6 million charge for non-cash stock-based compensation expense associated with the accelerated expensing of unvested options voluntarily surrendered by members of senior management in September 2008, a \$0.4 million increase in bad debt expenses, and a \$1.2 million increase in salary expense associated with employee severance packages as a result of staff reductions. We expect the trend of increasing bad debt expense to continue given the weakened United States economy.

**DEPRECIATION.** Depreciation expense increased \$1.3 million, or 10.9%, to \$13.3 million for the year ended December 31, 2008, compared to \$12.0 million for the same period of the prior year. The increase reflects the impact of approximately \$5.8 million of capital expenditures made during the year ended December 31, 2007, that were primarily associated with computer software, data processing and office equipment that have shorter estimated useful lives.

**AMORTIZATION.** Amortization expense decreased \$0.2 million, or 7.6%, to \$2.8 million for the year ended December 31, 2008, compared to \$3.0 million for the same period of the prior year. The decrease is due to higher amortization recognized in early 2007 on intangible assets such as advertising agreements and other business contracts that were acquired in 2006 with an estimated useful life of one year.

**(GAIN) LOSS ON DISPOSAL OF ASSETS.** Gain on disposal of assets of \$6.9 million for the year ended December 31, 2008 was primarily comprised of the sale of radio station WRVI-FM, Louisville, Kentucky for \$3.0 million resulting in a pre-tax gain of \$1.1 million, the sale of radio station KTEK-AM, Houston, Texas for \$7.8 million resulting in a pre-tax gain of \$6.1 million, partially offset by various fixed assets disposals. A gain on disposal of assets of \$2.2 million for the year ended December 31, 2007 was comprised of the sale of selected assets of radio station WKNR-AM in Cleveland, Ohio, for \$7.0 million, which resulted in a pre-tax gain of \$3.4 million, offset by the loss recognized on the sale of selected assets of radio station WVERY-FM, Nashville, Tennessee for \$0.9 million, resulting in a pre-tax loss of \$0.5 million, and \$0.7 million associated with various fixed asset disposals.

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**IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED ASSETS.** In accordance with Statement of Financial Accounting Standards ( 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. During the year ended December 31, 2008, we recorded an impairment charge of \$73.0 million associated with the FCC licenses and goodwill in the Boston, Detroit, Cleveland, Louisville, Tampa, Miami, Orlando, Sacramento, Omaha, and Nashville market clusters. The impairment charge resulted from weakening radio station valuations as a result of lower revenues and lower growth expectations. These trends are not specific to any of our individual market clusters, but rather are affecting valuations in the industry as a whole. We acquired radio stations at various times over the last thirty-four years, many of which were amortized prior to the adoption of SFAS No. 142. As a result, the carrying value of our FCC licenses and goodwill may exceed the fair value in many of our markets. For the years ended December 31, 2008, and 2007, the markets for which impairment charges were recorded during 2008, accounted for 16.4% and 16.3% of total net revenues.

**OTHER INCOME (EXPENSE).** Interest income of approximately \$0.2 million for each of the years ended December 31, 2008 and 2007 was primarily from interest earned on excess cash. Interest expense decreased \$3.1 million or 12.2% to \$22.4 million for the year ended December 31, 2008, compared to \$25.5 million for the same period of the prior year due to a lower net outstanding debt balance and lower interest rates during the year. Change in fair value of interest rate swaps of \$4.8 million represents the change in the fair market value of our swaps in accordance with SFAS No. 157. Other income, net, of \$0.1 million for the year ended December 31, 2008 consists of non-recurring reimbursements received, including \$0.2 million associated with the terminated sale of KKMO-AM in Seattle, Washington, partially offset with bank commitment fees associated with our existing credit facilities. Other income, net of \$0.2 million for the year ended December 31, 2007 consisted primarily of royalty income from real estate properties partially offset with bank commitment fees associated with our existing credit facilities.

**PROVISION FOR (BENEFIT FROM) INCOME TAXES.** We adopted the Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN No. 48 ) as of January 1, 2007. Benefit from income taxes was \$19.2 million for the year ended December 31, 2008 compared to a provision for \$7.4 million for the same period of the prior year. Provision for income taxes as a percentage of income before income taxes (that is, the effective tax rate) was 35.5% for the year ended December 31, 2008 compared to 44.5% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

**INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX.** The income from discontinued operations of \$1.8 million, net of taxes, for the year ended December 31, 2008 includes the pre-tax gain of \$2.0 million on the sale of WRRD-AM, Milwaukee, Wisconsin, a \$1.4 million pre-tax gain on the sale of WFZH-FM, Milwaukee, Wisconsin, and operating results of *CCM Magazine*. The \$1.0 million loss from discontinued operations for the same period of the prior year includes the operating results of these entities as of the period end without the impact of the gain from the sale as well as the \$1.9 million loss previously recognized in association with the impairment of goodwill associated with our *CCM Magazine*.

**NET INCOME (LOSS).** We recognized a net loss of \$33.1 million for the year ended December 31, 2008 compared to net income of \$8.2 million for the same period of the prior year. The change of \$41.3 million is comprised of the \$73.0 million impairment of goodwill and indefinite-lived assets, a \$0.5 million decrease in operating income exclusive of the impairment loss, and a \$1.7 million increase in interest expense, inclusive of the change in fair value of our interest rate swaps, offset by the change on our tax provision of \$26.5 million, a \$4.7 million increase in gain on disposal of assets and a \$2.8 million increase in income from discontinued operations.

**Year Ended December 31, 2007 Compared To Year Ended December 31, 2006**

**NET BROADCAST REVENUE.** Net broadcast revenue decreased \$0.3 million or 0.2% to \$206.1 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 broadcast revenue improved by \$0.5 million, or 0.3%, to \$201.9 million for the year ended December 31, 2007 from \$201.3 million for the year ended December 31, 2006. The decrease is attributable to a \$4.4 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, offset by growth in national program revenue on our Christian Teaching and Talk stations of \$4.2 million and growth in local advertising sales on our Contemporary Christian Music station of \$1.7 million. Revenue from advertising as a percentage of our net broadcast revenue decreased to 48.8% 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 broadcast 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 broadcast 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.





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**NON-BROADCAST REVENUE.** Non-broadcast revenue increased \$6.7 million, or 37.6%, to \$24.6 million for the year ended December 31, 2007 from \$17.9 million for the year ended December 31, 2006. The increase includes \$5.0 million of revenue generated from entities acquired during 2006. Specifically, Townhall.com, Preaching Magazine and Xulon Press 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. The increase also includes a \$0.9 million increase in banner advertising and streaming revenue on Salem Web Network partially offset by a \$0.2 million decline in subscription and advertising revenue on Salem Publishing.

**BROADCAST OPERATING EXPENSES.** Broadcast operating expenses increased \$1.4 million, or 1.1%, to \$130.8 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 \$2.4 million, or 2.0%, to \$126.3 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, we 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 \$6.2 million, or 37.4%, to \$22.9 million for the year ended December 31, 2007 from \$16.7 million for the year ended December 31, 2006. The increase includes a \$4.1 million increase in operating expenses generated 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 of consultants for internal control test work in the prior year, and a \$0.2 million decrease in legal fees.

**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 partial year data for 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 selected assets of radio station WKNR-AM in Cleveland, Ohio, for \$7.0 million which resulted in a pre-tax gain of \$3.4 million offset by the loss recognized on the sale of selected assets of radio station WVRV-FM, Nashville, Tennessee for \$0.9 million resulting in a pre-tax loss of \$0.5 million and \$0.7 million associated with 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 existing 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 existing credit facility.

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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 \$7.4 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 44.6% 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.** Loss from discontinued operations of \$1.0 million, net of tax, for the year ended December 31, 2007 includes the operating results of radio stations WRRD-AM, Milwaukee, Wisconsin and WFZH-FM, Milwaukee, Wisconsin, as well as the \$1.9 million loss previously recognized in association with the impairment of goodwill associated with *CCM Magazine*. The \$2.6 million income for the year ended December 31, 2006 includes the operating results these stations, the operating results of *CCM Magazine*, and the \$0.7 million pre-tax gain from the 2006 sale of radio stations WTSJ-AM, Cincinnati, Ohio and WBOB-AM, Cincinnati, Ohio, the pre-tax gain of \$0.8 million from the 2006 sale of radio station WBGB-FM, Jacksonville, Florida, the pre-tax gain of \$0.6 million from the 2006 sale of radio station WBTK-AM in Richmond, Virginia, the \$2.2 million pre-tax gain from the 2006 sale of radio station WITH-AM Baltimore, Maryland, the \$0.1 million pre-tax gain from the 2006 sale of radio stations WJGR-AM, WZNZ-AM, and WZAZ-AM, Jacksonville, Florida, as well as 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 audited financial statements included elsewhere in this prospectus.

**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 \$1.3 million increase in broadcast operating expenses and a \$6.2 million increase in non-broadcast operating expenses, offset by a \$1.7 million decrease in corporate expenses, a \$6.4 million increase in total 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.

**Liquidity and Capital Resources**

We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and selected asset dispositions. We expect to fund future acquisitions from cash on hand, proceeds from debt and equity offerings, 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 the senior credit facility and the notes from operating cash flow, and, if necessary, proceeds from the sale of selected assets or radio stations.

**Cash Flows**

Cash and cash equivalents were \$31.7 million on September 30, 2009 compared to \$1.9 million as of December 31, 2008. As of September 30, 2009, we had negative working capital of \$33.1 million compared to positive working capital of \$16.0 million at December 31, 2008. The negative working capital is due to the classification of Term Loan B under Salem Holding's prior credit facility as short-term as of March 31, 2009.

**Cash Flows from Operating Activities**

Our cash flows from continuing operations are primarily derived from our earnings from ongoing operations prior to non-cash expenses such as impairment losses, depreciation, amortization, bad debt, and stock-based compensation and changes in our working capital. Positive cash flow generated from continuing operations was \$35.9 million for the nine months ended September 30, 2009 compared to \$31.2 million for the same period of the prior year. The increase of \$4.7 million in cash generated from continuing operations was primarily the result of a \$2.3 million increase in losses from continuing operations and changes in operating assets and liabilities of \$0.9 million, a net increase of \$2.5 million in non-cash operating expenses including a \$7.5 million increase in impairment losses, a \$1.5 million decrease in the changes in fair value of our interest rate swaps and a \$2.9 million decrease in stock based compensation expense and the \$1.3 million impact of other changes, including a \$2.3 million decrease in operating income from continuing operations, a \$2.8 million decrease in income tax benefits, a \$1.6 million gain on bargain purchase, a \$0.7 million gain on the early retirement of long-term debt and a \$7.5 million increase in (gains) losses on asset sales.

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### ***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 \$2.0 million for the nine months ended September 30, 2009 compared to \$23.0 million for the same period of the prior year. The decrease of \$21.0 million was due to reduced acquisitions and capital expenditures, including a \$8.6 million decrease in purchases of broadcast assets, a \$5.0 million decrease due to the 2008 purchase of real estate from principal shareholders and a \$1.3 million decrease in non-broadcast business purchases, a \$4.9 million decrease in capital expenditures, and the favorable impact of a \$1.7 million reimbursement of tower related costs.

### ***Cash Flows from Financing Activities***

For the nine months ended September 30, 2009, our financing activities primarily relate to proceeds and repayments under Salem Holding's prior credit facility, payments of capital lease obligations, payments of dividends and repurchases of our Class A Common Stock. Cash flows from financing activities decreased to \$4.1 million for the nine months ended September 30, 2009 from \$19.0 million for the same period of the prior year. This decrease was due to net repayments of debt of \$2.8 million during the period compared to \$17.2 million in the same period of the prior year, a \$1.3 million decrease on payments of our capital lease obligations partially offset by a \$1.3 million payment of costs related to the amendment of Salem Holding's prior credit facility.

### ***The Senior Credit Facility and Senior Secured Second Lien Notes***

On December 1, 2009, we entered into the senior credit facility and issued the outstanding notes. The senior credit facility is a three-year \$30 million revolving credit facility, which includes a \$5 million subfacility for standby letters of credit, a subfacility for swingline loans of up to \$5 million and an optional \$10 million incremental facility under which Salem may increase the commitments available, subject to the terms and conditions of the credit agreement relating to the senior credit facility (the "Credit Agreement"). Amounts outstanding under the senior credit facility bear interest at a rate based on LIBOR plus a spread of 3.50% per annum or at the Base Rate (as defined in the Credit Agreement) plus a spread of 2.50% per annum plus 2.50%, at our option as of the date of determination. Additionally, we will pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Credit Facility may be paid and then reborrowed at Salem's discretion without penalty or premium.

With respect to financial covenants, the Credit Agreement includes a maximum leverage ratio of 7.0 to 1.0 and a minimum interest coverage ratio of 1.5 to 1. The Credit Agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of Salem and the guarantors (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends.

The Credit Agreement provides for the following events of default: (i) default for non-payment of any principal when due or any interest or fees within three days of the due date; (ii) the failure by Salem or any guarantor to comply with any covenant or agreement contained in the Credit Agreement or any other loan document, in certain cases subject to notice and lapse of time; (iii) any representation or warranty made pursuant to the Credit Agreement or any other loan document is materially incorrect or misleading when made; (iv) certain accelerations (including failure to pay within any grace period) of other indebtedness of Salem or any guarantor if the amount accelerated (or so unpaid) is at least \$10 million; (v) certain events of bankruptcy or insolvency with respect to Salem or any significant subsidiary; (vi) certain judgments for the payment of money and defaults relating to ERISA plans in excess of \$10 million; (vii) a change of control shall have occurred; and (viii) certain defaults relating to the loss of FCC Licenses. If an event of default occurs and is continuing, the Administrative Agent and the lenders may accelerate the amounts outstanding under the senior credit facility and may exercise remedies in respect of the collateral.

We are required to pay \$28.9 million per year in interest on the notes. We used the proceeds of the outstanding notes, a portion of the senior credit facility, and approximately \$27 million of cash on hand to fully repay the Term Loan B of \$71.2 million, the Term Loan C of \$160.0 million, and to fully repay all aggregate principal of \$89.7 million on the 7<sup>3</sup>/<sub>4</sub>% Notes. We believe that the senior credit facility will allow us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

### ***Prior Credit Facility***

Our wholly-owned subsidiary, Salem Holding, was the borrower under a prior credit facility. The maximum amount that Salem Holding could borrow under the prior credit facility was limited by a ratio of our consolidated existing total adjusted funded debt to pro forma 12-month cash flow (the "Total Leverage Ratio"). The prior credit facility allowed us to adjust our total debt as used in



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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 was not 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 prior credit facility was 5.75 to 1 as of September 30, 2009. The ratio was to decline on December 31, 2009, at which point it would have remained at 5.5 to 1 through the remaining term. The Total Leverage Ratio under the prior credit facility at September 30, 2009, on a pro-forma basis, was 5.16 to 1.

The prior credit facility was amended on March 11, 2009. The amendment resulted in the following primary modifications to the prior credit facility: (a) exclusion of all maturities of debt from the determination of the pro-forma debt service covenant calculation, (b) ability to refinance the 7<sup>3</sup>/<sub>4</sub>% Notes in part or in full, (c) the elimination of Salem's ability to purchase additional shares of its common stock or to pay a dividend on its common stock unless the Total Leverage Ratio calculated under the prior credit facility was less than or equal to 4.00:1.00, (d) termination of the revolving line of credit that was scheduled to expire on March 31, 2009, and (e) extension through December 31, 2010, of ability to obtain a Term Loan D under the facility, which extension allows the addition of a new Term Loan D subject to the following conditions and restrictions: (1) the use of all proceeds from any such Term Loan D was to be limited to repayment of other term loans under the facility, (2) the aggregate amount of all new and additional Term Loan D commitments was not to exceed Fifty Million Dollars (\$50,000,000), and (3) to the extent that applicable interest rates and indices applicable to any new Term Loan D were greater than existing applicable interest rates and indices on the remainder of the amounts outstanding under the facility, the existing applicable interest rates and indices were to be adjusted to match those in effect for the new Term Loan D.

The prior credit facility included 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 September 30, 2009, the borrowing capacity and aggregate commitments were \$71.2 million under the term loan B facility and \$160.0 million under the term loan C facility. We repaid the obligations due under the prior credit facility with proceeds from the Tender Offer, our new senior credit facility and cash on hand.

**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. The agreement was most recently amended on June 1, 2009 and had a borrowing capacity of \$4.3 million. The interest rate was the bank's prime rate plus 0.75% per annum. As collateral for the Swingline, we pledged our corporate office building. We terminated the Swingline as of December 1, 2009.

**7<sup>3</sup>/<sub>4</sub>% Notes**

In December 2002, Salem Holding issued \$100.0 million principal amount of 7<sup>3</sup>/<sub>4</sub>% Notes. The indenture for the 7<sup>3</sup>/<sub>4</sub>% Notes contained restrictive covenants that, among other things, limited 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. Through the use of an unrestricted subsidiary, we repurchased \$9.4 million of our 7<sup>3</sup>/<sub>4</sub>% Notes for \$4.7 million in December 2008. This transaction resulted in a \$4.7 million pre-tax gain on the early retirement of debt. Through the use of an unrestricted subsidiary, we repurchased \$1.0 million of our 7<sup>3</sup>/<sub>4</sub>% Notes for \$0.3 million in April 2009. This transaction resulted in a \$0.7 million pre-tax gain on the early retirement of debt. As of September 30, 2009, there was \$89.7 million aggregate principal amount of the 7<sup>3</sup>/<sub>4</sub>% Notes outstanding. Based on this principal amount, Salem Holding was required to pay \$7.0 million per year in interest on the 7<sup>3</sup>/<sub>4</sub>% Notes. We used the net proceeds from the offering of the outstanding notes together with other available funds to fund the payment of consideration and certain costs relating to the early settlement of the Tender Offer and consent solicitation with respect to the outstanding \$89.7 million in aggregate principal amount of the 7<sup>3</sup>/<sub>4</sub>% Notes. Accrued interest on the tendered 7<sup>3</sup>/<sub>4</sub>% Notes was also paid. Since all outstanding 7<sup>3</sup>/<sub>4</sub>% Notes were tendered, accepted for payment and cancelled, the indenture relating to the 7<sup>3</sup>/<sub>4</sub>% Notes was discharged.

**Summary of Long-Term Obligations**

Long-term debt consisted of the following at the balance sheet date indicated:

	As of December 31, 2008	As of September 30, 2009
	<i>(Dollars in thousands)</i>	
Term loans under prior credit facility(1)	\$ 232,467	\$ 231,267
7 <sup>3</sup> / <sub>4</sub> % senior subordinated notes due 2010(2)	90,605	89,655

Seller financed note to acquire Townhall.com	1,295
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	As of December 31, 2008	As of September 30, 2009
	<i>(Dollars in thousands)</i>	
Capital leases and other loans	1,008	952
	\$ 325,375	\$ 321,874
Less current portion	3,766	72,965
	\$ 321,609	\$ 248,909

- (1) The term loans under the prior credit facility were repaid on December 1, 2009. The senior credit facility established on December 1, 2009 has an outstanding balance of \$15.0 million as of December 1, 2009.
- (2) The net proceeds from the offering of the outstanding notes together with other available funds were used to fund the payment of consideration and certain costs relating to the early settlement of the Tender Offer and consent solicitation with respect to the outstanding \$89.7 million in aggregate principal amount of the 7<sup>3</sup>/<sub>4</sub>% Notes.

As of December 1, 2009, we have interest payments related to our long-term debt as follows:

Outstanding borrowings of \$15.0 million under the senior credit facility, with interest payments equal to LIBOR plus 3.50% or 3.73%;

\$300.0 million notes with semi-annual interest payments at 9.625%; and

Commitment fee of 0.75% on the unused portion of the senior credit facility.

**Impairment Losses on Non-Amortizable Intangible Assets**

We have incurred significant impairment losses with regard to our broadcast non-amortizable intangible assets. These losses are attributable to the following variables as the primary drivers used in our assumptions that lead to our impairment of FCC licenses and goodwill balances associated with our broadcast segment: (1) an increase in the weighted average cost of capital from 8.0% as of the testing period ended December 31, 2007 to 9.5% for the testing period ended September 30, 2009, (2) a decline in the estimated terminal or exit values assigned to the licenses as a result of industry wide declines in radio station transaction multiples, (3) a decrease in projected future cash flows from a range of 2.0% to 3.5% for the testing period ended December 31, 2007 to a range of 1.5% to 2.5% for the testing period ended September 30, 2009, and (4) a significant decline in projected revenues from up to a 12.6% increase projected at the end of 2007 for the 2009 year to a 12.0% decline at the end of 2008 for 2009, followed by a 2.0% projected decline in 2010 as compared to 2009.

We have also incurred significant impairment losses with regard to our non-broadcast non-amortizable intangible assets. These losses were incurred as a result of our impairment tests for the testing period ended June 30, 2009. There was no impairment as of the testing period for the three months ended September 30, 2009. The losses were attributable to the following variables as the primary drivers used in our assumptions that lead to our impairment of mastheads and goodwill balances associated with our non-broadcast segment: (1) an increase in the weighted average cost of capital from 8.0% as of the testing period ended December 31, 2007 to 9.0% for the testing period ended June 30, 2009, (2) a decline in the estimated terminal or exit values assigned to the assets as a result of industry wide declines in the total number of magazines sold, (3) a decrease in projected future cash flows from 2.9% for the testing period ended December 31, 2007 to 2.0% for the testing period ended June 30, 2009, and (4) a significant decline in projected profit margins from a range of 3.0% to 10.0% as of the December 31, 2007 testing period to a range of 0.5% to 6.0% as of the June 30, 2009 testing period.

Cash flows and operating income for each of our reporting units is contingent upon the ability of the entity to generate revenues. Our radio stations are to varying degrees dependent upon advertising for their revenues. Our non-broadcast operating entities are also dependent upon advertising revenue. The economic downturn over the last two years has negatively impacted our ability to generate revenues. Included in our broadcast valuation estimates are a 2% decline in advertising revenue for 2010 as compared to 2009 followed by up to a 0.6% increase in 2011 as compared to 2010. Included in our non-broadcast valuation estimates are projected profit margins of 8.9% to 27.4% as of the end of 2009



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declining to 11.5% to 27.0% projected for 2010, projecting a return of up to 27.4% as of 2012. Declines in excess of these amounts, declines that extend beyond calendar year 2010, and/or failure to achieve the anticipated growth rates may result in future impairment losses, the amount of which may be material.

Given the current economic environment and uncertainties surrounding the potential negative impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period and strength of recovery, made for the purpose of our non-amortizable intangible fair value estimates will prove to be accurate. Using

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market indicators from several industry analysts, we anticipate the decline in revenues to level off and begin to show improvements of between 0.4% to 0.5% for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

The valuation of intangible assets is subjective and based on estimates rather than precise calculations. If actual future results are not consistent with the assumptions and estimates used, we may be exposed to impairment charges in the future. The fair value measurements for both our goodwill and broadcast licenses use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are not consistent with the assumptions and estimates used, we may be exposed to impairment charges in the future, the amount of which may be material. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective market clusters and reporting units.

The impairment charges recognized to date are non-cash in nature and do not result in a violation of our existing credit facilities. However, the potential of future impairment charges can be viewed as a negative factor with regard to forecasted future performance and cash flows. We believe that we have adequately considered the economic downturn in our valuation models and do not believe that the impairments in and of themselves are a liquidity risk.

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**BUSINESS**

**General**

In 1974, our CEO Edward G. Atsinger, III, launched his first full-time Christian format radio station, KDAR-AM in Oxnard, California. Mr. Atsinger and Stuart W. Epperson, our Chairman of the Board, then partnered together with a goal of establishing a network of radio stations focused on reaching the Christian audience. Through a series of station acquisitions starting with WEZE-AM in Boston in 1978, we developed station clusters throughout the major markets in the United States. Since our initial public offering in July 1999, we have grown from 45 stations to 94 stations.

We believe that we are the largest commercial U.S. radio broadcasting company that provides programming targeted at audiences interested in Christian and family-themed radio content, as measured by number of stations and audience coverage. 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 94 radio stations in 36 markets, which consists of 27 FM stations and 67 AM stations, including 58 stations in 22 of the top 25 markets. We are one of only three 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. We also program the Family Talk Christian-themed talk format station on XM Radio, channel 170.

In addition to our radio broadcast business, we also own and operate a non-broadcast media division. This division consists of Salem Web Network ( SWN ), a provider of online Christian and conservative-themed content and streaming, Salem Publishing , a publisher of Christian magazines and Xulon Press , a provider of print-on-demand publishing services targeting the Christian audience. SWN 's content, both in text and audio, can be accessed through our national portals which include OnePlace.com, Crosswalk.com®, Christianity.com and Townhall.com®. SWN 's content can also be accessed through our local radio station websites, which provide content of interest to local listeners.

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 and Salem Media Representatives ( SMR ), a national radio advertising sales firm with offices in 12 U.S. cities.

**Radio Broadcasting**

Our radio business is focused on the clustering of strategic formats, mainly Christian Teaching and Talk, Contemporary Christian Music and conservative News Talk. In late 2007, we introduced a fourth strategic format, Spanish language Christian Teaching and Talk.

**Table of Contents****Our Radio Stations**

Upon the close of all announced transactions, we will own and/or operate a national portfolio of 94 radio stations in 36 markets, consisting of 27 FM stations and 67 AM stations. The following table sets forth information about each of Salem's stations, in order of market size:

<b>Market(1)</b>	<b>MSA Rank(2)</b>	<b>Station Call Letters</b>	<b>Year Acquired</b>	<b>Format</b>
New York, NY	1, 17(3)	WMCA-AM	1989	Christian Teaching and Talk
		WNYM-AM	1994	News 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
		KDOW-AM	2001	News Talk
Dallas-Fort Worth, TX	5	KLTY-FM	1996	Contemporary Christian Music
		KWRD-FM	2000	Christian Teaching and Talk
		KSKY-AM	2000	News Talk
Houston-Galveston, TX	6	KNTH-AM	1995	News Talk
		KKHT-FM	2005	Christian Teaching and Talk
		WNIV-AM	2000	Christian Teaching and Talk
Atlanta, GA	7	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
		WFIL-AM	1993	Christian Teaching and Talk
Philadelphia, PA	8	WNTP-AM	1994	News Talk
		WAVA-FM	1992	Christian Teaching and Talk
Washington, D.C.	9	WAVA-AM	2000	Christian Teaching and Talk
Washington, D.C. (cont.)		10	WEZE-AM	1997
Boston, MA	10	WROL-AM	2001	Christian Teaching and Talk
		WWDJ-AM	2003	Spanish Christian Teaching and Talk
		WDTK-AM	2004	News Talk
Detroit, MI	11	WLQV-AM	2006	Christian Teaching and Talk
		WKAT-AM	2004	Spanish Christian Teaching and Talk
Miami, FL	12	WMCU-AM	2007	Christian Teaching and Talk
		WZAB-AM	2009	Business
		WZAB-AM	2009	Business
Seattle-Tacoma, WA	13	KGNW-AM	1986	Christian Teaching and Talk
		KLFE-AM	1994	Christian Teaching and Talk
		KNTS-AM(5)	1997	Spanish Christian Teaching and Talk
		KKMO-AM	1998	Other
		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
		KPRZ-AM	1987	Christian Teaching and Talk
San Diego, CA	16	KCBQ-AM	2000	News Talk
		WTWD-AM(6)	2000	Christian Teaching and Talk
Tampa, FL	18	WTWD-AM(6)	2000	Christian Teaching and Talk

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<b>Market(1)</b>	<b>MSA Rank(2)</b>	<b>Station Call Letters</b>	<b>Year Acquired</b>	<b>Format</b>
		WTBN-AM(6)	2001	Christian Teaching and Talk
		WGUL-AM	2005	News Talk
Denver-Boulder, CO	19	KRKS-FM	1993	Christian Teaching and Talk
		KRKS-AM	1994	Christian Teaching and Talk
		KNUS-AM	1996	News Talk
		KBJD-AM(7)	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	2005	Regional Mexican
Pittsburgh, PA	24	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
		KSAC-FM	2002	Spanish Christian Teaching and Talk
		KKFS-FM	2006	Contemporary Christian Music
Cleveland, OH	28	WHKW-AM	2000	Christian Teaching and Talk
		WFHM-FM	2001	Contemporary Christian Music
		WHK-AM	2005	News Talk
San Antonio, TX	30	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
Nashville, TN (cont.)		WFFH-FM(8)	2002	Contemporary Christian Music
		WFFI-FM(8)	2002	Contemporary Christian Music
Louisville, KY	53	WFIA-FM	1999	Christian Teaching and Talk
		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	2004	Country Music
		KHCM-AM	2006	News Talk
		KHUI-FM	2004	Adult Standards
		KGMZ-FM	2005	Oldies
Omaha, NE	71	KGBI-FM	2005	Contemporary Christian Music
		KOTK-AM	2005	Spanish Christian Teaching and Talk
		KCRO-AM	2005	Christian Teaching and Talk
Sarasota-Bradenton, FL	72	WLSS-AM	2005	News Talk
Colorado Springs, CO	92	KGFT-FM	1996	Christian Teaching and Talk
		KBIQ-FM	1996	Contemporary Christian Music
		KZNT-AM	2003	News Talk
Oxnard-Ventura, CA	117	KDAR-FM	1974	Christian Teaching and Talk
Youngstown-Warren, OH	125	WHKZ-AM	2001	Christian Teaching and Talk
Aberdeen, MD	NR	WAMD-AM	2009	Christian Teaching and Talk

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

(2) MSA means metropolitan statistical area per the Fall 2009 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.



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- (4) This market includes the San Jose, CA market, which independently has a MSA rank of 34.
- (5) KNTS-AM is an expanded band AM station. Under current FCC rules, we will be required to surrender to the FCC the license for either KNTS-AM or KLFE-AM on January 8, 2010.
- (6) WTBN-AM is simulcast with WTWD-AM, Tampa, FL.
- (7) 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.
- (8) WFFH-FM is simulcast with WFFI-FM, Nashville, TN.

### **Salem Radio Network®**

We own and operate 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.

SMR is a sales representation company specializing in placing national advertising on religious format radio stations. SRN and our radio stations each have relationships with SMR for the sale of available SRN spot advertising. SMR 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 Media Representatives formerly called Vista Radio Representatives, a sales representation company specializing in placing national advertising on non-religious radio stations.

### **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 radio station websites, which provide content of interest to our local radio station listeners. In 2006 we acquired CrossDaily.com and Townhall.com. In 2008 we acquired intercriso.com and theconservativevoice.com. These acquisitions enhanced our web leadership as a provider and distributor of Christian and conservative content and services for our target audience.

*Salem Publishing .* Our distribution of Christian and conservative content also extends into print through Salem Publishing, a magazine publisher serving the Christian and conservative audience and Xulon Press , a provider of print-on-demand publishing services targeted to the Christian audience. Salem Publishing is well positioned to grow its magazines: *Homecoming® The Magazine, YouthWorker Journal , The Singing News, FaithTalk Magazine, Preaching and Townhall 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. In 2008, we ceased the publication of *CCM Magazine* and launched *Townhall Magazine .*

### **Business Strategy**

Our principal business strategy is to improve our national radio platform and to invest in and build non-broadcast businesses as the breadth of the media marketplace also expands 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 powerful way to broadly reach Christian audiences.

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We program 42 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 religious and charitable organizations that create compelling radio programs. Typically, more than 90% of our block programming partners annually renew their respective relationships with us. Based on these renewal rates, we believe that block programming provides a steady and consistent stream of revenue and cash flow. The top ten programmers have averaged over 15 years on the air and have remained relatively constant. Total programming revenue has comprised 35% to 40% of total broadcast revenue from 2006 through the last twelve months ended September 30, 2009. We also program 24 News Talk stations, 11 Contemporary Christian Music stations, and seven Spanish-language Christian Teaching and Talk 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 and books that target similar audiences in order to provide cross-platform synergies.

We are fundamentally committed to broadcasting, Internet and publishing formats and programming emphasizing Christian, conservative news talk and family themes. As part of this business philosophy, we may choose not to switch to other formats or pursue potentially more profitable business opportunities in response to changing audience preferences.

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 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 each owned and operated radio stations for more than 40 years.

## **Programming Strategy**

Through the strength of our Christian Teaching and Talk format, the influence of our News Talk format, the continued 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. Typically, more than 90 percent of our block programming partners annually renew their respective relationships with us. Based on our renewal rates, we believe that our block programming business provides a steady and consistent stream of revenue and cash flow.

*News Talk.* 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.

*Contemporary Christian Music- The FISH®.* Through our Contemporary Christian Music ( CCM ) format, branded The FISH<sup>®</sup> 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<sup>®</sup>, with sounds that everyone enjoys and lyrics that parents appreciate. The CCM genre continues to be popular and was the seventh largest genre in terms of sales based on data available as of 2008. We believe this listener base has been underserved in terms of radio coverage, especially in the larger markets.





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*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.* Our satellite radio station, XM 170, is the exclusive Christian Teaching and Talk channel on SIRIUS 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 upgrades to increase the coverage of our signals, including several in the top 25 markets. During 2008, we completed a power upgrade in the New York metropolitan market whereby we increased the signal of WNYM-AM from 5,000 watts to 50,000 watts. We also relocated towers for WFIA-AM in Louisville, Kentucky and KRLA-AM in Los Angeles, California. In 2007, we completed the relocation of towers in the San Diego, California and Washington, DC markets. In early 2006, we launched KTRO-FM, a new station in Portland, Oregon. Additionally, during 2006 we 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 sales professionals for each of our stations or station clusters, and we provide these professionals 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 SMR, 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 that 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*<sup>®</sup> and *Fishfest*<sup>®</sup>. 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 that, if successful, can be implemented at our other stations. Additionally, we have

executive leadership and oversight from our corporate headquarters.

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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.

### **Recent Events**

On December 30, 2009, we were notified that the buyer of our radio station WRFD-AM, Columbus, Ohio, would not meet the terms of the asset purchase agreement that was entered into on July 31, 2008. Based on our plans to sell this radio station and exit the Columbus market, we accounted for this entity as a discontinued operation. The Consolidated Balance Sheets and Statements of Operations were reclassified for all periods presented to reflect the operating results and net assets of this market as a discontinued operation as of the date of this asset purchase agreement through December 2009. Because of the buyer terminating the agreement, and uncertainty surrounding our ability to exit the market, we have reclassified the accompanying Consolidated Balance Sheets and Statements of Operations to reflect the operating results and net assets of this entity for all periods presented in continuing operations. In January 2010, we collected a termination fee from the buyer of \$0.2 million pursuant to the asset purchase agreement.

On July 24, 2009, we completed the purchase of radio station WZAB-AM in Miami, Florida for \$1.0 million. The accompanying Consolidated Statements of Operations reflect the operating results of this radio station as of the acquisition date. The business combination does not meet the materiality threshold for pro-forma disclosures.

On March 31, 2009, we completed the purchase of radio station WAMD-AM in Aberdeen, Maryland for \$2.7 million. The purchase price had been paid into an escrow account on July 18, 2008. The accompanying Consolidated Statements of Operations includes the operating results of this radio station as of the acquisition date. In accordance with FASB ASC Topic #805 Business Combinations expenses associated with this business combination were expensed as of the January 2009 effective date. The business combination does not meet the materiality threshold for pro-forma disclosures.

On February 2, 2009, we received reimbursement from the Port of Seattle of approximately \$1.7 million of costs associated with a tower relocation project. The tower relocation began in 2001 as a result of the City's use of eminent domain in which the existing tower land was seized.

On December 12, 2008, we formed Salem Investment Corporation (SIC), a wholly-owned unrestricted subsidiary of Salem. SIC issued a promissory note to Salem Holding in the amount of \$4.75 million. On December 18, 2008, SIC purchased \$9.4 million of Salem Holding's 7<sup>3</sup>/<sub>4</sub>% Notes at a 50% discount from a group of 7<sup>3</sup>/<sub>4</sub>% Note holders. Salem Holding agreed to cancel the outstanding Promissory Note in exchange for the cancellation by SIC of the 7<sup>3</sup>/<sub>4</sub>% Notes. On a consolidated basis, the transaction resulted in a \$4.7 million pre-tax gain on the early retirement of debt.

On December 2, 2008, we sold radio station WRVI-FM in Louisville, Kentucky for \$3.0 million resulting in a pre-tax gain of \$1.1 million. The operating results of WRVI-FM are excluded from the Consolidated Statement of Operations as of the date of the sale.

In September 2008, an agreement dated February 22, 2008 to sell radio station KKMO-AM in Seattle, Washington for approximately \$3.7 million was terminated. The buyer of the station did not meet the terms of the asset purchase agreement. As a result of the buyer terminating the agreement, we recognized income of \$0.2 million reported as other income in the Consolidated Statement of Operations.

On June 30, 2008, we completed a reorganization of certain legal entities. Under this reorganization, all operating assets of the Company other than CCM Communications, Inc. are now owned by Salem Holding. The operating assets of CCM Communications, Inc. remain owned by Salem Holding. The reorganization did not impact the Consolidated Balance Sheets or Consolidated Statements of Operations; however the consolidating financial statements presented in Note 13 reflect the revised structure.

On May 30, 2008, we sold radio station WFZH-FM in Milwaukee, Wisconsin for \$8.1 million resulting in a pre-tax gain of \$1.4 million which is reported as a component of discontinued operations. The accompanying Consolidated Balance Sheets and Consolidated Statements of Operations for the twelve months ended December 31, 2008 reflect WFZH-FM as a discontinued operation. All prior periods have been revised to reflect the operating results of the station as a discontinued operation to conform to the current period presentation.

On April 8, 2008, we acquired land in Seattle, Washington, Denver, Colorado and Pittsburgh, Pennsylvania from entities controlled by our Chairman and by our Chief Executive Officer (Principal Shareholders) for approximately \$5.0 million. This transaction was approved by the independent members of our Board of Directors and was based on the appraised value from a third-party valuation firm. As a result of this

transaction, we will reduce rental expense by approximately \$148,000 annually and have permanently secured these AM transmitter site locations. We also assumed two income-producing lease agreements as follows: (a) a duplex agreement at the Seattle-Tacoma, Washington site generating annual rental income which is currently \$139,000 approximately and (b) a mobile telephone lease at the Pittsburgh, Pennsylvania site generating annual rental income which is currently \$26,000. In addition, we entered into new transmitter site leases for eight (8) existing transmitter sites (the New Transmitter Site Leases ) operated by the Company and leased from the Principal Stockholders. Seven (7) of these New Transmitter Site Leases replace existing transmitter site leases between the Company and the Principal Shareholder which were either scheduled to expire or had option exercise deadlines in 2009 or 2010. As a result, we are not required to renegotiate a new lease or exercise an option on any of its related party leases until 2016.

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On April 11, 2008 we completed the purchase of selected assets of WMCU-AM in Miami, Florida, for \$12.3 million. We began operating the station under an LMA effective on October 18, 2007. The accompanying Consolidated Statements of Operations includes the operating results of this station as of the LMA date.

On March 28, 2008, we sold radio station KTEK-AM in Houston, Texas for \$7.8 million, including \$4.5 million in cash, and \$3.3 million in notes receivables. The notes included a \$1.8 million 90 day promissory note due June 24, 2008 with interest at 8% per annum and a \$1.5 million seven year promissory note bearing interest at 8% per annum, with monthly installments due beginning in May 2008. The sale resulted in a pre-tax gain of \$6.1 million. The operating results of KTEK-AM were excluded from the Consolidated Statement of Operations beginning on February 1, 2008, the date we stopped operating the station pursuant to a Time Brokerage Agreement with the buyer.

On March 28, 2008, we sold radio station WRRD-AM in Milwaukee, Wisconsin for \$3.8 million resulting in a pre-tax gain of \$2.0 million which is reported as a component of discontinued operations. The accompanying Consolidated Balance Sheets and Consolidated Statements of Operations for the twelve months ended December 31, 2008 reflect WRRD-AM as a discontinued operation. All prior periods have been revised to reflect the operating results of the station as a discontinued operation to conform to the current period presentation.

As of the March 2008 issue, we ceased publication of CCM Magazine. The decision to cease publication did not affect Salem Publishing's other magazines, Preaching Magazine, Youthworker Journal, Homecoming Magazine, The Singing News Magazine, Faith Talk Magazine and Townhall Magazine. The accompanying Consolidated Statements of Operations reflect the operating results of this entity as a discontinued operation for the twelve months ended December 31, 2008. All prior periods have been revised to reflect the operating results of this entity as a discontinued operation to conform to the current period presentation.

On February 1, 2007, we entered into an agreement to purchase selected assets of radio station KTRO-AM, in Portland, Oregon subject to certain conditions, for \$4.5 million. We 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. On October 29, 2008, we notified the owner in accordance with the agreement that it would discontinue operating the station under the LMA and would not acquire the station. As a result of terminating this agreement, we recorded a terminated transaction charge of \$0.4 million in the fourth quarter of 2008.

**Corporate Information**

We maintain a website at [www.salem.cc](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 SEC.

Salem Communications Corporation was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Salem Holding 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 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. On December 12, 2008, we formed Salem Investment Corporation ( SIC ), a wholly-owned unrestricted subsidiary of Salem Communications Corporation. Salem Communications Corporation and all of its subsidiaries (other than Salem Holding and SIC) are guarantors of the borrowings under Salem Holding's credit facility and Salem Holding's \$89.7 million<sup>3/4</sup>% Notes.

**Development of the Business**

During the nine months ended September 30, 2009, we completed the following purchases of broadcast assets:

Acquisition Date	Description	Total Cost
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<i>(Dollars in thousands)</i>		
March 31, 2009	WAMD-AM, Aberdeen, Maryland	\$ 2,725
July 24, 2009	WZAB-AM, Miami, Florida	1,020
		\$ 3,745

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In 2008, we completed the following purchases of broadcast assets and non-broadcast entities:

Acquisition Date	Description	Total Cost (Dollars in thousands)
April 8, 2008	Land purchase from principal stockholders (asset purchase)	\$ 5,013
April 11, 2008	Selected assets of WMCU-AM, Miami, Florida (asset purchase)	12,418
June 6, 2008	Intercristo.com, a faith-based online job posting site (business acquisition)	1,187
August 15, 2008	Conservativevoice.com, customer list (business acquisition)	152
		\$ 18,770

**Program Revenue**

For the year ended December 31, 2008 we derived 22.0% and 16.5% of our net broadcast revenue, or \$42.8 million and \$32.1 million, respectively, from the sale of nationally syndicated and local block program time. For the nine months ended September 30, 2009 we derived 22.8% and 18.1% of our net broadcast revenue, or \$29.3 million and \$23.3 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 identifying and assisting quality local programs expand into national syndication.

**Advertising Revenue**

For the year ended December 31, 2008, we derived 39.2% of our net broadcast revenue, or \$76.1 million, from the sale of local spot advertising and 7.0% of our net broadcast revenue, or \$13.5 million, from the sale of national spot advertising. For the nine months ended September 30, 2009, we derived 36.0% of our net broadcast revenue, or \$46.2 million from the sale of local spot advertising and 7.1% of our net broadcast revenue, or \$9.2 million, from the sale of national spot advertising.

**Salem Radio Network®**

We recognize our advertising and commission revenue from radio stations as the spots are aired. SRN's net revenue, including commission revenue for SMR and VMR, for the year ended December 31, 2008 was \$15.6 million, or 8.1% of net broadcast revenue. SRN's net revenue, including commission revenue for SMR and VMR, for the nine months ended September 30, 2009 was \$11.3 million, or 8.9% of net broadcast revenue.

**Non-broadcast Media**

*Salem Web Network and Townhall.com®*. We recognize our Internet related revenues based on the delivery of online impressions or based on the length of time of the advertisement placement. Revenues from the sales of products and services are recognized when the products are shipped or when the services are rendered. Total Internet revenue, including SWN and Townhall.com, for the year ended December 31, 2008 was \$16.1 million, or 7.3% of total revenue. For the nine months ended September 30, 2009, total Internet revenue was \$11.4 million, or 7.7% of total revenue.

*Salem Publishing*. We recognize advertising revenue from our magazines as the publication is issued. Subscription revenues are recognized over the life of the subscription. Revenues from book sales on Xulon Press are recognized when shipment occurs. For the year ended December 31, 2008, our publishing businesses generated revenues of \$12.3 million, or 5.6% of total revenue. For the nine months ended September 30, 2009, our publishing businesses generated revenue of \$8.3 million, or 5.6% of total revenue.





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### **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 advertising market with other commercial religious format and general format radio station licensees. We compete in the 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. There are several factors that can materially impact competitive advantage, including audience ratings, program content, management talent and expertise, sales talent and experience, audience characteristics, signal strength, and the number and characteristics of other radio stations in the same market.

Competition also comes from new media technologies and services. 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, 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 on Sirius XM, a satellite digital audio radio service.

*NETWORK.* Salem Radio Network<sup>®</sup> 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.

### **Employees**

On December 31, 2009, Salem employed 1,037 full-time and 361 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.

### **Properties and Facilities**

#### ***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, 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 transmitting 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 SMR offices and Dallas radio stations 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. We also own office buildings in Honolulu, Hawaii, Tampa, Florida, Miami, Florida and Orlando, Florida.



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### ***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 two to ten 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 under Certain Relationships and Related Transactions. 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.

### **Legal Proceedings**

We and our subsidiaries, incident to our business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. 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.

### **Federal Regulation of Radio Broadcasting**

**Introduction.** The ownership, operation and sale of broadcast stations, including those licensed to Salem, are subject to the jurisdiction of the FCC, which acts under authority derived from The Communications Act of 1934, as amended, and the rules and regulations promulgated thereunder (the Communications Act). Among other things, the FCC assigns frequency bands for broadcasting; determines whether to approve certain changes in ownership or control of station licenses; regulates transmission facilities, including power employed, antenna and tower heights, and location of transmission facilities; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules under the Communications Act.

The following is a brief summary of certain provisions of the Communications Act and of specific FCC regulations and policies. Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short (less than the maximum) license renewal terms or, for particularly egregious violations, the denial of a license renewal application, the revocation of a license or the denial of FCC consent to acquire additional broadcast properties. For further information concerning the nature and extent of federal regulation of broadcast stations you should refer to the Communications Act, FCC rules and the public notices and rulings of the FCC.

**License Grant and Renewal.** Radio broadcast licenses are granted for maximum terms of eight years. Licenses must be renewed through an application to the FCC. Under the Communications Act, the FCC will renew a broadcast license if it finds that the station has served the public interest, convenience and necessity, that there have been no serious violations by the licensee of the Communications Act or the rules and regulations of the FCC, and that there have been no other violations by the licensee of the Communications Act or the rules and regulations of the FCC that, when taken together, would constitute a pattern of abuse.

Petitions to deny license renewals can be filed by certain interested parties, including members of the public in a station's market. Such petitions may raise various issues before the FCC. The FCC is required to hold hearings on renewal applications if the FCC is unable to determine that renewal of a license would serve the public interest, convenience and necessity, or if a petition to deny raises a substantial and material question of fact as to whether the grant of the renewal application would be *prima facie* inconsistent with the public interest, convenience and necessity. Also, during certain periods when a renewal application is pending, the transferability of the applicant's license is restricted. License renewal applications filed in December 2004 are currently pending for two of our stations, KBJD(AM) and KRKS(AM) due to those stations' operation as expanded band AM stations. Except for these two stations, we are not currently aware of any facts that would prevent the timely renewal of our licenses to operate our radio stations, although there can be no assurance that our licenses will be renewed.

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**Ownership Matters.** The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast license without the prior approval of the FCC. In determining whether to assign, transfer, grant or renew a broadcast license, the FCC considers a number of factors pertaining to the licensee, including compliance with various rules limiting common ownership of media properties, the character of the licensee and those persons holding attributable interests therein, and compliance with the Communications Act's limitation on alien ownership, as well as compliance with other FCC policies, including equal employment opportunity requirements.

Under the Communications Act, a broadcast license may not be granted to or held by a corporation that has more than one-fifth of its capital stock owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. Under the Communications Act, a broadcast license also may not be granted to or held by any corporation that is controlled, directly or indirectly, by any other corporation more than one-fourth of whose capital stock is owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. These restrictions apply in modified form to other forms of business organizations, including partnerships. We therefore may be restricted from having more than one-fourth of our stock owned or voted by aliens, foreign governments or non-U.S. corporations.

**Multiple Ownership:** The Communications Act and FCC rules also generally restrict the common ownership, operation or control of radio broadcast stations serving the same local market, of a radio broadcast station and a television broadcast station serving the same local market, and of a radio broadcast station and a daily newspaper serving the same local market. The FCC also restricts the number of television stations an entity may own both in local markets and nationwide.

Our current ownership of radio broadcast stations complies with the FCC's multiple ownership rules; however, these rules may limit the number of additional stations that we may acquire in the future in certain of our markets and could limit the potential buyers of any stations we may attempt to sell. The FCC is also required by the Communications Act to review its broadcast ownership rules every four years. The next such review must occur in 2010, and as part of that proceeding the FCC may again adopt changes to its ownership rules. Previous attempts by the FCC to modify its ownership rules in 2003 and in 2008 also have resulted in court challenges, which remain pending. Any changes to the ownership rules could impact our existing ownership as well as our ability to acquire additional stations or sell existing stations.

**Attribution:** Because of these multiple and cross-ownership rules, a purchaser of voting stock of the company that acquires an attributable interest in the company may violate the FCC's rule if it also has an attributable interest in other television or radio stations, or in daily newspapers, depending on the number and location of those radio or television stations or daily newspapers. Such a purchaser also may be restricted in the other companies in which it may invest, to the extent that these investments give rise to an attributable interest. If an attributable stockholder of the company violates any of these ownership rules, the company may be unable to obtain from the FCC one or more authorizations needed to conduct its radio station business and may be unable to obtain FCC consents for certain future acquisitions.

The FCC generally applies its television/radio/newspaper cross-ownership rules and its broadcast multiple ownership rules by considering the attributable, or cognizable, interests held by a person or entity. A person or entity can have an interest in a radio station, television station or daily newspaper by being an officer, director, partner, member, or stockholder of a company that owns that station or newspaper. Whether that interest is cognizable under the FCC's ownership rules is determined by the FCC's attribution rules. If an interest is attributable, the FCC treats the person or entity who holds that interest as an owner of the radio station, television station or daily newspaper in question, and therefore subject to the FCC's ownership rules.

Any officers and directors of a broadcast licensee, cable system owner, or daily newspaper owner are deemed to hold attributable interests in that entity. Generally, the officers and directors of any parent company that holds an attributable interest are themselves also deemed to hold the same attributable interests as that company. In certain situations where a parent company is involved in businesses other than broadcasting, cable system operation, or newspaper publishing, and an individual officer or director has duties and responsibilities wholly unrelated to the company's broadcast, cable, or newspaper activities, that officer or director may avoid attribution, but will need to submit a statement to the FCC documenting their lack of involvement in the relevant businesses.

Generally, debt interests held in a broadcast licensee, cable system owner, daily newspaper publisher, or parent company are not deemed to be attributable. Debt holders will be subject to attribution, however, where the aggregate value of the equity and debt held in the broadcast, cable, or newspaper company exceeds 33% of that company's total asset value *and* the debt holder also holds another attributable interest in the relevant market *or* the debt holder supplies over 15% of the programming, on a weekly basis, for the station in which the interest is held.

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**Programming and Operation.** The Communications Act requires broadcasters to serve the public interest. The FCC has gradually relaxed or eliminated many of the more formalized procedures it had developed in the past to promote the broadcast of certain types of programming responsive to the needs of a station's community of license. Although in recent years proposals have been put forth by the FCC to reinstitute certain formal procedures, none of these proposals have yet been adopted for radio stations. Licensees continue to be required, however, to present programming that is responsive to community problems, needs and interests and to maintain certain records demonstrating such responsiveness. Complaints from listeners concerning a station's programming will be considered by the FCC when it evaluates the licensee's renewal application, but such complaints may be filed and considered at any time.

Stations also must pay annual regulatory fees and fees associated with the filing of most applications. Stations also must follow various FCC rules that regulate, among other things, political advertising, advertising for certain products or services (e.g. tobacco advertising), the broadcast of obscene or indecent programming, closed captioning, emergency programming, sponsorship identification and technical operations (including limits on radio frequency radiation) and equal employment opportunity requirements. The broadcast of contests and lotteries is regulated by FCC rules.

Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short (less than the maximum) renewal terms or, for particularly egregious violations, the denial of a license renewal application or the revocation of a license.

**Proposed Changes.** As noted above, the FCC in 2010 must review its broadcast ownership rules. The FCC in November 2009 commenced this proceeding by holding a series of public workshops, but has not yet announced any proposed changes to its rules. We can make no determination as to what effect, if any, this proposed rulemaking will have on Salem. The Congress and the FCC from time to time have under consideration, and may in the future consider and adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operation, ownership and profitability of the company's radio stations, result in the loss of audience share and revenue for the company's radio stations, and affect the ability of the company to acquire additional radio stations or finance such acquisitions. Such matters under consideration include, or may come to include:

proposals to require broadcast licensees to broadcast specific types and amounts of local programming;

proposals restricting the location of broadcast studios;

technical and frequency allocation matters, including potential reallocation of broadcast spectrum to other uses;

changes in multiple ownership and cross-ownership rules;

changes to broadcast technical requirements; and

proposals to require broadcasters to pay copyright royalties for over-the-air performance of sound recordings.

The foregoing summary of certain provisions of the Communications Act and of specific FCC rules and policies does not purport to be comprehensive. For further information concerning the nature and extent of federal regulation of radio broadcast stations you should refer to the Communications Act, the FCC's rules and the public notices and rulings of the FCC.

**Federal Antitrust Considerations.** The FTC and the DOJ, which evaluate transactions to determine whether those transactions should be challenged under the federal antitrust laws, are also active in their review of radio station acquisitions, particularly where an operator proposes to acquire additional stations in its existing markets.

For an acquisition meeting certain size thresholds, the Hart-Scott-Rodino Improvements Act (HSR Act) and the rules promulgated thereunder require the parties to file Notification and Report Forms with the FTC and the DOJ and to observe specified waiting period requirements before

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consummating the acquisition. At any time before or after the consummation of a proposed acquisition, the FTC or the DOJ could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition or seeking divestiture of the business acquired or other assets of the company. Acquisitions that are not required to be reported under the HSR Act may be investigated by the FTC or the DOJ under the antitrust laws before or after consummation. In addition, private parties may under certain circumstances bring legal action to challenge an acquisition under the antitrust laws. The DOJ also has stated publicly that it believes that LMAs and other similar agreements customarily entered into in connection with radio station transfers prior to the expiration of the waiting period under the HSR Act could violate the HSR Act.

Although we do not believe that our acquisition strategy as a whole will be adversely affected in any material respect by antitrust review, we cannot be sure that this will be the case.

**Table of Contents****COMPANY MANAGEMENT AND DIRECTORS****Directors and Officers**

The following table sets forth information about our executive officers and directors.

<b>Name</b>	<b>Age</b>	<b>Position held with Salem Holding</b>
Stuart W. Epperson	73	Chairman of the Board
Edward G. Atsinger III	70	Chief Executive Officer and Director
David Davenport	59	Director
Roland S. Hinz	70	Director
Richard A. Riddle	65	Director
Paul Pressler	79	Director
Dennis M. Weinberg	57	Director
Joe D. Davis <sup>1</sup>	65	President Radio Division (through 12/31/2009)
David Santrella <sup>1</sup>	47	President Radio Division (effective 1/1/2010)
David A.R. Evans	47	President New Business Development, Interactive and Publishing
Christopher J. Henderson	46	VP, Legal and Human Resources, General Counsel and Secretary
Evan D. Masyr	38	Senior Vice President and Chief Financial Officer

Set forth below is certain information concerning the business experience during the past five years of each of the individuals named above.

Mr. Epperson has been Chairman of the Board of the Company since its inception. He is also a director of Salem Communications Holding Corporation, a wholly-owned subsidiary of the Company. Mr. Epperson has been engaged in the ownership and operation of radio stations since 1961. Mr. Epperson has been a member of the board of directors of the National Religious Broadcasters for a number of years; he was re-elected to a three-year term on that board in February 2007. Mr. Epperson is married to Nancy A. Epperson who is Mr. Atsinger's sister.

Mr. Atsinger has been Chief Executive Officer, a director of the Company and a director of each of the Company's subsidiaries since their inception. He was President of Salem from its inception through June 2007. He has been engaged in the ownership and operation of radio stations since 1969. Mr. Atsinger has been a member of the board of directors of the National Religious Broadcasters for a number of years; he was re-elected to a three-year term on that board in February 2007. Mr. Atsinger has also been a member of the board of directors of Oaks Christian School since 1999. Mr. Atsinger is the brother-in-law of Mr. Epperson.

Mr. Davenport has been a director of the Company since November 2001. Mr. Davenport is Counselor to the Director of the Hoover Institution (since 2008) and a Research Fellow (since 2001). He was a Distinguished Professor of Public Policy at Pepperdine University from 2003 to 2008. Mr. Davenport was the Chief Executive Officer of Starwire Corporation, a software service company formerly known as Christianity.com, from June 2000 to May 2001. Mr. Davenport served as President of Pepperdine University from 1985 to 2000 and from 1980 through 1985 he served as a Professor of Law, General Counsel, and Executive Vice President of the University. Mr. Davenport currently serves on the boards of Forest Lawn Memorial Parks Association and Common Sense California. Mr. Davenport also serves on the board of directors of Ameron International Corporation.

Mr. Hinz has been a director of the Company since September 1997. Mr. Hinz has been the owner, President and Editor-in-Chief of Hi-Torque Publishing Company, a publisher of magazines covering the motorcycling and biking industries, since 1982. Mr. Hinz is also the managing member of Hi-Favor Broadcasting, LLC, the licensee of radio stations KLTX-AM, Long Beach, California, and KEZY-AM, San Bernardino, California (which were acquired from the Company in August 2000 and December 2001, respectively), and radio station KSDO-AM, San Diego, California. Mr. Hinz also serves on the board of directors of the Association for Community Education, Inc. a not-for-profit corporation operating Spanish Christian radio stations in California. Mr. Hinz also serves on the board of directors of Truth for Life, a non-profit organization that is a customer of the Company.

<sup>1</sup> As disclosed in the Form 8-K filed by the Company on December 15, 2009, effective January 1, 2010, Mr. Davis transitioned from his position as President Radio Division to a new position as senior advisor to the Company's CEO. Effective January 1, 2010, Mr. Santrella was promoted to President Radio Division.





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Judge Pressler has been a director of the Company since March 2002, and is also a board member of the Free Market Foundation and KHCB Network, a non-profit corporation which owns Christian radio stations in Texas and Louisiana, and a board member of National Religious Broadcasters. He has been an active leader in the Southern Baptist Convention and has served as its First Vice President. Additionally, he is a member of the Texas Philosophical Society and on the boards of various non-profit organizations. Since 1995, Judge Pressler has been a partner in the law firm of Woodfill & Pressler and its predecessors. A retired justice of the Texas Court of Appeals, Judge Pressler was appointed Justice of the Texas Court of Appeals in 1978, serving until 1992. Judge Pressler also served as District Judge from 1970 to 1978. From 1958 to 1970, he was associated with the law firm of Vinson & Elkins. From 1957 to 1959, he was a member of the Texas Legislature, House of Representatives.

Mr. Riddle has been a director of the Company since September 1997. Mr. Riddle is an independent businessman specializing in providing financial assistance and consulting to individuals and manufacturing companies. He was President and majority stockholder of I. L. Walker Company from 1988 to 1997 when that company was sold. He also was Chief Operating Officer and a major stockholder of Richter Manufacturing Corp. from 1970 to 1987.

Mr. Weinberg has been director of the Company since November 1, 2005. Mr. Weinberg was one of the founding directors for WellPoint, a health benefits company. From February of 2002 to May 2006, Mr. Weinberg served as President and Chief Executive Officer for ARCUS Enterprises, a WellPoint business development subsidiary. Previously, Mr. Weinberg served for nearly 20 years in a variety of CEO, Group President, and Executive Vice President positions with WellPoint and its various affiliates. Prior to WellPoint, Mr. Weinberg held a variety of business consulting positions with the accounting firm of Touche-Ross and Company (currently Deloitte & Touche) in Chicago. Before that, he was general manager for the CTX Products Division of Pet, Inc. at the time, an I.C. Industries Company in St. Louis, Missouri, a designer and manufacturer of commercial computerized processing equipment. Mr. Weinberg is a General Member of the development companies of FRWII, LLC, SkyView Development, LLC and Allyson Aviation, LLC. He is the co-founder of Cornerstone Network Associates, Life Skills for American Families, and is an advisor for the Pacific Justice Institute. Mr. Weinberg served on the board of directors of Truth for Life from November 2003 to September 2007. Truth for Life is a non-profit organization that is a customer of the Company.

Mr. Davis has been President Radio Division of the Company since July 2007. Mr. Davis was the Company's Executive Vice President and Chief Operating Officer from March 2005 to July 2007. Prior to that time, he was Executive Vice President of Radio from 2003 until March 2005, Executive Vice President, Operations from 2001 to 2003, Senior Vice President of the Company from 2000 to 2001, Vice President, Operations of the Company from 1996 to 2000 and General Manager of WMCA-AM from 1989 to 1996. He served concurrently as General Manager of WWDJ-AM from 1994 to 1996. Previously he was President of Davis Eaton Corporation in Phoenix, Arizona and also served as Vice President and Executive Director of one of the Company's national ministry clients. He has been involved professionally in various aspects of broadcasting since 1967.

Mr. Santrella was promoted to President, Radio Division of the Company effective January 1, 2010. From October 2008 to December 31, 2009, he served as Operational Vice President over the Company's Minneapolis, Denver and Colorado Springs clusters in addition to his existing responsibility over the Chicago cluster. From March 2006 to October 2008, Mr. Santrella was the Operational Vice President of Chicago and Milwaukee. In November of 2003, he was given additional oversight responsibility of Milwaukee. Mr. Santrella started with the Company in 2001 as the General Manager of the Company's Chicago cluster.

Mr. Evans has been President New Business Development, Interactive and Publishing of the Company since July 2007. Mr. Evans was Executive Vice President Business Development and Chief Financial Officer of the Company from September 2005 to June 2007. Mr. Evans was Executive Vice President and Chief Financial Officer from September 2003 to September 2005. From 2000 to 2003, Mr. Evans served as the Company's Senior Vice President and Chief Financial Officer. From 1997 to 2000, Mr. Evans served as Senior Vice President and Managing Director-Europe, Middle East, and Africa of Warner Bros. Consumer Products in London, England. He also served at Warner Bros. Consumer Products in Los Angeles, California, as Senior Vice President-Latin America, International Marketing, Business Development from 1996 to 1997 and Vice President-Worldwide Finance, Operations, and Business Development from 1992 to 1996. From 1990 to 1992, he served as Regional Financial Controller-Europe for Warner Bros. based in London, England. Prior to 1990, Mr. Evans was an audit manager with Ernst & Young LLP in Los Angeles, California and worked as a U.K. Chartered Accountant for Ernst & Young in London, England.

Mr. Henderson has been Vice President, Legal and Human Resources, General Counsel and Corporate Secretary of the Company since March 2008. Mr. Henderson was Vice President, Human Resources of the Company from August 2006 to February 2008. From 2001 to August 2006, Mr. Henderson served as Corporate Counsel of the Company. Prior to joining the Company, Mr. Henderson worked for 13 years as Senior Associate Attorney for Cooksey, Toolen, Gage, Duffy & Woog, first as a trial attorney and then as a transactional attorney.

Mr. Masyr has been Senior Vice President and Chief Financial Officer of the Company since July 2007. Mr. Masyr was Vice President Accounting and Finance of the Company from September 2005 to June 2007. From March 2004 to September 2005, Mr. Masyr was Vice President of Accounting and Corporate Controller of the Company. Prior to that time, Mr. Masyr was Vice President and Corporate

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Controller of the Company from January 2003 to March 2004. From February 2000 to December 2002, he served as the Company's Controller. From 1993 to February 2000, Mr. Masyr worked for PricewaterhouseCoopers LLP (formerly, Coopers & Lybrand LLP). Mr. Masyr has been a Certified Public Accountant since 1995.

**Table of Contents****Committees of the Board of Directors**

The Company's board of directors has three committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The following table identifies the independent members of the board of directors and lists the members and chairman of each of these committees:

Name	Independent	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Stuart W. Epperson				
Edward G. Atsinger III				
David Davenport	I		C	X
Roland S. Hinz	I	X	X	X
Judge Paul Pressler	I			C
Richard A. Riddle	I	X	X	X
Dennis M. Weinberg	I	C		X

I = Director is independent

X = Current member of committee

C = Current member and chairman of the committee

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The table below summarizes the total compensation paid to or earned by the Named Executive Officers for the Company's fiscal years ended December 31, 2009 and December 31, 2008:

Name and Principal Positions	Salary (\$)	Bonus (1) (\$)	Option Awards (2),(3) (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (4) (\$)	All Other Compensation (5),(6) (\$)	Total (\$)
Edward G. Atsinger III Chief Executive Officer (2009)	779,000		61,478		102,518	942,996
Edward G. Atsinger III Chief Executive Officer (2008)	800,000	170,000	536,480		105,528	1,612,008
Stuart W. Epperson Chairman of the Board (2009)	345,000		30,739		80,754	456,493
Stuart W. Epperson Chairman of the Board (2008)	537,500	65,000	226,242		79,510	908,252
David A. R. Evans President New Business Development, Interactive and Publishing (2009)	375,000	18,750	53,601	(21,038)	19,484	445,797
David A. R. Evans President New Business Development, Interactive and Publishing (2008)	456,250	45,000	1,052,082	(136,510)	23,737	1,440,559

- (1) Amounts set forth in the Bonus column represent bonuses paid by the Company in 2008 for performance in 2007. Bonuses are given at the discretion of the Company and are not earned by Company employees until they are paid.
- (2) Amounts set forth in the *Option Awards* column represent the aggregate amount recognized for financial statement reporting purposes with respect to the Named Executive Officers for the fiscal year ended December 31, 2009 and December 31, 2008, respectively, disregarding the estimate of forfeitures related to service-based vesting conditions, but otherwise computed in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation - Stock Compensation based upon assumptions set forth in Note 7 to the Company's consolidated financial statements filed with the SEC on Form 10-K on March 13, 2009, and in comparable financial statement notes filed with the SEC in previous Annual Reports on Form 10-K. For additional information regarding option awards, see the table entitled "Outstanding Equity Awards at Fiscal Year End" below.
- (3) In September 2008, the following option awards were voluntarily surrendered for no value by the Named Executive Officers: Mr. Atsinger surrendered a total of 651,365 options to purchase the Company's Class A common stock; Mr. Epperson surrendered a total of 411,730 options to purchase the Company's Class A common stock; and Mr. Evans surrendered a total of 275,859 options to purchase the Company's Class A common stock. Amounts set forth in the *Option Awards* column reflect the aggregate amount recognized regarding these surrendered options for financial statement reporting purposes for the fiscal year ended December 31, 2008. Other than these voluntary option surrenders, there were no option award forfeitures by the Named Executive Officers during the Company's fiscal years ended December 31, 2009 and December 31, 2008.
- (4) Amounts set forth in the *Change in Pension Value and Nonqualified Deferred Compensation Earnings* column include the reduction in market value during the fiscal year ended December 31, 2008 on compensation deferred by Mr. Evans.
- (5) Amounts set forth in the *All Other Compensation* column consist of the following:



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<b>Item</b>	<b>Mr. Atsinger (\$)</b>	<b>Mr. Epperson (\$)</b>	<b>Mr. Evans (\$)</b>
Perquisites and Other Personal Benefits (2009)	89,996	68,314	1,915
Company Contributions to 401(k) Plan (2009)			
Medical, Dental, Life and Disability Premiums (2009)	12,522	12,440	17,569
<b>TOTAL (2009)</b>	<b>102,518</b>	<b>80,754</b>	<b>19,484</b>
Perquisites and Other Personal Benefits (2008)	93,583	67,647	1,943
Company Contributions to 401(k) Plan (2008)			5,175
Medical, Dental, Life and Disability Premiums (2008)	11,945	11,863	16,619
<b>TOTAL (2008)</b>	<b>105,528</b>	<b>79,510</b>	<b>23,737</b>

(6) Includes the following perquisites and personal benefits which have been valued by the Company based upon the incremental cost to the Company of providing these perquisites and personal benefits to the Named Executive Officers:

<b>Perquisite or Personal Benefit</b>	<b>Mr. Atsinger (\$)</b>	<b>Mr. Epperson (\$)</b>	<b>Mr. Evans (\$)</b>
Personal Use of Company Vehicle (2009)	10,499		
Split-Dollar Life Insurance Premiums (2009)	74,554	68,314	
Supplemental Medical, Travel and Expense Reimbursement (2009)	4,943		
Supplemental Life Insurance Premiums (2009)	N/A		1,915
<b>TOTAL (2009)</b>	<b>89,996</b>	<b>68,314</b>	<b>1,915</b>
Personal Use of Company Vehicle (2008)	17,677	2,889	N/A
Split-Dollar Life Insurance Premiums (2008)	70,998	64,758	N/A
Supplemental Medical, Travel and Expense Reimbursement (2008)	4,908	N/A	N/A
Supplemental Life Insurance Premiums (2008)	N/A	N/A	1,943
<b>TOTAL (2008)</b>	<b>93,583</b>	<b>67,647</b>	<b>1,943</b>

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table provides information as of December 31, 2009, in respect of outstanding equity awards made to the Company's NEOs that are exercisable into the Company's Class A common stock that may be issued under the Stock Plan, the Company's only existing equity compensation plan.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards		
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Stuart W. Epperson	N/A	50,000(1)	\$ 0.56	2/24/2015
	N/A	50,000(2)	\$ 0.67	5/4/2015
Edward G. Atsinger III	N/A	100,000(3)	\$ 0.56	2/24/2015
	N/A	100,000(4)	\$ 0.67	5/4/2015
David A. R. Evans	6,250		\$ 11.80	3/14/2013
	6,250		\$ 11.80	3/14/2014
		6,250(5)	\$ 11.80	3/14/2015
		6,250(5)	\$ 11.80	3/14/2016
		30,000(6)	\$ 0.56	2/24/2015
		25,000(7)	\$ 0.67	5/4/2015

- (1) Mr. Epperson's unexercisable options vest on February 24, 2010.
- (2) Mr. Epperson's unexercisable options vest on May 4, 2010.
- (3) Mr. Atsinger's unexercisable options vest on February 24, 2010.
- (4) Mr. Atsinger's unexercisable options vest on May 4, 2010.
- (5) Mr. Evans' unexercisable options vest as follows: (a) 6,250 on March 14, 2010, and (b) 6,250 on March 14, 2011.
- (6) Mr. Evans' unexercisable options vest on February 24, 2010.
- (7) Mr. Evans' unexercisable options vest on May 4, 2010.

**Material Terms of Company's Nonqualified Deferred Compensation Plan**

The Company maintains a non-qualified deferred compensation plan as a benefit for certain designated employees who are within a select group of key management or highly compensated employees. The primary purpose of the Company's non-qualified deferred compensation plan is to allow plan participants to defer payment of up to 100% of base salary and bonus compensation until retirement or other employment termination. Plan participants may also elect an in-service distribution during a designated calendar year. Payment is made, at the participant's election, in a single sum or equal annual installment payments over a five-year period commencing at: (a) retirement after age 60, (b) or one year thereafter, or (c) the date previously elected by the plan participant; provided, however, that distribution in a single sum is automatically made on termination of employment for reasons other than retirement or disability. Previously established plan payment dates may, under certain circumstances, be deferred by participants but such payment dates may not be voluntarily accelerated after they have been designated by a participant. Plan participants may elect to have their contributions in investments that are offered to all plan participants by the plan administrator. Plan accounts are 100% vested at all times. The plan constitutes a fully funded, non-qualified deferred compensation plan.

**Material Terms of NEO Employment Agreements Providing For Payment to NEOs upon Termination or Change in Control*****Mr. Atsinger's and Mr. Epperson's Employment Agreements***

Under the terms of their employment agreements, if Mr. Atsinger's or Mr. Epperson's employment is terminated by reason of death, his estate is entitled to receive: (a) a payment equal to his base salary through the date of termination to the extent not already paid, (b) a prorated portion of his incentive bonus based on his prior year's incentive bonus, (c) his actual earned incentive bonus for any period not already paid, (d) amounts to which he is entitled under the Company's benefit plans, (e) immediate, 100% vesting of outstanding unvested stock options and other



equity-based awards, and (f) continued coverage of his dependants by the Company's health benefit plans for a period of twelve months.

If Mr. Atsinger's or Mr. Epperson's employment is terminated upon disability (as defined in his employment agreement), he is entitled to receive: (a) a payment equal to his base salary through the date of termination to the extent not already paid, (b) a severance payment equal to 100% of his then current annual base salary for a period of fifteen (15) months, (c) a prorated portion of his incentive bonus based on his prior year's incentive bonus, (d) his actual earned incentive bonus for any period not already paid, (e) amounts to which he is entitled under the Company's benefit plans, and (f) immediate, 100% vesting of outstanding unvested stock options and other equity-based awards.

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If Mr. Atsinger's or Mr. Epperson's employment is terminated by the Company without cause (as defined in his employment agreement), he is entitled to receive: (a) a payment equal to his base salary earned but unpaid through the date of termination, (b) a prorated portion of his incentive bonus based on the prior year's incentive bonus, and any incentive bonus amount earned but not yet paid, and, (c) a payment equal to his then current annual base salary for a period of six months.

With the exception of any continued benefits coverage in the event of the death of Mr. Epperson or Mr. Atsinger, all payments to be made by the Company upon termination of employment to Messrs. Epperson or Atsinger will be lump sum payments.

The employment agreements also contain provisions that: (a) grant the Company a right of first refusal on all corporate opportunities presented to Messrs. Atsinger and Epperson; (b) restrict Mr. Atsinger's and Mr. Epperson's ability to engage in any business that is competitive with the Company's business for a period of two years following retirement or termination for cause or without good reason; and (c) restrict Mr. Atsinger's and Mr. Epperson's ability to interfere with the business of the Company or solicit Company employees for a period of two years following such retirement or termination. Compliance by Messrs. Atsinger and Epperson with these obligations is a material condition to the Company's obligation to provide the above termination benefits.

### ***Employment Agreement With Mr. Evans***

Under the terms of his employment agreement, if Mr. Evans' employment is terminated by reason of death, disability or otherwise for cause (as defined in his employment agreement), he or his estate is entitled to receive: (a) a payment equal to his base salary through the date of termination to the extent not already paid, and (b) his actual earned incentive bonus for any period not already paid.

In addition, if Mr. Evans' employment is terminated without cause (as defined in his employment agreement), certain stock option awards made to Mr. Evans on December 21, 2001, shall have an accelerated vesting schedule (with such options ratably vesting at a rate of 12.5% per year commencing on December 21, 2002 rather than ratably vesting at a rate of 25% per year commencing on December 21, 2005) and the unexercised portion of such options, based upon the accelerated vesting schedule, shall expire and become unexercisable one year from the termination date.

If Mr. Evans' employment is terminated by the Company without cause (as defined in his employment agreement), he is also entitled to receive: (a) a payment equal to his base salary earned but unpaid through the date of termination, (b) his actual earned incentive bonus for any period not already paid, (c) a severance payment in an amount equal to the base salary Mr. Evans would have otherwise received for a period of nine (9) months from the date of termination had he remained employed with the Company, and (d) professional outplacement assistance for twelve consecutive months from the termination date.

With the exception of professional outplacement services that would be provided by the Company to Mr. Evans over a one-year period in the event of a termination without cause, all payments to be made by the Company upon termination of employment to Mr. Evans would be lump sum payments.

The employment agreement with Mr. Evans also contains a provision that restricts his ability to interfere with the business of the Company or solicit Company employees for a period of six months following termination of employment for any reason. Compliance by Mr. Evans with these obligations is a material condition to the Company's obligation to provide the above termination benefits.

**Table of Contents****DIRECTOR COMPENSATION**

Non-employee directors of the Company receive an annual retainer and fees. The following table sets forth the compensation earned by the Company's non-employee directors in 2009:

Name	Fees Earned (\$)	Stock Awards (1) (\$)	Option Awards (2),(3) (\$)	TOTAL (4) (\$)
David Davenport	52,925	1,000		53,925
Roland S. Hinz	51,775	1,000		52,775
Judge Paul Pressler	39,000	1,000		40,000
Richard A. Riddle	51,775	1,000		52,775
Dennis M. Weinberg	56,200	1,000		57,200

- (1) There were no stock award forfeitures by the non-employee directors during the Company's fiscal year ended December 31, 2009.
- (2) No stock option awards were made to non-employee directors in 2009.
- (3) There were no option award forfeitures by the non-employee directors during the Company's fiscal year ended December 31, 2009.
- (4) As of December 31, 2009, the Company's non-employee directors held the following interests in the Company's class A common stock:

Name	Stock Options (#)	Restricted Shares(1) (#)	Shares Owned Outright (#)	Shares Owned Indirectly (#)	TOTAL (#)
David Davenport	3,000	4,000			7,000
Roland S. Hinz	3,000	4,000	12,339	53,833	73,172
Judge Paul Pressler	3,000	4,000	8,000		15,000
Richard A. Riddle	3,000	4,000	48,891	27,000	82,891
Dennis M. Weinberg	2,000	3,000	22,970		27,970

- (1) The restricted shares listed in the above table have vested as of October 13, 2006, September 6, 2007 and September 5, 2008. An additional award of restricted shares will vest on March 11, 2010. All of the restricted grants: (a) are Class A common stock of the Company that entitle the grantee immediately upon vesting the right to vote the shares and to participate in any dividend paid on Class A common stock; and (b) may not be sold or transferred by the grantee after vesting until the sooner to occur of the fifth anniversary of the grant date or the date that the grantee ceases for any reason to be a member of the Company's board of directors.

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The cash compensation paid as of December 31, 2009 to the Company's non-employee directors ( Designated Directors ) as approved by the Company's board of directors at the recommendation of the Committee is as follows:

COMPENSATION	AMOUNT	PAYABLE TO	PAYABLE
Annual Retainer	\$23,750	Designated Directors	Quarterly
Attendance Fee (Full Company Board)	\$2,375	Designated Directors	Per Regularly Scheduled or Noticed Company Board Meeting
Attendance Fee (Board Committee)	\$1,425	Designated Director Committee Members	Per Regularly Scheduled or Noticed Committee Meeting
Chairperson Fee (Audit and Compensation Committees)	\$1,900	Chairperson of Audit and Compensation Committees	Per Regularly Scheduled or Noticed Committee Meeting
Chairperson Fee (Nominating and Corporate Governance Committee)	\$950	Chairperson of Nominating and Corporate Governance Committee	Per Regularly Scheduled or Noticed Committee Meeting
Attendance Fee (Special Committee)	N/A	Special Committee Members	Per Special Committee Meeting or Task

In addition to the above fees, directors are compensated on an *ad hoc* basis for special committee or subcommittee meetings held or tasks performed by a committee or subcommittee designated by either the full Board of Directors or by a standing committee of the full Board of Directors, with such compensation determined by the establishing body at the time the special committee or subcommittee is established. Designated Directors who are also chairmen of the Company's board committees shall receive the applicable chairperson fee in addition to a committee attendance fee for each regularly scheduled Company board committee meeting. Designated Directors shall also receive reimbursement for all reasonable out-of-pocket expenses in connection with travel to and attendance at regularly scheduled Company board and board committee meetings.

Company directors who are also employees of the Company (Stuart W. Epperson, Chairman of the Board, and Edward G. Atsinger III, CEO) are not additionally compensated for their services as directors. Compensation for Messrs. Epperson and Atsinger is summarized in the Summary Compensation Table appearing in this Prospectus under the heading EXECUTIVE COMPENSATION.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of the Company's Class A and Class B common stock as of January 24, 2010 (unless otherwise indicated) by: (a) each person believed by the Company to be the beneficial owner of more than 5% of either class of the outstanding Class A or Class B common stock; (b) each director; (c) each of the Named Executive Officers; and (d) all directors and executive officers as a group.

Name and Address(1)	Class A Common Stock		Class B Common Stock		% Vote of All Classes of Common Stock(2)
	Number	% Vote(2)	Number	% Vote(2)	
Stuart W. Epperson	3,865,742(3)	21.28%	2,776,848(4)	50.00%	42.92%
Nancy A. Epperson	2,808,222(3)	15.50%	2,776,848(4)	50.00%	41.51%
Edward G. Atsinger III	4,052,730(5)	22.24%	2,776,848(5)	50.00%	43.14%
Edward C. Atsinger	1,093,078(6)	6.03%			1.48%
David A.R. Evans	54,550(7)	*			*
David Davenport	7,000(8)	*			*
Roland S. Hinz	74,583(9)	*			*
Paul Pressler	15,000(10)	*			*
Richard A. Riddle	82,891(11)	*			*
Dennis M. Weinberg	27,970(12)	*			*
All directors and executive officers as a group (11 persons)	8,263,716	44.88%	5,553,696	100.00%	86.62%
Columbia Wanger Asset Management, L.P. 227 West Monroe St., Suite 3000 Chicago, IL 60606	3,085,700(13)	17.03%			4.19%
Gamco Investors, Inc., et al One Corporate Center Rye, NY 10580 140 Broadway New York, NY 10005	1,787,313(14)	9.86%			2.42%
Epperson Children's Trusts	1,007,520(15)	5.56%			1.37%

\* Less than 1%.

(1) Except as otherwise indicated, the address for each person is c/o Salem Communications Corporation, 4880 Santa Rosa Road, Camarillo, California 93012. Calculated pursuant to Rule 13d-3(d) under the Exchange Act, shares of Class A common stock not outstanding that are subject to options exercisable by the holder thereof within 60 days of January 24, 2010 are deemed outstanding for the purposes of calculating the number and percentage ownership by such stockholder, but not deemed outstanding for the purpose of calculating the percentage owned by each other stockholder listed. Unless otherwise noted, all shares listed as beneficially owned by a stockholder are actually outstanding.

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- (2) Percentage voting power is based upon 18,120,092 shares of Class A common stock and 5,553,696 shares of Class B common stock all of which were outstanding as of January 24, 2010, and the general voting power of one vote for each share of Class A common stock and ten votes for each share of Class B common stock.
- (3) Includes shares of Class A common stock held by a trust of which Mr. and Mrs. Epperson are trustees and shares held directly by Mr. Epperson. As husband and wife, Mr. and Mrs. Epperson are each deemed to be the beneficial owner of shares held by the other and, therefore their combined beneficial ownership is shown in the table. Includes 50,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (4) Includes shares of Class B common stock held by a trust of which Mr. and Mrs. Epperson are trustees.
- (5) These shares of Class A and Class B common stock are held by trusts of which Mr. Atsinger is trustee. Includes 100,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (6) Includes 1,090,078 shares of Class A common stock held in a trust for the benefit of Edward C. Atsinger, who is Edward G. Atsinger III's son. Edward G. Atsinger III is the trustee of the trust and these shares are included in the shares beneficially owned by Edward G. Atsinger III as reflected in this table. Also includes 3,000 shares of Class A common stock held by a trust for the benefit of Edward C. Atsinger. Edward C. Atsinger and his wife are trustees of the trust. These 3,000 shares are not included in shares beneficially owned by Edward G. Atsinger III as reflected in this table.
- (7) Includes 2,450 shares of Class A common stock held by a trust for which Mr. Evans is trustee, 600 shares held in custody for his minor daughter and 2,750 shares held by Mr. Evans' spouse as a joint tenant with Mr. Evans' father-in-law. Mr. Evans disclaims beneficial ownership of all of the 2,750 shares of Class A common stock beneficially owned by his father-in-law. Includes 48,750 shares of Class A common stock subject to options that are exercisable within 60 days.
- (8) Includes 3,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (9) Includes 1,411 shares held by Mr. Hinz's wife. Mr. Hinz disclaims beneficial ownership of shares of Class A common stock held by his wife. Includes 3,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (10) Includes 3,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (11) Includes 27,000 shares of Class A common stock held by a trust for which Mr. Riddle is trustee. Includes 3,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (12) Includes 2,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (13) This information is based on the Schedule 13G/A filed by Columbia Wanger Asset Management, L.P. ( "CWAM" ) and Columbia Acorn Trust ( "Acorn" ) and, together with CWAM, Columbia ( "Columbia" ), with the SEC on February 9, 2009. Columbia reported that as of December 31, 2008, it had sole voting power with respect to 2,725,700 shares, shared voting power with respect to 360,000 shares and sole dispositive power with respect to 3,085,700 shares.
- (14) This information is based on a Schedule 13D/A filed on September 30, 2009, which indicates that such Schedule 13D/A has been filed by Mario J. Gabelli ( "Mario Gabelli" ) and various entities that he directly or indirectly controls or for which he acts as chief investment officer. The Schedule 13D/A indicates that Mario Gabelli is deemed to have beneficial ownership of the shares owned beneficially by each of the filing persons. Each of the Reporting Persons and Covered Persons (both as defined in the Schedule 13D/A) has the sole power to vote or direct the vote and sole power to dispose or to direct the disposition of the shares reported for it, either for its own benefit or for the benefit of its investment clients or its partners, as the case may be, except as noted in the Schedule 13D/A.
- (15) The shares of Class A common stock are held by the Kathryn Epperson Fonville Trust u/d/t 3/31/99, Stuart W. Epperson, Jr. Trust u/d/t 3/31/99, Kristine J. Epperson McBride Trust u/d/t 3/31/99 and Karen Epperson DeNeui Trust u/d/t 3/31/99 (collectively the "Trusts" ). There is a voting arrangement in place whereby a majority of the shares held collectively by the Trusts must be voted in order for all the shares of the Trusts to be voted.

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS****Purchase of Transmitter Sites**

Salem's Nominating and Corporate Governance Committee has a longstanding policy and desire to reduce the number of transactions entered into between the Company and its related parties. In March 2008, as part of a review and evaluation of certain upcoming related party lease option exercises or renewals, the committee determined that it was in the best interest of the Company for it to make an integrated offer to: (a) purchase certain transmitter sites from trusts or partnerships created for the benefit of Messrs. Atsinger and Epperson and their families (the Principal Stockholders), and (b) enter into new transmitter site leases for eight (8) existing transmitter sites operated by the Company and leased from the Principal Stockholders.

As a result of this offer, in April 2008, the Company purchased three tower and antenna sites (the Transmitter Site Purchases) from the Principal Stockholders as follows:

Market	Station Call Letters	Facilities		Purchase Price	Closing Date
			Purchased		
Seattle Tacoma, WA	KGNW-AM	Antenna/Tower		\$ 3,100,000	April 8, 2008
Denver Boulder, CO	KRKS-AM	Antenna/Tower		1,400,000	April 8, 2008
Pittsburgh, PA	WORD-FM	Antenna/Tower		475,000	April 8, 2008
				\$ 4,975,000	

By purchasing these sites, Salem eliminated approximately \$148,000 in annual rental expenses and permanently secured these AM transmitter site locations. Salem also assumed two income-producing lease agreements as a material part of the Transmitter Site Purchases as follows: (a) a diplex agreement at the Seattle-Tacoma, WA site generating current annual rental income of approximately \$139,000, and (b) a mobile telephone lease at the Pittsburgh, PA site generating current annual rental income of approximately \$26,000.

The purchase price for all three of the Transmitter Site Purchases was paid by Salem in cash at closing. All expenses incurred in connection with securing title insurance, preparation and recording of deeds, and other fees associated with completion of the Transmitter Site Purchases were shared equally by Salem and the Principal Stockholders.

A prerequisite negotiated by Salem as an important condition of the closing of the Transmitter Site Purchases was the entry by Salem into new transmitter site leases for eight (8) existing transmitter sites (the New Transmitter Site Leases) operated by Salem and leased from the Principal Stockholders. Seven (7) of these New Transmitter Site Leases replace existing transmitter site leases between Salem and the Principal Stockholders which were either scheduled to expire or had option exercise deadlines in 2009 or 2010. As a result, Salem is not required to renegotiate a new lease or exercise an option on any of its related party leases until 2016.

In order to broadcast an AM radio signal, Salem's transmitter facilities must be located in areas where the topography and conductivity of the soils is suitable for transmission. In addition, many AM transmitter sites require several towers arrayed at precise locations, each with a large ground radial system, to operate. Securing a site with the requisite characteristics and obtaining necessary permissions to construct a transmission facility can take significant time and money. By entering into these new leases with the Principal Stockholders, Salem was able to secure these difficult-to-relocate AM transmitter sites for at least ten (10) years with an option to extend each of these leases for five (5) years thereafter.

**Table of Contents****Leases with Principal Stockholders**

As of December 31, 2009, Salem leased the studios and tower and antenna sites described in the table below from the Principal Stockholders. All such leases have cost of living adjustments. Based upon management's assessment and analysis of local market conditions for comparable properties, Salem believes that such leases do not have terms that vary materially from those that would have been available from unaffiliated parties.

Market	Station Call Letters	2009 Annual Rental(1)	2008 Annual Rental(2)	Expiration Date(3)
<b>Leases with both Messrs. Atsinger and Epperson:</b>				
Denver-Boulder, CO	KNUS-AM(4)	\$ 23,695	\$ 52,498	2016
Minneapolis-St. Paul, MN	KKMS-AM/KYCR-AM(5)	199,695	176,107	2016
Sacramento, CA	KFIA-AM(4)	108,318	111,772	2016
San Antonio, TX	KSLR-AM(Day site)(4)	43,728	44,155	2017
Los Angeles, CA	KTIE-AM(6)	27,462	28,524	2021
Houston-Galveston, TX	KNTH-AM(4)	45,067	49,368	2023
Philadelphia, PA	WFIL-AM/WNTP-AM(5)	190,375	186,893	2023
Phoenix, AZ	KPXQ-AM(4)	62,593	59,097	2023
Portland, OR	KPDQ-AM(4)	26,539	24,238	2023
Seattle Tacoma, WA	KLFE-AM(4)	35,048	49,697	2023
Seattle Tacoma, WA	KNTS-AM(4)	34,999	24,071	2023
San Antonio, TX	KSLR-AM (Night site)(4)	18,027	16,020	2023
San Francisco, CA	KFAX-AM(4)	214,999	208,392	2023
Orlando, FL	WTLN-AM(4)	80,000	80,004	2045
Subtotal		\$ 1,110,545	\$ 1,110,836	
<b>Lease with Mr. Atsinger:</b>				
San Diego, CA	KPRZ-AM(4)	136,572	144,563	2028
<b>Total</b>		<b>\$ 1,247,117</b>	<b>\$ 1,255,399</b>	

(1) Annual rent calculated as of December 31, 2009.

(2) Annual rent calculated as of December 31, 2008.

(3) The expiration date reported for certain facilities represents the expiration date assuming exercise of all lease term extensions at the Company's option.

(4) Antenna/Tower Site

(5) Antenna/Tower/Studio Site

(6) Office/Studio Site

Rental expense paid by Salem to Messrs. Atsinger and Epperson or trusts or partnerships created for the benefit of their families for 2009 amounted to approximately \$1.2 million. Rental expense paid by Salem to Mr. Atsinger or trusts created for the benefit of his family for 2009 amounted to approximately \$0.1 million. Rental expense paid by Salem to Messrs. Atsinger and Epperson or trusts or partnerships created for the benefit of their families for 2008 amounted to approximately \$1.3 million. Rental expense paid by Salem to Mr. Atsinger or trusts created for the benefit of his family for 2008 amounted to approximately \$0.1 million.

**Radio Stations Owned by the Eppersons**

During 2007, 2008 and 2009, Nancy A. Epperson, the wife of the Chairman of the Board, Stuart W. Epperson, served as an officer, director and stockholder of several radio broadcasting entities as follows:



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Secretary, Treasurer, and a Director of Truth Broadcasting Corporation, licensee of WDRU-AM, Wake Forest, North Carolina, WTRU-AM, Kernersville, North Carolina, WKEW-AM, Greensboro, North Carolina, WPOL-AM, Winston-Salem, North Carolina, WCRU-AM, Dallas, North Carolina, and WSMX-AM, Winston-Salem, North Carolina. In 2008, Truth Broadcasting Corporation transferred the license for radio station WLVA-AM Lynchburg, Virginia, to Chesapeake- Portsmouth Broadcasting Corporation, an affiliated corporation whose current licenses are described below.

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President, a Director and 100% stockholder of Chesapeake-Portsmouth Broadcasting Corporation, licensee of WTJZ-AM, Newport News, Virginia, WLES-AM, Bon Air, Virginia, WLVA-AM, Lynchburg, Virginia (received from Truth Broadcasting Corporation in 2008), WPMH-AM, Claremont, Virginia, WBOB-AM, Jacksonville, Florida, and broker of airtime on WRJR-AM, Portsmouth, Virginia. During 2008, Chesapeake-Portsmouth Broadcasting Corporation ( CPBC ) transferred the license to WZNZ-AM, Jacksonville, Florida (currently licensed to Queen of Peace Radio, Inc.) that it operated in 2007 and for a portion of 2008. During 2007, CPBC terminated its relationship as the broker of airtime on WVAB-AM, Virginia Beach, Virginia (currently licensed to Birach Broadcasting Corporation), and WBVA-AM, Bayside, Virginia (currently licensed to Birach Broadcasting Corporation). CPBC is also a 50% member of Northeast Florida Radio, LLC, permittee of BNP20010817AAF (AM), Nassau Village-Ratliff, Florida.

President and a Director of Delmarva Educational Association ( DEA ), licensee of noncommercial station WWIP-FM, Cheriton, Virginia. During 2009, DEA assigned the license for noncommercial station WAZP-FM, Cape Charles, Virginia, to Educational Media Corporation.

President and a Director of The River Educational Media, Inc., licensee of noncommercial station WCRJ-FM, Jacksonville, Florida and noncommercial station WAYL-FM, St. Augustine, Florida.

The markets in which 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 our business.

### **Radio Stations Owned by Mr. Hinz**

During 2007, 2008, and 2009, Mr. Hinz, a Salem director, through companies or entities controlled by him, has and continues to operate the following radio stations in Southern California: (a) KLTX-AM, Long Beach, California, and KEZY-AM, San Bernardino, California (which were acquired from the Company in August 2000 and December 2001, respectively); and (b) KSDO-AM, San Diego, California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language.

### **Truth for Life Mr. Hinz and Mr. Weinberg**

Truth for Life is a non-profit organization that is our customer. During 2009, we were paid approximately \$2.0 million by Truth for Life. During 2008, we were paid approximately \$2.4 million by Truth for Life. 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 from November 2003 through June 2007.

### **Split-Dollar Life Insurance**

Salem purchased split-dollar life insurance policies for its Chairman and Chief Executive Officer in 1997. The aggregate premiums for these policies were \$230,000 in each of the years ended December 31, 2009 and December 31, 2008. We are the owner of the policies and are entitled to recover all of the premiums paid on these policies. Salem records an asset based on the lower of the aggregate premiums paid or insurance case surrender value. As of December 31, 2008, we recorded an asset of \$1.9 million. Benefits above and beyond the cumulative premiums paid will accrue to the beneficiary trusts established by each of the Chairman and Chief Executive Officer.

### **Transportation Services Supplied by Atsinger Aviation**

From time to time, Salem rents aircraft from a company that is owned by Edward G. Atsinger III. As approved by the independent members of our board of directors, Salem rents these aircraft on an hourly basis at what we believe are market rates and we use the aircraft for general corporate needs. Total rental expense for these aircraft for 2009 amounted to approximately \$135,000. Total rental expense for these aircraft for 2008 amounted to approximately \$188,000.

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**THE EXCHANGE OFFER**

**Purpose of the Exchange Offer**

The outstanding notes were issued by Salem Communications Corporation on December 1, 2009 in a private placement to the initial purchasers of the outstanding notes. In connection with the issuance of the outstanding notes, we entered into a registration rights agreement with the initial purchasers of the outstanding notes. Subject to the terms and conditions of the registration rights agreement, we agreed, among other matters, to file by June 1, 2010, a registration statement with the SEC for the exchange of the outstanding notes for notes registered under the Securities Act. This prospectus is a part of the registration statement we filed to satisfy that obligation. We also agreed to use commercially reasonable efforts to cause the registration statement to be declared effective by the SEC not later than December 2, 2010. We also agreed that, once such registration statement became effective, we would promptly commence the exchange offer. The summary of the registration rights agreement contained herein does not purport to be complete and is qualified in its entirety by reference to the registration rights agreement. A copy of the registration rights agreement is filed as an exhibit to the registration statement of which this prospectus forms a part.

**Terms of the Exchange Offer; Expiration Time**

This prospectus and the accompanying letter of transmittal together constitute the exchange offer. Subject to the terms and conditions in this prospectus and the letter of transmittal, we will accept for exchange outstanding notes that are validly tendered at or before the expiration time and are not properly withdrawn as permitted below. The expiration time for the exchange offer is 5:00 p.m., New York City time, on Monday, March 8, 2010, or such later date and time to which we, in our sole discretion, extend the exchange offer.

We expressly reserve the right, in our sole discretion:

to extend the expiration time;

if any one of the conditions set forth below under **Conditions to the Exchange Offer** has not been satisfied, to terminate the exchange offer and not accept any outstanding notes for exchange; and

to amend the exchange offer in any manner.

We will give oral or written notice of any extension, delay, non-acceptance, termination, or amendment as promptly as practicable, with written confirmation of any oral notice to be given promptly thereafter, by a public announcement, and in the case of an extension, no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration time. The notice of extension will disclose the aggregate principal amount of the outstanding notes that have been tendered as of the date of such notice.

In the event of any material change in the terms of the offer, we will extend the offering period if necessary so that at least five business days remain in the offering period following notice of the material change.

During an extension, all outstanding notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us, upon expiration of the exchange offer, unless properly withdrawn.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See **Plan of Distribution**.

**How to Tender Outstanding Notes for Exchange**

Only a record holder of outstanding notes may tender in the exchange offer. When the holder of outstanding notes tenders and we accept outstanding notes for exchange, a binding agreement between us and the tendering holder is created, subject to the terms and conditions in this prospectus and the accompanying letter of transmittal. Except as set forth below, a holder of outstanding notes who desires to tender outstanding notes for exchange must, at or prior to the expiration time:

transmit a properly completed and duly executed letter of transmittal, the outstanding notes being tendered and all other documents required by such letter of transmittal, to The Bank of New York Mellon Trust Company, N.A., the exchange agent, at the address set forth below under the heading "The Exchange Agent"; or

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if outstanding notes are tendered pursuant to the book-entry procedures set forth below, an agent's message must be transmitted by The Depository Trust Company ( DTC ), to the exchange agent at the address set forth below under the heading The Exchange Agent, and the exchange agent must receive, at or prior to the expiration time, a confirmation of the book-entry transfer of the outstanding notes being tendered into the exchange agent's account at DTC, along with the agent's message; or

if time will not permit the required documentation to reach the exchange agent before the expiration time, or the procedures for book-entry transfer cannot be completed by the expiration time, the holder may effect a tender by complying with the guaranteed delivery procedures described below.

The term agent's message means a message that:

is transmitted by DTC;

is received by the exchange agent and forms a part of a book-entry transfer

states that DTC has received an express acknowledgement that the tendering holder has received and agrees to be bound by, and makes each of the representations and warranties contained in, the letter of transmittal; and

states that we may enforce the letter of transmittal against such holder.

**The method of delivery of the outstanding notes, the letter of transmittal or agent's message, and all other required documents to the exchange agent is at the election and sole risk of the holder. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letters of transmittal or outstanding notes should be sent directly to us.**

Signatures on a letter of transmittal must be guaranteed unless the outstanding notes surrendered for exchange are tendered:

by a holder of outstanding notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

for the account of a recognized member in good standing of a Medallion Signature Guarantee Program recognized by the exchange agent, such as a firm which is a member of a registered national securities exchange, a member of the Financial Industry Regulatory Authority, Inc. ( FINRA ), a commercial bank or trust company having an office or correspondent in the United States, or certain other eligible institutions as that term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934 (the Exchange Act ), each of the foregoing being referred to herein as an eligible institution.

If signatures on a letter of transmittal or notice of withdrawal are required to be guaranteed, the guarantor must be an eligible institution. If outstanding notes are registered in the name of a person other than the person who signed the letter of transmittal, the outstanding notes tendered for exchange must be endorsed by, or accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder with the registered holder's signature guaranteed by an eligible institution.

If trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity sign the letter of transmittal, any outstanding notes, any notice of withdrawal or any instruments of transfer such persons should so indicate when signing, and must submit proper evidence satisfactory to us of such person's authority to so act unless we waive this requirement.

We will determine in our sole discretion all questions as to the validity, form, eligibility (including time of receipt), and acceptance of outstanding notes tendered for exchange and all other required documents. We reserve the absolute right to:

reject any and all tenders of any outstanding note not validly tendered

refuse to accept any outstanding note if, in our judgment or the judgment of our counsel, acceptance of the outstanding note may be deemed unlawful;

waive any defects or irregularities or conditions of the exchange offer as to all or any particular outstanding notes, either before or after the expiration time; and

determine the eligibility of any holder who seeks to tender outstanding notes in the exchange offer

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Our determinations, either before or after the expiration time, under and of the terms and conditions of, the exchange offer, including the letter of transmittal and the instructions to it, or as to any questions with respect to the tender of any outstanding notes, will be final and binding on all parties. To the extent we waive any conditions to the exchange offer, we will waive such conditions as to all outstanding notes. Holders must cure any defects and irregularities in connection with tenders of outstanding notes for exchange within such reasonable period of time as we will determine, unless we waive such defects or irregularities. Neither we, the exchange agent, nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of us incur any liability for failure to give such notification.

If you beneficially own outstanding notes registered in the name of a broker, dealer, commercial bank, trust company, or other nominee and you wish to exchange your outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct it to exchange on your behalf.

WE MAKE NO RECOMMENDATION TO THE HOLDERS OF THE OUTSTANDING NOTES AS TO WHETHER TO EXCHANGE OR REFRAIN FROM EXCHANGING ALL OR ANY PORTION OF THEIR OUTSTANDING NOTES IN THE EXCHANGE OFFER. IN ADDITION, WE HAVE NOT AUTHORIZED ANYONE TO MAKE ANY SUCH RECOMMENDATION. HOLDERS OF THE OUTSTANDING NOTES MUST MAKE THEIR OWN DECISION AS TO WHETHER TO EXCHANGE THEIR OUTSTANDING NOTES PURSUANT TO THE EXCHANGE OFFER, AND, IF SO, THE AGGREGATE AMOUNT OF OUTSTANDING NOTES TO EXCHANGE, AFTER READING THIS PROSPECTUS AND THE LETTER OF TRANSMITTAL AND CONSULTING WITH THEIR ADVISERS, IF ANY, BASED ON THEIR FINANCIAL POSITIONS AND REQUIREMENTS.

### **Book-Entry Transfers**

Any financial institution that is a participant in DTC's system must make book-entry delivery of outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent's account at DTC in accordance with DTC's Automated Tender Offer Program, known as ATOP. Such participant should transmit its acceptance to DTC at or prior to the expiration time or comply with the guaranteed delivery procedures described below. DTC will verify such acceptance, execute a book-entry transfer of the tendered outstanding notes into the exchange agent's account at DTC and then send to the exchange agent confirmation of such book-entry transfer.

The confirmation of such book-entry transfer will include an agent's message or a validly completed and executed letter of transmittal. The letter of transmittal or facsimile thereof or an agent's message, with any required signature guarantees and any other required documents, must be transmitted to and received by the exchange agent at the address set forth below under "The Exchange Agent" at or prior to the expiration time of the exchange offer, or the holder must comply with the guaranteed delivery procedures described below.

### **Guaranteed Delivery Procedures**

If a holder of outstanding notes desires to tender such notes and the holder's outstanding notes are not immediately available, or time will not permit such holder's outstanding notes or other required documents to reach the exchange agent at or before the expiration time, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

at or prior to the expiration time, the exchange agent receives from an eligible institution a validly completed and executed notice of guaranteed delivery, substantially in the form accompanying this prospectus, by facsimile transmission, mail, or hand delivery, setting forth the name and address of the holder of the outstanding notes being tendered and the amount of the outstanding notes being tendered. The notice of guaranteed delivery will state that the tender is being made and guarantee that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a validly completed and executed letter of transmittal with any required signature guarantees, or an agent's message, and any other documents required by the letter of transmittal, will be transmitted to the exchange agent; and

the exchange agent receives the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a validly completed and executed letter of transmittal with any required signature guarantees or an agent's message and any other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

The notice of guaranteed delivery must be received at or prior to the expiration time.





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### **Withdrawal Rights**

You may withdraw tenders of your outstanding notes at any time at or prior to the expiration time.

For a withdrawal to be effective, a written notice of withdrawal, by facsimile or by mail, must be received by the exchange agent, at the address set forth below under "The Exchange Agent," at or prior to the expiration time. Any such notice of withdrawal must:

specify the name of the person having tendered the outstanding notes to be withdrawn

identify the outstanding notes to be withdrawn, including the principal amount of such outstanding notes;

where certificates for outstanding notes were transmitted, specify the name in which such outstanding notes are registered, if different from that of the withdrawing holder, and the serial numbers of the particular certificates to be withdrawn

where outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of DTC; and

bear the signature of the holder in the same manner as the original signature on the letter of transmittal, if any, by which such outstanding notes were tendered, with such signature guaranteed by an eligible institution, unless such holder is an eligible institution.

We will determine all questions as to the validity, form, and eligibility (including time of receipt) of such notices and our determination will be final and binding on all parties. Any tendered outstanding notes properly withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Properly withdrawn notes may be re-tendered by following one of the procedures described under "How to Tender Outstanding Notes for Exchange" above at any time at or prior to the expiration time.

### **Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes**

All of the conditions to the exchange offer must be satisfied or waived at or prior to the expiration of the exchange offer. Promptly following the expiration time, we will accept for exchange all outstanding notes validly tendered and not properly withdrawn as of such date. We will promptly issue exchange notes for all validly tendered outstanding notes. For purposes of the exchange offer, we will be deemed to have accepted validly tendered outstanding notes for exchange when, as, and if we have given oral or written notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter. See "Conditions to the Exchange Offer" for a discussion of the conditions that must be satisfied before we accept any outstanding notes for exchange.

For each outstanding note accepted for exchange, the holder will receive an exchange note, the issuance of which is registered under the Securities Act, having a principal amount equal to, and in the denomination of, that of the surrendered outstanding note. Registered holders of exchange notes that are outstanding on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the most recent date through which interest has been paid on the outstanding notes, or if no interest has been paid, from the original issue date of the outstanding notes. Outstanding notes that we accept for exchange will cease to accrue interest from and after the date of consummation of the exchange offer.

If we do not accept any tendered outstanding notes, or if a holder submits outstanding notes for a greater principal amount than the holder desires to exchange, we will return such unaccepted or non-exchanged outstanding notes without cost to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC, such non-exchanged outstanding notes will be credited to an account maintained with DTC. We will return the outstanding notes or have them credited to DTC promptly after the withdrawal, rejection of tender or termination of the exchange offer, as applicable.

**Conditions to the Exchange Offer**

The exchange offer is not conditioned upon the tender of any minimum principal amount of outstanding notes. Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and may terminate or amend the exchange offer, by oral or written notice to the exchange agent or by a timely press release, if at any time before the expiration of the exchange offer, any of the following circumstances or events occur and are not waived:

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any action or proceeding is instituted or threatened in any court or by or before any governmental agency challenging the exchange offer or that we determine in good faith might be expected to prohibit or materially impair our ability to proceed with the exchange offer;

any stop order is threatened or in effect with respect to either (1) the registration statement of which this prospectus forms a part or (2) the qualification of the indenture governing the notes under the Trust Indenture Act of 1939, as amended; or

any law, rule or regulation is enacted, adopted, proposed, enforced, or interpreted that we determine in good faith might be expected to prohibit or impair our ability to proceed with the exchange offer or to materially impair the contemplated benefits of the exchange offer.

The condition that none of the foregoing circumstances or events have occurred is for the sole benefit of the Company and may be asserted by it in its sole discretion, regardless of the circumstances giving rise to such circumstances or events, and the occurrence of any circumstance or event may be waived by the Company, in whole or in part, in its sole discretion, whether or not any other circumstance or event is also waived. The Company has not made a decision as to what circumstances would lead it to waive any such condition, and any such waiver would depend on circumstances prevailing at the time of such waiver. Any determination by the Company concerning the circumstances or events described in this section shall be final and binding upon all holders of the outstanding notes. The rights of the Company hereunder will be deemed an ongoing right which may be asserted at any time and from time to time by the Company prior to the expiration time.

## **Accounting Treatment**

For accounting purposes, we will not recognize gain or loss upon the issuance of the exchange notes for outstanding notes. We will amortize expenses incurred in connection with the issuance of the exchange notes over the term of the exchange notes.

## **Fees and Expenses**

We will not make any payment to brokers, dealers, or others soliciting acceptance of the exchange offer except for reimbursement of mailing expenses. We will pay the cash expenses to be incurred in connection with the exchange offer, including:

all registration and filing fees and expenses (including filings made by any initial purchaser of the outstanding notes or holder with the Financial Industry Regulatory Authority, Inc.;

all fees and expenses of compliance with federal securities and state securities or blue sky laws;

printing, messenger, delivery and telephone fees;

our accounting and legal fees and disbursements;

our guarantors' accounting and legal fees and disbursements;

fees of the exchange agent and trustee;

legal fees of counsel for the holders of the outstanding notes, subject to certain limitations; and

related fees and expenses.

**Transfer Taxes**

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with the exchange. If, however, exchange notes issued in the exchange offer are to be delivered to, or are to be issued in the name of, any person other than the holder of the outstanding notes tendered, or if a transfer tax is imposed for any reason other than the exchange of outstanding notes in connection with the exchange offer, then the holder must pay these transfer taxes, whether imposed on the registered holder or on any other person. If satisfactory evidence of payment of or exemption from, these taxes is not submitted with the letter of transmittal, the amount of these transfer taxes will be billed directly to the tendering holder.

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### **The Exchange Agent**

We have appointed The Bank of New York Mellon Trust Company, N.A. as our exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at the address set forth below. Questions and requests for assistance with respect to the procedures for the exchange offer, requests for additional copies of this prospectus or the letter of transmittal and requests for notices of guaranteed delivery should also be directed to the exchange agent at the address below:

*Deliver to:*

*By Mail, by Courier, or by Hand:*

The Bank of New York Mellon

Corporate Trust Operations

Reorganization Unit

101 Barclay Street 7 East

New York, New York 10286

Attention: Randolph Holder

*By Facsimile Transmission (for eligible institutions only):*

(212) 298-1915

*Confirm Facsimile Transmission*

(212) 815-5098

**Delivery of the letter of transmittal to an address other than as set forth above or transmission of such letter of transmittal via facsimile other than as set forth above will not constitute a valid delivery.**

### **Consequences of Failure to Exchange Outstanding Notes**

Outstanding notes that are not tendered or are tendered but not accepted will, following the consummation of the exchange offer, continue to be subject to the provisions in the indenture and the legend contained on the outstanding notes regarding the transfer restrictions of the outstanding notes. In general, outstanding notes, unless the transfer is registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Unless obligated to file a shelf registration statement pursuant to the registration rights agreement, we do not currently anticipate that we will take any action to register under the Securities Act or under any state securities laws the outstanding notes that are not tendered in the exchange offer or that are tendered in the exchange offer but are not accepted for exchange.

Holders of the exchange notes and any outstanding notes that remain outstanding after consummation of the exchange offer will vote together as a single series for purposes of determining whether holders of the requisite percentage of the notes have taken certain actions or exercised certain rights under the indenture.

### **Consequences of Exchanging Outstanding Notes**

We have not requested, and do not intend to request, an interpretation by the staff of the SEC as to whether the exchange notes issued in the exchange offer may be offered for sale, resold, or otherwise transferred by any holder without compliance with the registration and prospectus delivery provisions of the Securities Act. However, based on interpretations of the staff of the SEC, as set forth in a series of no-action letters issued to third parties, we believe that the exchange notes may be offered for resale, resold, or otherwise transferred by holders of those exchange notes without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

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the holder is not an affiliate of ours within the meaning of Rule 405 of the Securities Act and as interpreted by the SEC;

the holder has no arrangement or understanding with any person to participate, and is not participating, in the distribution of the exchange notes within the meaning of the Securities Act;

the exchange notes issued in the exchange offer are acquired in the ordinary course of the holder's business;

the holder is not holding outstanding notes that have, or that are reasonably likely to have, the status of an unsold allotment in the initial offering of the outstanding notes;

if the holder is not a broker-dealer, the holder is not engaged in, and does not intend to engage in, a distribution of the exchange notes; and

if such a holder is a broker-dealer, such broker-dealer will receive the exchange notes for its own account in exchange for outstanding notes and that:

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such outstanding notes were acquired by such broker-dealer as a result of market-making or other trading activities; and

it will deliver a prospectus meeting the requirements of the Securities Act in connection with the resale of exchange notes, and will comply with the applicable provisions of the Securities Act with respect to resale of any exchange notes. (In no-action letters issued to third parties, the SEC has taken the position that broker-dealers may fulfill their prospectus delivery requirements with respect to exchange notes (other than a resale of an unsold allotment from the original sale of outstanding notes) by delivery of the prospectus relating to the exchange offer). See Plan of Distribution for a discussion of the exchange and resale obligations of broker-dealers in connection with the exchange offer.

Each holder participating in the exchange offer will be required to furnish us with a written representation in the letter of transmittal that they meet each of these conditions and agree to these terms.

However, because the SEC has not considered the exchange offer for the outstanding notes in the context of a no-action letter, we cannot guarantee that the staff of the SEC would make similar determinations with respect to the exchange offer. If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability.

Any holder that is an affiliate of ours or that tenders outstanding notes in the exchange offer for the purpose of participating in a distribution:

may not rely on the applicable interpretation of the SEC staff's position contained in Exxon Capital Holdings Corp., SEC No-Action Letter (April 13, 1988), Morgan, Stanley & Co., Inc., SEC No-Action Letter (June 5, 1991) and Shearman & Sterling, SEC No-Action Letter (July 2, 1993); and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

The exchange notes may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with by the holders selling the exchange notes. We currently do not intend to register or qualify the sale of the exchange notes in any state.

## **Filing of Registration Statements**

Under the registration rights agreement we agreed, among other matters, that if:

due to any change in applicable law or policy of the SEC staff, we are not permitted to conduct the exchange offer as contemplated by the registration rights agreement;

for any reason, the exchange offer is not consummated by December 2, 2010; or

any holder of Transfer Restricted Securities (as defined in the registration rights agreement):

notifies us that it is prohibited by applicable law or policy of the SEC staff from participating in the exchange offer;

notifies us that it may not resell the exchange notes to the public without delivering a prospectus and that this prospectus is not permitted or available for use in such resales by such holder; or

is a broker-dealer and holds the outstanding notes acquired directly from us or one of our affiliates;  
then, upon such holder's notification and request, we will file with the SEC a shelf registration statement to cover resales of the outstanding notes  
by the holders of the outstanding notes who satisfy certain conditions relating to the provision of information in connection with the shelf  
registration statement.

If obligated to file the shelf registration statement, we will as promptly as practicable file the shelf registration statement with the SEC and use  
commercially reasonable efforts to cause the shelf registration statement to be declared effective by the SEC on or prior to 45 days after such  
obligation arises.



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If the shelf registration statement is declared effective but thereafter ceases to be effective or usable in connection with resales of outstanding notes during the periods specified in the registration rights agreement, then we will pay additional interest as described below to each holder of Transfer Restricted Securities on the terms provided in the registration rights agreement.

Although we intend, if required, to file the shelf registration statement, we cannot assure you that the shelf registration statement will be filed or, if filed, that it will become or remain effective.

### **Additional Interest**

The registration rights agreement provides that in the event any of the following events occur, each referred to herein as a registration default, we will pay additional interest on any Transfer Restricted Securities:

neither the registration statement relating to the exchange offer nor a shelf registration statement has been filed with the SEC on or prior to the dates specified in the registration rights agreement;

neither the exchange offer registration statement nor the shelf registration statement is declared effective by the SEC on or prior to the dates specified in the registration rights agreement;

the exchange offer has not been consummated by on or before December 2, 2010; or

any registration statement required by the registration rights agreement is filed and declared effective but thereafter ceases to be effective or becomes unusable.

The additional interest will accrue on the Transfer Restricted Securities at a rate of 0.25% per annum during the 90-day period immediately following the occurrence of any of the above listed events and shall increase by 0.25% per annum at the end of each subsequent 90-day period, up to a maximum rate of 1.00% per annum.

The foregoing descriptions are summaries of certain provisions of the registration rights agreement, including those provisions relating to additional interest. They do not restate the registration rights agreement in its entirety. We urge you to read the registration rights agreement, which is an exhibit to the registration statement of which this prospectus forms a part and can also be obtained from us. See [Where You Can Find More Information](#).

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**DESCRIPTION OF OTHER INDEBTEDNESS**

**Revolving Credit Facility and Term Loans**

As of December 1, 2009, we entered into the senior credit facility, which is a revolving credit facility ( Revolver ) with approximately \$15.0 million outstanding and an additional \$15.0 million available. On December 1, 2009, we repaid in full and terminated our Term Loan B and Term Loan C under Salem Holding s prior credit facility.

**Senior Secured Second Lien Notes**

As of December 1, 2009, we had \$300.0 million of outstanding notes. The outstanding notes contain certain restrictive covenants, including a limitation on additional indebtedness and a limitation on restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited, aside from those exceptions, from incurring further indebtedness if we do not satisfy either a leverage condition or an interest coverage condition. Exceptions to this limitation include new borrowings of up to \$30.0 million under bank credit facilities, non-recourse purchase money indebtedness (subject to available borrowing sources) and indebtedness incurred for the purpose of refinancing or repaying existing indebtedness. Under the limitation on restricted payments, we are prohibited from making restricted payments if we do not satisfy either the leverage condition or interest coverage condition.

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**DESCRIPTION OF EXCHANGE NOTES**

The exchange notes offered hereby are to be issued as Exchange Notes in exchange for outstanding notes (the Outstanding Notes) under an indenture (as may be amended from time to time, the Indenture), dated as of December 1, 2009, among Salem Communications Corporation, the Guarantors and The Bank of New York Mellon Trust Company, N.A., as trustee (the Trustee) relating to the 9.625% senior secured second lien notes due 2016 (the Notes) issued thereunder. The Exchange Notes will be obligations of Salem Communications Corporation and the Guarantors. The statements under this caption relating to the Indenture, the Notes, the Intercreditor Agreement and the Security Documents are summaries and are not a complete description thereof, and where reference is made to particular provisions, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all of the provisions of the Indenture, the Notes, the Intercreditor Agreement and the Security Documents. The definitions of certain capitalized terms used in the following summary are set forth below under

Certain Definitions. As used in this Description of Exchange Notes, the term Salem refers to Salem Communications Corporation and any of its Subsidiaries. References to the Company, we, us, or our in this Description of Exchange Notes refer to Salem Communications Corporation, without its subsidiaries. Certain terms used in the following description are defined under Certain Definitions below.

The terms of the Exchange Notes are substantially identical to the terms of the Outstanding Notes in all material respects, including interest rates and maturity, except that the Exchange Notes (i) will not contain transfer restrictions and registration rights that relate to the Outstanding Notes, and (ii) will not contain provisions relating to the payment of additional interest to be paid to the Holders of Outstanding Notes under circumstances related to the registration of the Outstanding Notes.

The Outstanding Notes and the Exchange Notes will constitute a single class of securities under the Indenture and therefore will vote together as a single class for purposes of determining whether holders of the requisite percentage in principal amount thereof have taken actions or exercised rights they are entitled to take or exercise under the Indenture.

The following is a summary of the material provisions of the Indenture, the Intercreditor Agreement and the Security Documents. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. The following summary does not purport to be complete and is qualified in its entirety by reference to the Indenture, the Intercreditor Agreement and the Security Documents. You are referred to the Indenture and the Trust Indenture Act for a statement thereof. A copy of the Indenture the Intercreditor Agreement and the Security Documents have been filed with the SEC and are available on EDGAR. We urge you to read these documents carefully because they, and not the following description, govern your rights as a Holder of the Notes.

**General**

On the Issue Date, the Company issued Notes in an aggregate principal amount of \$300,000,000. The Company may issue additional notes under the Indenture (the Additional Notes), subject to the limitations described below under the covenant Limitation on Incurrence of Debt and Limitation on Liens (including the Permitted Additional Pari Passu Obligations definition). The Outstanding Notes, the Exchange Notes and any Additional Notes subsequently issued under the Indenture are treated as a single class for all purposes of the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase, and, except as otherwise specified herein, all references to the Notes include any Outstanding Notes, Additional Notes and Exchange Notes. Any Additional Notes will be secured, equally and ratably with the Outstanding Notes and the Exchange Notes, by the Liens on the Collateral described below under the caption Security.

Interest on the Notes is payable at a rate of 9.625% per annum. Interest on the Notes is payable semi-annually in cash in arrears on June 15 and December 15 of each year, commencing on June 15, 2010. The Company will make each interest payment to the Holders of record of the Notes on the immediately preceding June 1 and December 1. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest is calculated based on a 360 day year consisting of 12 months of 30 days.

Principal of and premium, if any, and interest on the Notes is payable, and the Notes are transferable, at the office or agency of the Company maintained for such purposes, which, currently is the corporate trust office of the Trustee or an agent thereof; *provided, however*, that payment of interest may be made at the option of the Company by check mailed to the Person entitled thereto as shown on the security register. The Notes are issued only in fully registered form without coupons, in denominations of \$2,000 and any integral multiple of \$1,000 in excess thereof. No service charge will be made for any registration of transfer, exchange or redemption of Notes, except in certain circumstances for any tax or other governmental charge that may be imposed in connection therewith.

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### **Guarantees**

The Notes and the Company's Obligations under the Indenture are guaranteed (the *Note Guarantees*), on a joint and several basis, by the Guarantors. As of the Issue Date, each of our domestic subsidiaries was a Guarantor. The Note Guarantees are senior secured obligations of each Guarantor, rank equal with all existing and future senior Debt of such Guarantor and are senior to all subordinated Debt of such Guarantor. The obligations of a Guarantor under its Note Guarantee are limited to the maximum amount as will result in the obligations of such Guarantor under the Note Guarantee not to be deemed to constitute a fraudulent conveyance or fraudulent transfer under federal or state law. This provision may not be effective to protect the Note Guarantees from being voided under fraudulent transfer law, or may eliminate the Guarantor's obligations or reduce such obligations to an amount that effectively makes the Guarantee worthless. In a recent Florida bankruptcy case, a similar provision was found to be ineffective to protect the guarantees. The Note Guarantees are secured by Liens on the Collateral described below under Security.

As of the Issue Date, all of our Subsidiaries were Restricted Subsidiaries. Under the circumstances described below under the subheading Certain Covenants Limitation on Creation of Unrestricted Subsidiaries, any of our Subsidiaries may be designated as Unrestricted Subsidiaries. Unrestricted Subsidiaries are not subject to many of the restrictive covenants in the Indenture and do not guarantee the Notes. Claims of creditors of non-guarantor Subsidiaries, including trade creditors, and claims of minority stockholders (other than the Company and the Guarantors) of those subsidiaries will have priority with respect to the assets and earnings of those subsidiaries over the claims of creditors of the Company and the Guarantors, including holders of the Notes.

The Indenture provides that the Note Guarantee of a Guarantor will be automatically and unconditionally released:

- (a) in the event of a sale or other transfer (including by way of consolidation or merger) of Capital Interests in such Guarantor in compliance with the terms of the Indenture following which such Guarantor ceases to be a Subsidiary;
- (b) upon the designation of such Guarantor as an Unrestricted Subsidiary in compliance with the provisions described under the subheading Certain Covenants Limitation on Creation of Unrestricted Subsidiaries; or
- (c) in connection with a legal defeasance or covenant defeasance of the Indenture or upon satisfaction and discharge of the Indenture.

Upon any release of a Guarantor from its Note Guarantee, such Guarantor will also be automatically and unconditionally released from its obligations under the Security Documents.

### **Ranking**

#### ***Ranking of the Notes***

The Notes are secured obligations of the Company and rank:

equally in right of payment with all existing and future senior Debt of the Company;

senior in right of payment to all existing and future subordinated Debt of the Company;

effectively junior to any obligations of the Company that are secured by a Lien on the Collateral that is senior or prior to the Second Priority Liens, including the First Priority Liens securing obligations under the Credit Agreement referred to below, and potentially any Permitted Liens; and

structurally junior to any Debt or Obligations of any non-Guarantor Subsidiaries.



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The Notes and the obligations under the Indenture are secured by second-priority security interests in the Collateral (subject as to priority and otherwise to certain exceptions and Permitted Liens). As a result, the Notes and the obligations under the Indenture are effectively (a) junior to any Debt of the Company and the Guarantors which either is (i) secured by the First Priority Liens or (ii) secured by assets which are not part of the Collateral securing the Notes, in each case, to the extent of the value of such assets and (b) equal in rank with any Permitted Additional Pari Passu Obligations. The Debt Incurred under the Credit Agreement is secured by a first-priority security interest in the Collateral. Accordingly, while the Notes rank equally in right of payment with the Debt Incurred under the Credit Agreement and all other liabilities not expressly subordinated by their terms to the Notes, the Notes are effectively subordinated to the Debt outstanding under the Credit Agreement, to the extent of the value of the Collateral.

At December 1, 2009, the Company and its Subsidiaries had approximately \$315 million of senior Debt on a consolidated basis, approximately \$15 million of which was under the Credit Agreement ranking effectively senior to the extent of the value of the collateral securing the Credit Agreement. In addition, the Company had approximately \$15 million of availability under the Credit Agreement.

### ***Ranking of the Note Guarantees***

Each Note Guarantee is a senior secured obligation of the Guarantors. As such each Note Guarantee ranks:

equally in right of payment with all existing and future senior Debt of the Guarantors;

senior in right of payment to all existing and future subordinated Debt of the Guarantors, if any;

effectively junior to any obligations of such Guarantor that are secured by a Lien on the Collateral that is senior or prior to the Second Priority Liens securing the Guarantees, including the First Priority Liens securing obligations of the Guarantors under the Credit Agreement, and potentially any Permitted Liens; and

structurally junior to any Debt or Obligations of any non-Guarantor Subsidiaries.

### **Sinking Fund**

There are no mandatory sinking fund payment obligations with respect to the Notes.

### **Security**

#### ***General***

The Notes and the company's Obligations under the Indenture are secured by Second Priority Liens granted by the Company, the existing Guarantors and any future Guarantor on substantially all of the assets of Company and the Guarantors (whether now owned or hereafter arising or acquired), subject to certain exceptions, Permitted Liens and encumbrances described in the Indenture and the Security Documents.

In the security and pledge agreements, the Company and the Guarantors, subject to certain exceptions, have granted security interests in (collectively, excluding the Excluded Property, the Collateral):

(a) all present and future shares of Capital Interests of (or other ownership or profit interests in) each of Borrower's present and future direct and indirect subsidiaries, held by the Company or a Guarantor;

(b) all present and future intercompany debt owed to the Company or any Guarantor;

(c) all of the present and future property and assets, real and personal, of the Company and each Guarantor, including, but not limited to, machinery and equipment, inventory and other goods, accounts receivable, owned real estate, leaseholds, fixtures, bank accounts, general intangibles (other than FCC Licenses), financial assets, investment property, license rights, patents, trademarks, trade names, copyrights, other

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intellectual property, chattel paper, insurance proceeds, contract rights, hedge agreements, documents, instruments, indemnification rights, tax refunds and cash;

(d) all FCC Licenses except to the extent (but only to the extent) and for so long as that at such time the Collateral Agent may not validly possess a security interest directly in the FCC License pursuant to applicable Federal law, including the Communications Act of 1934, as amended, and the rules, regulations and policies promulgated thereunder, as in effect at such

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time, but the Collateral will include at all times all proceeds incident or appurtenant to the FCC Licenses and all proceeds of the FCC Licenses, and the right to receive all monies, consideration and proceeds derived from or in connection with the sale, assignment, transfer, or other disposition of the FCC Licenses; and

(e) all proceeds and products of the property and assets described in clauses (a), (b), (c) and (d) above.

The Indenture and the Security Documents exclude certain property from the Collateral (the Excluded Property ), including:

(a) any rights or interest in any lease, contract, license or license agreement covering personal property or Real Property of the Company or any Guarantor, so long as under the terms of such lease, contract, license or license agreement, or applicable law with respect thereto, the grant of a security interest or lien therein to Collateral Agent is prohibited (or would render such lease, contract, license or license agreement cancelled, invalid or unenforceable) and such prohibition has not been or is not waived or the consent of the other party to such lease, contract, license or license agreement has not been or is not otherwise obtained; provided, that, this exclusion shall in no way be construed to apply if any such prohibition is unenforceable under the UCC or other applicable law or so as to limit, impair or otherwise affect Collateral Agent's unconditional continuing security interests in and liens upon any rights or interests of the Company or Guarantors in or to monies due or to become due to the Company or Guarantor under any such lease, contract, license or license agreement (including any receivables),

(b) any shares entitled to vote (within the meaning of Treasury Regulation Section 1.956-2) of any direct or indirect Subsidiary of the Company that is a controlled foreign corporation in excess of sixty-six (66%) percent of all of the issued and outstanding Capital Interests in such Subsidiary,

(c) any Capital Interests of any Subsidiary of the Company to the extent necessary for such Subsidiary not to be subject to any requirement pursuant to Rule 3-16 or Rule 3-10 of Regulation S-X under the Exchange Act, due to the fact that such Subsidiary's Capital Interests secures the Notes or Note Guarantees, to file separate financial statements with the Securities and Exchange Commission (or any other governmental agency),

(d) any (i) individual parcel of leased real property, or (ii) individual parcel of owned real property of the Company or any Guarantor having an appraised fair market value of less than \$2,000,000, and

(e) any FCC License to the extent excluded pursuant to clause (d) of the preceding paragraph.

The Company was required to perfect on the Issue Date the security interests in the Collateral to the extent they could be perfected by the filing of UCC1 financing statements or the delivery of certificates representing Capital Interests or notes representing intercompany debt. To the extent any such security interest could not be perfected by such filing or delivery, the Company is required to use commercially reasonable efforts to have all security interests that are required by the Security Documents to be in place perfected as soon as practicable following the Issue Date, but in any event no later than May 30, 2010, except to the extent any such security interest cannot be perfected with commercially reasonable efforts or to the extent the Security Documents do not require perfection of the security interest. If the Company, or any Guarantor, were to become subject to a bankruptcy proceeding, any Liens recorded or perfected after the Issue Date would face a greater risk of being invalidated than if they had been recorded or perfected on the Issue Date.

Subject to the foregoing, if property that is intended to be Collateral is acquired by the Company or a Guarantor (including property of a Person that becomes a new Guarantor) that is not automatically subject to a perfected security interest under the Security Documents, then the Company or such Guarantor will provide a Second-Priority Lien over such property (or, in the case of a new Guarantor, such of its property) in favor of the Collateral Agent and deliver certain certificates and opinions in respect thereof, all as and to the extent required by the Indenture or the Security Documents.

As set out in more detail below, upon an enforcement event or Insolvency or Liquidation Proceeding, proceeds from the Collateral will be applied first to satisfy First Lien Obligations and then ratably to satisfy obligations under the Notes and any Permitted Additional Pari Passu Obligations. In addition, the Indenture will permit the Company and the Guarantors to create additional Liens under specified circumstances. See the definition of Permitted Liens.



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The Collateral has been pledged to (1) the administrative agent under the Credit Agreement (together with any successor, the *First Lien Agent*), on a first-priority basis, for the benefit of the First Lien Secured Parties to secure the First Lien Obligations and (2) the Collateral Agent, on a second-priority basis, for the benefit of the Trustee and the Holders of the Notes and the holders of any Permitted Additional Pari Passu Obligations to secure the Second Lien Obligations. The Second Lien Obligations constitute claims separate and apart from (and of a different class from) the First Lien Obligations. The Second Priority Liens are junior and subordinate to the First Priority Liens.

**Control over Collateral and Enforcement of Liens**

The Security Documents provide that, prior to the Discharge of First Lien Obligations, the First Lien Agent will have the sole power to exercise remedies against the Collateral (subject to the right of the Collateral Agent and the Holders of Second Lien Obligations to take limited protective measures with respect to the Second Priority Liens and to take certain actions that would be permitted to be taken by unsecured creditors) and to foreclose upon and dispose of the Collateral.

Proceeds realized by the First Lien Agent or the Collateral Agent from the Collateral (including proceeds of Collateral in an Insolvency or Liquidation Proceeding) will be applied:

*first*, to amounts owing to the holders of the First Lien Obligations until the Discharge of First Lien Obligations;

*second*, to amounts owing to the Collateral Agent in its capacity as such in accordance with the terms of the Security Documents, to amounts owing to the Trustee in its capacity as such in accordance with the terms of the Indenture

*third*, to amounts owing to any representative for Permitted Additional Pari Passu Obligations in its capacity as such in accordance with the terms of such Permitted Additional Pari Passu Obligations;

*fourth*, ratably to amounts owing to the holders of Second Lien Obligations in accordance with the terms of the Security Documents and the Indenture; and

*fifth*, to the Company and/or other persons entitled thereto.

None of the Collateral has been appraised in connection with the offering of the Notes. The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, the condition of our industry, our ability to implement our business strategy, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including but not limited to the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, there can be no assurance that the Collateral will be saleable, or, if saleable, that there will not be substantial delays in its liquidation. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay our obligations under the Notes. In addition, the fact that the First Lien Lenders will receive proceeds from enforcement of the Collateral before Holders of the Notes, that other Persons may have first-priority Liens in respect of Collateral subject to Permitted Liens and that the Second Priority Lien held by the Collateral Agent will secure any Permitted Additional Pari Passu Obligations in addition to the Obligations under the Notes and the Indenture could have a material adverse effect on the amount that Holders of the Notes would receive upon a sale or other disposition of the Collateral. Accordingly, there can be no assurance that proceeds of any sale of the Collateral pursuant to the Indenture and the related Security Documents following an Event of Default will be sufficient to satisfy, or will not be substantially less than, amounts due under the Notes. In addition, in the event of a bankruptcy, the ability of the Holders to realize upon any of the Collateral may be subject to certain bankruptcy law limitations as described below.

If the proceeds from a sale or other disposition of the Collateral are not sufficient to repay all amounts due on the Notes, the Holders of the Notes (to the extent not repaid from the proceeds of the sale of the Collateral) will have only an unsecured claim against the remaining assets of the Company and the Guarantors.

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To the extent that Liens (including Permitted Liens), rights or easements granted to third parties encumber assets located on property owned by the Company or the Guarantors, including the Collateral, such third parties may exercise rights and remedies with respect to the property subject to such Liens that could adversely affect the value of the Collateral and the ability of the Collateral Agent, the Trustee or the Holders of the Notes to realize or foreclose on Collateral.

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### **Certain Bankruptcy Limitations**

The right of the Collateral Agent to repossess and dispose of the Collateral upon the occurrence of an Event of Default will be significantly impaired by bankruptcy law in the event that a bankruptcy case were to be commenced by or against the Company or any Guarantor prior to the Collateral Agent's having repossessed and disposed of the Collateral. Upon the commencement of a case for relief under Title 11 of the United States Code, as amended (the *Bankruptcy Code*), a secured creditor such as the Collateral Agent is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security without bankruptcy court approval.

In view of the broad equitable powers of a U.S. bankruptcy court, it is impossible to predict how long payments under the Notes could be delayed following commencement of a bankruptcy case, whether or when the Collateral Agent could repossess or dispose of the Collateral, the value of the Collateral at any time during a bankruptcy case or whether or to what extent Holders of the Notes would be compensated for any delay in payment or loss of value of the Collateral. The Bankruptcy Code permits only the payment and/or accrual of post-petition interest, costs and attorneys' fees to a secured creditor during a debtor's bankruptcy case to the extent the value of such creditor's interest in the Collateral is determined by the bankruptcy court to exceed the aggregate outstanding principal amount of the obligations secured by the Collateral.

Furthermore, in the event a bankruptcy court determines that the value of the Collateral is not sufficient to repay all amounts due on the Notes, the Holders of the Notes will hold secured claims only to the extent of the value of the Collateral to which the Holders of the Notes are entitled, and unsecured claims with respect to such shortfall.

### **Release of Liens**

The Security Documents and the Indenture provide that the Second Priority Liens securing the Note Guarantee of any Guarantor will be automatically released when such Guarantor's Note Guarantee is released in accordance with the terms of the Indenture. In addition, the Second Priority Liens securing the Obligations under the Notes and the Indenture will be released (a) in whole, upon a legal defeasance or a covenant defeasance of the Notes as set forth below under *Legal Defeasance and Covenant Defeasance*, (b) in whole, upon satisfaction and discharge of the Indenture, (c), in whole, upon payment in full of principal, interest and all other Obligations on the Notes issued under the Indenture, (d) in whole or in part, with the consent of the requisite Holders of the Notes in accordance with the provisions under *Amendment, Supplement and Waiver*, including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, Notes, (e) in part, as to any asset constituting Collateral (A) that is sold or otherwise disposed of by the Company or any of the Guarantors in a transaction permitted by *Certain Covenants Limitation on Asset Sales* and by the Security Documents (to the extent of the interest sold or disposed of) or otherwise permitted by the Indenture and the Security Documents, if all other Liens on that asset securing the First Lien Obligations and any Permitted Additional Pari Passu Obligations then secured by that asset (including all commitments thereunder) are released, (B) that is cash withdrawn from deposit accounts for any purpose not prohibited under the Indenture or the Security Documents (C) that is a Capital Interest of a Subsidiary of the Company to the extent necessary for such Subsidiary not to be subject to any requirement pursuant to Rule 3-16 or Rule 3-10 of Regulation S-X under the Securities Act, due to the fact that such Subsidiary's Capital Interest secures the Notes or Guarantees, to file separate financial statements with the Securities and Exchange Commission (or any other governmental agency), (D) that is used to make a Restricted Payment or Permitted Investment permitted by the Indenture, (E) that becomes Excluded Property, or (F) that is otherwise released in accordance with, and as expressly provided for in accordance with, the Indenture and the Security Documents.

The Company must deliver an Officers' Certificate to the Collateral Agent within 30 calendar days following the end of each six-month period beginning on each interest payment date, to the effect that all such releases and withdrawals during the preceding six-month period (or since the Issue Date, in the case of the first such Officers' Certificate) as described in clause (d) of the preceding paragraph, were not prohibited by the Indenture.

To the extent applicable, the Company will comply with Section 313(b) of the TIA, relating to reports, and, following qualification of the Indenture under the TIA (if required), Section 314(d) of the TIA, relating to the release of property and to the substitution therefor of any property to be pledged as Collateral for the Notes. Any certificate or opinion required by Section 314(d) of the TIA may be made by an officer of the Company except in cases where Section 314(d) requires that such certificate or opinion be made by an independent engineer, appraiser or other expert, who shall be reasonably satisfactory to the Trustee. In every instance

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that the Trustee or the Collateral Agent is asked to acknowledge a release, the Company shall deliver an opinion and Officer's Certificate stating that all conditions to the release in the Indenture, the Security Documents and the Intercreditor Agreement have been satisfied.

**Intercreditor Agreement**

The Company, the Guarantors, the Collateral Agent and the First Lien Agent have entered into the Intercreditor Agreement, which established the second-priority status of the Second Priority Liens relative to the First Priority Liens. In addition to the provisions described above with respect to control of remedies, release of Collateral and amendments to the Security Documents, the Intercreditor Agreement also imposes certain other restrictions and agreements, including the restrictions and agreements described below.

Pursuant to the Intercreditor Agreement, the Collateral Agent, the Trustee, the Holders of the Notes and the holders of any Permitted Additional Pari Passu Obligations agree that the First Lien Agent and the other First Lien Secured Parties have no fiduciary duties to them in respect of the maintenance or preservation of the Collateral. The First Lien Agent agrees in the Intercreditor Agreement to hold, until the Discharge of First Lien Obligations, certain possessory collateral also for the benefit of the Trustee, the Collateral Agent and the holders of the Second Lien Obligations. In addition, the Collateral Agent, the Trustee and the Holders of the Notes and the holders of any Permitted Additional Pari Passu Obligations waive any claim against the First Lien Agent and the First Lien Lenders in connection with any actions they may take under the Credit Agreement or with respect to the Collateral. They further waive any right to assert, or request the benefit of, any marshalling or similar rights that may otherwise be available to them.

The Intercreditor Agreement provides for the right of the Collateral Agent and the holders of Second Lien Obligations to exercise rights and remedies as unsecured creditors against the Company or any Guarantor, subject to certain terms, conditions, waivers and limitations as more fully set forth in the Intercreditor Agreement.

Pursuant to the Intercreditor Agreement, the Collateral Agent and the Trustee, for itself and on behalf of the Holders of the Notes and the holders of any Permitted Additional Pari Passu Obligations, irrevocably constitute and appoint the First Lien Agent and any officer or agent of the First Lien Agent, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place of the Trustee, Collateral Agent, Holder of the Notes, holders of any Permitted Additional Pari Passu Obligations or in the First Lien Agent's own name, from time to time in the First Lien Agent's discretion, for the purpose of carrying out the terms of certain sections of the Intercreditor Agreement (including those relating to the release of the Second Priority Liens as permitted thereby, including releases upon sales due to enforcement of remedies or otherwise provided for in the Intercreditor Agreement), to take any and all appropriate action and to execute any and all releases, documents and instruments which may be necessary or desirable to accomplish the purposes of such section of the Intercreditor Agreement, including any financing statements, mortgage releases, intellectual property releases, endorsements or other instruments or transfer or release of such liens.

Notwithstanding the time, manner, order or method of grant, creation, attachment or perfection of any First Priority Liens or Second Priority Liens, the First Priority Liens rank senior to any Second Priority Liens on the Collateral. The Collateral for the First Priority Liens, the Second Priority Liens and the Permitted Additional Pari Passu Obligations will at all times be the same, provided that the Excluded Property identified in clause (c) of the definition of Excluded Property may secure the First Lien Obligations.

The Trustee, the Collateral Agent, the Holders and the holders of any Permitted Additional Pari Passu Obligations agree that (i) in certain circumstances the holders under the Credit Agreement are required by the terms thereof to be repaid with proceeds of dispositions of Collateral prior to repayment of the Indenture (subject to certain reinvestment provisions) and (ii) they will not accept payments from such dispositions of Collateral until applied to repayment of the Credit Agreement as so required. The Trustee, the Collateral Agent, the Holders and the holders of any Permitted Additional Pari Passu Obligations agree that if they receive payments at any time from the Collateral in contravention of the Intercreditor Agreement, they will promptly turn such payments over to First Lien Obligation holders (through the First Lien Agent).



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In addition, if the Company or any Guarantor is subject to any Insolvency or Liquidation Proceeding, the Trustee, the Collateral Agent, the Holders and the holders of any Permitted Additional Pari Passu Obligations agree that:

they will not object to or otherwise contest (and, as necessary, will consent to) the Company's or such Guarantor's use of cash collateral if the First Lien Obligation holders consent to such usage;

they shall not seek or require the Company or any Guarantor to provide any adequate protection, or accept any such adequate protection, for Second Lien Obligations except that if, in connection with the use of Collateral constituting cash collateral by the Company and the Guarantors or debtor-in-possession ( *DIP* ) financing provided to the Company and the Guarantors, the First Lien Obligation holders are granted adequate protection in the form of additional collateral, then the Trustee may seek or request adequate protection in the form of a replacement or additional Lien on such additional collateral and the First Lien Obligation holders will not object to or otherwise contest (and, as necessary will consent to) such adequate protection, so long as all such replacement or additional Liens are fully junior and subordinate both to the Liens securing the First Lien Obligations (and are subject to the terms of the Intercreditor Agreement) and to the Liens securing the DIP financing;

if the First Lien Obligation holders consent to a DIP financing, the Trustee and the holders of the Second Lien Obligations will be deemed to have consented to, and will not object to, such DIP financing and to the priming of their Liens in connection therewith in the event that the Liens in favor of the First Lien Obligation holders are primed in connection with such DIP financing (*provided* that the aggregate principal amount of the DIP financing, plus the aggregate principal amount of First Lien Obligations, does not exceed the sum of (i) the amount permitted under clause (1) of the definition of *Permitted Debt* plus (ii) \$15.0 million);

prior to the Discharge of First Lien Obligations, without the prior written consent of the First Lien Agent and the required First Lien Lenders, they will not seek relief from the automatic stay or any other stay in any Insolvency or Liquidation Proceeding; *provided* that the Trustee may seek or request adequate protection (i) in the form of a replacement or additional Lien and the First Lien Obligation holders will not object to or otherwise contest (and, as necessary will consent to) such adequate protection, so long as all such replacement or additional Liens are fully junior and subordinate to the Liens securing the First Lien Obligations (and are subject to the terms of the Intercreditor Agreement) or (ii) if a motion for adequate protection by the First Lien Agent or any holder of First Lien Obligations has been denied by the bankruptcy court;

they will not oppose any sale or other disposition of the Collateral consented to by the First Lien Obligation holders and shall be deemed to have consented to and released the Liens securing the Second Lien Obligations (*provided* that (x) the Liens securing the First Lien Obligations are simultaneously being released and (y) the net proceeds of such sale or other disposition of the Collateral are being used to repay First Lien Obligations);

none of the Trustee, the Collateral Agent nor any holder of any Second Lien Obligations may support any plan of reorganization in any Insolvency or Liquidation Proceeding unless such plan (i) pays off in cash in full the First Lien Obligations or (ii) is otherwise accepted by the class of holders of the First Lien Obligations voting thereon;

until the Discharge of First Lien Obligations, neither the Trustee nor the Collateral Agent, on behalf of itself and the Holders of the Notes or the holders of any Permitted Additional Pari Passu Obligations, will assert or support any claim under Section 506(c) of the Bankruptcy Code senior to or on a parity with the Liens securing the First Lien Obligations for costs and expenses of preserving or disposing of any Collateral (*provided* that this clause will not preclude the Trustee, the Collateral, the Holders of the Notes or the holders of any Permitted Additional Pari Passu Obligations from supporting a plan of reorganization permitted by the preceding bullet point); and

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the Trustee, the Collateral Agent and the holders of Second Lien Obligations acknowledge that holders of First Lien Obligations may have rights under Section 1111(b)(2) of the Bankruptcy Code.

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### **No Impairment of the Security Interests**

Neither the Company nor any of the Guarantors are permitted to take any action, or knowingly or negligently omit to take any action, which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral for the benefit of the Trustee, the Collateral Agent and the Holders of the Notes.

### **Further Assurances**

Subject to the limitations described above under "General", the Security Documents and the Indenture provide that the Company and the Guarantors shall, at their expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the Second Priority Lien in the Collateral granted to the Collateral Agent and the priority thereof, and to otherwise effectuate the provisions or purposes of the Indenture and the Security Documents.

### **Optional Redemption**

The Notes may be redeemed, in whole or in part, at any time prior to December 15, 2013, at the option of the Company upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each Holder's registered address, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to but not including, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

In addition, the Notes are subject to redemption, at the option of the Company, in whole or in part, at any time on or after December 15, 2013, upon not less than 30 nor more than 60 days' notice at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth below, plus accrued and unpaid interest, if any, to, but not including, the redemption date (subject to the right of Holders of record on the relevant regular record date to receive interest due on an interest payment date), if redeemed during the 12-month period beginning on December 15 of the years indicated:

<b>Year</b>	<b>Redemption Price</b>
2013	104.813%
2014	102.406%
2015 and thereafter	100.00%

In addition to the optional redemption of the Notes in accordance with the provisions of the preceding paragraphs, prior to December 15, 2012, the Company may, with the net proceeds of one or more Equity Offerings, redeem up to 35% of the aggregate principal amount of the outstanding Notes (including Additional Notes) at a redemption price equal to 109.625% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to the date of redemption; *provided* that at least 65% of the principal amount of Notes then outstanding (including Additional Notes) remains outstanding immediately after the occurrence of any such redemption (excluding Notes held by the Company or its Subsidiaries) and that any such redemption occurs within 90 days following the closing of any such Equity Offering.

In addition, prior to December 15, 2013, the Company may redeem up to an aggregate \$30 million of the Notes in any 12-month period, in connection with up to two redemptions in such 12-month period, upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each Holder's registered address, at a redemption price of 103% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

If less than all of the Notes are to be redeemed, the Trustee will select the Notes or portions thereof to be redeemed by lot, pro rata or by any other method the Trustee shall deem fair and appropriate (subject to the Depository Trust Company's procedures as applicable).

No Notes of \$2,000 or less shall be redeemed in part. Notices of redemption shall be mailed by first class mail (and, to the extent permitted by applicable procedures or regulations, electronically) at least 30 days before the redemption date to each Holder of Notes to be redeemed at its registered address. If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.





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The Company may at any time, and from time to time, purchase Notes in the open market or otherwise subject to compliance with applicable securities laws.

### **Change of Control**

Upon the occurrence of a Change of Control, the Company will make an Offer to Purchase all of the outstanding Notes at a purchase price (the *Purchase Price*) in cash equal to 101% of the principal amount tendered, together with accrued interest, if any, to but not including the Purchase Date. For purposes of the foregoing, an Offer to Purchase shall be deemed to have been made if (i) within 30 days following the date of the consummation of a transaction or series of transactions that constitutes a Change of Control, the Company commences an Offer to Purchase all outstanding Notes at the Purchase Price and (ii) all Notes properly tendered pursuant to the Offer to Purchase are purchased on the terms of such Offer to Purchase.

The phrase *all or substantially all*, as used in the definition of *Change of Control*, has not been interpreted under New York law (which is the governing law of the Indenture) to represent a specific quantitative test. As a consequence, in the event the Holders of the Notes elected to exercise their rights under the Indenture and the Company elects to contest such election, there could be no assurance how a court interpreting New York law would interpret such phrase. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Company to make an Offer to Purchase the Notes as described above. In addition, under a recent Delaware Chancery Court interpretation of a change of control repurchase requirement with a continuing director provision, a board of directors may approve a slate of shareholder nominated directors without endorsing them or while simultaneously recommending and endorsing its own slate instead. The foregoing interpretation would permit our board to approve a slate of directors that included a majority of dissident directors nominated pursuant to a proxy contest, and the ultimate election of such dissident slate would not constitute a *Change of Control* that would trigger a Holder's right to require the Company to make an Offer to Purchase the Notes as described above.

The provisions of the Indenture may not afford Holders protection in the event of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction affecting the Company that may adversely affect Holders, if such transaction is not the type of transaction included within the definition of *Change of Control*. A transaction involving the management of the Company or its Affiliates, or a transaction involving a recapitalization of the Company, will result in a *Change of Control* only if it is the type of transaction specified in such definition. The definition of *Change of Control* may be amended or modified with the written consent of a majority in aggregate principal amount of outstanding Notes. See *Amendment, Supplement and Waiver*.

The Company is required to comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws or regulations in connection with any Offer to Purchase as described above and no Default or Event of Default shall be deemed to have occurred as a result of such compliance.

The Company is not required to make an Offer to Purchase upon a *Change of Control* if (i) a third party makes such Offer to Purchase contemporaneously with or upon a *Change of Control* in the manner, at the times and otherwise in compliance with the requirements of the Indenture and purchases all Notes validly tendered and not withdrawn under such Offer to Purchase or (ii) a notice of redemption has been given pursuant to the Indenture as described above under the caption *Optional Redemption*.

The Company's ability to pay cash to the Holders of Notes upon a *Change of Control* may be limited by the Company's then existing financial resources. Further, the agreements governing the Company's other Debt contain, and future agreements of the Company may contain, prohibitions of certain events, including events that would constitute a *Change of Control*. If the exercise by the Holders of Notes of their right to require the Company to repurchase the Notes upon a *Change of Control* occurred at the same time as a change of control event under one or more of either of the Company's other debt agreements, the Company's ability to pay cash to the Holders of Notes upon a repurchase may be further limited by the Company's then existing financial resources. See *Risk Factors* *Risks Related to the Notes*.

In addition, an Offer to Purchase may be made in advance of a *Change of Control*, conditional upon such *Change of Control*, if a definitive agreement is in place for the *Change of Control* at the time of launching the Offer to Purchase.

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### **Certain Covenants**

Set forth below are certain covenants contained in the Indenture:

#### **Limitation on Incurrence of Debt**

The Company will not, and will not permit any of its Restricted Subsidiaries to, Incur any Debt (including Acquired Debt); *provided* that the Company and any of its Restricted Subsidiaries that is a Guarantor may Incur Debt (including Acquired Debt) if, immediately after giving effect to the Incurrence of such Debt and the receipt and application of the proceeds therefrom, (a) the Consolidated Total Debt Ratio would be less than or equal to 6.0 to 1.0 and (b) no Default or Event of Default shall have occurred and be continuing at the time or as a consequence of the Incurrence of such Debt.

Notwithstanding the first paragraph above, the Company and its Restricted Subsidiaries may Incur Permitted Debt.

For purposes of determining compliance with this Limitation on Incurrence of Debt covenant, (x) Debt Incurred under the Credit Agreement on the Issue Date shall initially be treated as Incurred pursuant to clause (i) of the definition of Permitted Debt, (y) the outstanding principal amount of any Debt shall be counted only once such that (without limitation) any obligation arising under any Guarantees or obligations with respect to letters of credit supporting Debt otherwise included in the determination of such particular amount shall not be included and (z) except as provided above, in the event that an item of Debt meets the criteria of more than one of the types of Debt described above, including categories of Permitted Debt and the first paragraph of this Limitation on Incurrence of Debt covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, all or any portion of such item of Debt.

The accrual of interest, the accretion or amortization of original issue discount and the payment of interest on Debt in the forms of additional Debt or payment of dividends on Capital Interests in the forms of additional shares of Capital Interests with the same terms and change in the amount outstanding due solely to the result of fluctuations in the exchange rates of currencies will not be deemed to be an Incurrence of Debt or issuance of Capital Interests for purposes of this covenant.

The Company and any Guarantor will not Incur any Debt that pursuant to its terms is subordinate or junior in right of payment to any Debt unless such Debt is subordinated in right of payment to the Notes and the Note Guarantees to the same extent; *provided* that Debt will not be considered subordinate or junior in right of payment to any other Debt solely by virtue of being unsecured or secured to a greater or lesser extent or with greater or lower priority.

#### **Limitation on Restricted Payments**

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, make any Restricted Payment unless, at the time of and after giving effect to the proposed Restricted Payment:

(a) no Event of Default shall have occurred and be continuing or will occur as a consequence thereof;

(b) after giving effect to such Restricted Payment on a pro forma basis, the Company would be permitted to Incur at least \$1.00 of additional Debt (other than Permitted Debt) pursuant to the provisions described in the first paragraph under the Limitation on Incurrence of Debt covenant; and

(c) after giving effect to such Restricted Payment on a pro forma basis, the aggregate amount expended or declared for all Restricted Payments made on or after the Issue Date (excluding Restricted Payments permitted by clauses (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix), (x), and (xi) of the next succeeding paragraph), shall not exceed the sum (without duplication) of

(1) 100% of the Consolidated Cash Flow (or if Consolidated Cash Flow shall be a deficit, 100% of such deficit) of the Company for the period (taken as one accounting period) from October 1, 2009 to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment less the product of 1.4 times the Company's Consolidated Interest Expense for the same period, *plus*

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(2) 100% of the aggregate net proceeds (including the Fair Market Value of property other than cash) received by the Company subsequent to the initial issuance of the Notes either (i) as a contribution to its common equity capital or (ii) from the issuance and sale (other than to a Restricted Subsidiary) of its Qualified Capital Interests, including Qualified Capital Interests issued upon the conversion of Debt or Redeemable Capital Interests of the Company, and from the exercise of options, warrants or other rights to purchase such Qualified Capital Interests (other than, in each case, Capital Interests or Debt sold to a Subsidiary of the Company), *plus*

(3) 100% of the amount by which Debt of the Company is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the initial issuance of the Notes of any Debt of the Company for Qualified Capital Interests of the Company (less the amount of any cash, or the fair value of any other property, distributed by the Company upon such conversion or exchange); *plus*

(4) 100% of the net reduction in Investments (other than Permitted Investments), subsequent to the date of the initial issuance of the Notes, in any Person, resulting from (x) payments of interest on Debt, dividends, distributions, redemptions, repurchases, repayments of loans or advances, or other transfers of assets (but only to the extent such interest, dividends, distributions, redemptions, repurchases, repayments or other transfers were made in cash), in each case to the Company or any Restricted Subsidiary from any Person (including, without limitation, an Unrestricted Subsidiary), (y) the sale or other disposition (other than to the Company or a Restricted Subsidiary) thereof made by the Company and its Restricted Subsidiaries or (z) the redesignation of