

SALEM COMMUNICATIONS CORP /DE/  
Form 8-K  
November 06, 2006

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

**FORM 8-K**

**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): November 6, 2006

**SALEM COMMUNICATIONS CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

|  |   |   |
|--|---|---|
| <b>Delaware</b><br>(State or Other Jurisdiction<br>of Incorporation)                           | <b>000-26497</b><br>(Commission<br>File Number) | <b>77-0121400</b><br>(IRS Employer<br>Identification No.) |
| <b>4880 Santa Rosa Road, Camarillo, California</b><br>(Address of Principal Executive Offices) |   | <b>93012</b><br>(Zip Code)                                |

**Registrant's telephone number, including area code: (805) 987-0400**

Not Applicable  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))



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ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On November 6, 2006, Salem Communications Corporation issued a press release regarding its results of operations for the quarter ended September 30, 2006.

ITEM 7.01 REGULATION FD DISCLOSURE

On November 6, 2006, Salem Communications Corporation issued a press release regarding its results of operations for the quarter ended September 30, 2006.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits. The following exhibit is furnished with this report on Form 8-K:

| Exhibit No. | Description  |
|-------------|--|
| 99.1        | Press release, dated November 6, 2006, of Salem Communications Corporation regarding its results of operations for the quarter ended September 30, 2006. |

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SIGNATURE

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

SALEM COMMUNICATIONS CORPORATION

Date: November 6, 2006

By: /s/ EVAN D. MASYR

Evan D. Masyr

Vice President - Accounting and Finance

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EXHIBIT INDEX

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|-------------|--|
| 99.1        | Press release, dated November 6, 2006, of Salem Communications Corporation regarding its results of operations for the quarter ended September 30, 2006. |

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## **SALEM COMMUNICATIONS ANNOUNCES A 9.3% INCREASE IN THIRD QUARTER 2006 TOTAL REVENUE**

CAMARILLO, CA November 6, 2006 Salem Communications Corporation (Nasdaq: SALM), a leading U.S. radio broadcaster, Internet content provider and magazine publisher targeting audiences interested in Christian and family-themed content and conservative values, today announced results for the three month and nine month periods ended September 30, 2006.

Commenting on the company's results, Edward G. Atsinger III, president and CEO said, "The major contributors to our 9.3% increase in third quarter 2006 total revenue were our Internet and publishing businesses, whose revenue more than doubled to \$5.4 million. Despite continuing weakness in the radio advertising market, we achieved net broadcasting revenue growth of 4.3%. Our News Talk stations grew net revenue by 20.1% and our Christian Teaching and Talk block programming business grew net revenue by 11.9%. We continue to focus on integrating our proven radio platform with our newer Internet and publishing businesses, a strategy that we believe offers substantial growth opportunities."

### **Third Quarter 2006 Results**

For the quarter ended September 30, 2006 compared to the quarter ended September 30, 2005:

- 

Total revenue increased 9.3% to \$57.9 million from \$53.0 million;

- 

Operating income decreased 5.6% to \$11.0 million from \$11.7 million;

-

Net income decreased 57.6% to \$1.5 million, or \$0.06 net income per diluted share, from net income of \$3.4 million, or \$0.13 net income per diluted share;

•

EBITDA decreased 17.0% to \$12.0 million from \$14.5 million;

•

Adjusted EBITDA increased 5.1% to \$15.9 million from \$15.2 million;

#### Broadcasting

•

Net broadcasting revenue increased 4.3% to \$52.5 from \$50.3 million;

•

Station operating income ( SOI ) increased 4.0% to \$20.7 million from \$19.9 million;

•

Same station net broadcasting revenue increased 1.3% to \$50.3 million from \$49.7 million;

•

Same station SOI increased 0.4% to \$20.1 million from \$20.0 million;

•

Same station SOI margin decreased to 40.0% from 40.3%;

#### Non-broadcast Media

•

Non-broadcast revenue increased 104.1% to \$5.4 million from \$2.6 million; and

•

Non-broadcast operating income decreased 52.1% to \$0.1 million from \$0.2 million.

Included in the results for the quarter ended September 30, 2006 are:



- 

A \$0.2 million loss (\$0.1 million loss, net of tax) on the disposal of assets;

- 

A \$3.6 million loss (\$2.2 million loss, net of tax, or \$0.09 loss per share) from the early redemption of \$94.3 million of 9.0% senior subordinated notes due 2011;

- 

A \$0.8 million gain (\$0.03 gain per diluted share) from discontinued operations, net of tax; and

- 

A \$0.9 million non-cash compensation charge (\$0.6 million, net of tax, or \$0.02 per share) related to the expensing of stock options consisting of:

- 

\$0.7 million non-cash compensation included in corporate expenses; and

- 

\$0.2 million non-cash compensation included in broadcasting operating expenses.

Included in the results for the quarter ended September 30, 2005 are:

- 

A \$0.5 million loss (\$0.3 million loss, net of tax, or \$0.01 loss per share) on disposal of assets; and

- 

A \$0.1 million loss from discontinued operations, net of tax.

These results reflect the reclassification of the operations of certain stations to discontinued operations for all periods presented. Combined, these stations had net broadcasting revenue of approximately \$0.5 million and lost \$0.1 million for the quarter ended September 30, 2006. They had net broadcasting revenue of approximately \$0.9 million and lost \$0.1 million for the quarter ended September 30, 2005.

Other comprehensive loss of \$1.5 million, net of tax, for the quarter ended September 30, 2006 is due to the change in fair market value of the company's interest rate swaps.

Per share numbers are calculated based on 23,990,729 diluted weighted average shares for the quarter ended September 30, 2006, and 25,784,072 diluted weighted average shares for the comparable 2005 period.

### **Year to Date 2006 Results**

For the nine month period ended September 30, 2006 compared to the nine month period ended September 30, 2005:

- 

Total revenue increased 7.9% to \$168.0 million from \$155.8 million;

- 

Operating income increased 48.1% to \$47.8 million from \$32.3 million;

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Net income increased 68.0% to \$15.7 million, or \$0.65 net income per diluted share, from net income of \$9.4 million, or \$0.36 net income per diluted share;

- 

EBITDA increased 35.6% to \$56.0 million from \$41.3 million;

- 

Adjusted EBITDA increased 0.5% to \$43.2 million from \$42.9 million;

#### Broadcasting

- 

Net broadcasting revenue increased 4.5% to \$154.7 from \$147.9 million;

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SOI increased 0.3% to \$57.7 million from \$57.5 million;

- 

Same station net broadcasting revenue increased 1.7% to \$148.1 million from \$145.7 million;

- 

Same station SOI was the same at \$57.7 million;

- 

Same station SOI margin decreased to 39.0% from 39.6%;

#### Non-broadcast Media

- 

Non-broadcast revenue increased 70.7% to \$13.3 million from \$7.8 million; and

- 

Non-broadcast operating income increased 57.7% to \$0.8 million from \$0.5 million.

Included in the results for the nine month period ended September 30, 2006 are:

- 

An \$18.9 million gain primarily from the disposal and exchange of assets in the Sacramento, Cleveland and Dallas markets (\$11.5 million gain, net of tax, or \$0.47 gain per diluted share);

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A \$3.6 million loss (\$2.2 million loss, net of tax, or \$0.09 loss per share) from the early redemption of \$94.3 million of 9.0% senior subordinated notes due 2011;

- 

A \$1.1 million gain from discontinued operations, net of tax, or \$0.05 per diluted share; and

- 

A \$3.5 million non-cash compensation charge (\$2.2 million, net of tax, or \$0.09 per share) related to the expensing of stock options consisting of:

- 

\$2.9 million non-cash compensation included in corporate expenses; and

- 

\$0.6 million non-cash compensation included in broadcasting operating expenses.

Included in the results for the nine month period ended September 30, 2005 are:

- Litigation costs of \$0.7 million (\$0.4 million loss, net of tax, or \$0.02 loss per share);
- A \$0.6 million loss (\$0.4 million loss, net of tax, or \$0.01 loss per share) on disposal of assets; and
- A \$0.4 million loss from discontinued operations, net of tax or \$0.02 loss per share.

These results reflect the reclassification of the operations of certain stations to discontinued operations for all periods presented. Combined, these stations had net broadcasting revenue of approximately \$1.7 million and lost \$0.1 million for the nine month period ended September 30, 2006. They had net broadcasting revenue of approximately \$2.6 million and lost \$0.4 million for the nine month period ended September 30, 2005.

Other comprehensive income of \$0.5 million, net of tax, for the nine month period ended September 30, 2006 is due to the change in fair market value of the company's interest rate swaps.

Per share numbers are calculated based on 24,347,388 diluted weighted average shares for the nine month period ended September 30, 2006, and 25,915,394 diluted weighted average shares for the comparable 2005 period.

### **SOI Margin Composition Analysis**

The following table, which is for analytical purposes only, has been created by assigning each station in the company's radio station portfolio to one of four categories based upon the station's third quarter SOI margin. The company believes this table is helpful in assessing the portfolio's financial and operational development.

#### Three Months Ended September 30.

(Net Broadcasting Revenue and SOI in millions)

2005

2006

| SOI Margin %   | Average  |         |        |         | Average  |         |        |         |
|----------------|----------|---------|--------|---------|----------|---------|--------|---------|
|                | Stations | Revenue | SOI    | SOI %   | Stations | Revenue | SOI    | SOI %   |
| 50% or greater | 17       | \$18.7  | \$11.3 | 60.8%   | 30       | \$24.8  | \$15.3 | 61.6%   |
| 30% to 49%     | 23       | 15.2    | 6.4    | 42.3%   | 24       | 12.0    | 4.9    | 40.9%   |
| 0% to 29%      | 36       | 10.2    | 2.0    | 19.2%   | 26       | 9.6     | 1.6    | 16.9%   |
| Less than 0%   | 21       | 2.0     | (0.5)  | (27.2%) | 19       | 2.0     | (0.8)  | (40.7%) |
| Subtotal       | 97       | 46.1    | 19.2   | 41.7%   | 99       | 48.4    | 21.0   | 43.3%   |
| Other          | -        | 4.2     | 0.7    | 15.5%   | -        | 4.1     | (0.3)  | (7.0%)  |
| Total          | 97       | \$50.3  | \$19.9 | 39.5%   | 99       | \$52.5  | \$20.7 | 39.4%   |

### Balance Sheet

As of September 30, 2006, the company had net debt of \$370.2 million and was in compliance with the covenants of its credit facilities and bond indentures. The company's bank leverage ratio was 6.11 versus a compliance covenant of 6.75 and its bond leverage ratio was 5.49 versus a compliance covenant of 7.0.

### Bond Repurchase

On July 6, 2006, Salem Communications Holding Corporation, a wholly-owned subsidiary, completed the redemption of the remainder, \$94.3 million, of its outstanding 9% senior subordinated notes due July 2011.

### **Stock Repurchases and Dividends**

During the quarter ended September 30, 2006, the company repurchased 511,250 shares of its Class A common stock for approximately \$5.5 million at an average price of \$10.82 per share. As of November 6, 2006 Salem had repurchased 2,130,418 shares of Class A common stock for approximately \$32.2 million at an average price of \$15.12 per share, and had 23,842,520 shares of its Class A and Class B common stock outstanding.

Salem paid a special cash dividend of \$0.60 per share on its Class A and Class B common stock on July 28, 2006 to shareholders of record as of July 19, 2006. The dividend payment totaled approximately \$14.6 million.

### **Acquisitions and Divestitures**

During the quarter ended September 30, 2006, Salem completed the following divestiture transactions:

- WBTK (1380 AM) in Richmond, Virginia was sold for \$1.5 million on July 17, 2006; and
- WBGB (106.5 FM) in Jacksonville, Florida was sold for \$7.7 million on September 18, 2006.

The following divestiture and exchange transactions were pending as of September 30, 2006:

- KORL (690 AM) in Honolulu, Hawaii was acquired on October 1, 2006 by exchanging KHCM (1170 AM) in Honolulu, Hawaii plus \$1.0 million (Salem retained the call letters KHCM, which are used on 690 AM);
- WITH (1230 AM) in Baltimore, Maryland to be sold for \$3.3 million;
- WZAZ (1400 AM) in Jacksonville, Florida to be sold for \$1.0 million (operated by acquirer under an LMA as of October 1, 2006); and
- WJGR (1320 AM) and WZNZ (1460 AM) in Jacksonville, Florida to be sold for \$1.8 million (operated by acquirer under an LMA as of October 1, 2006).

## Fourth Quarter 2006 Outlook

For the fourth quarter of 2006, Salem is projecting:

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Total revenue to be between \$58.5 million and \$59.0 million compared to fourth quarter 2005 total revenue of \$53.9 million;

- 

Adjusted EBITDA to be between \$13.5 million and \$14.0 million compared to fourth quarter 2005 Adjusted EBITDA of \$15.4 million; and

- 

Net income per diluted share to be approximately \$0.02.

Fourth quarter 2006 outlook includes non-cash compensation expense related to the adoption of SFAS 123(R), based on stock options currently outstanding, of \$0.8 million.

Fourth quarter 2006 outlook reflects the following:

- 

Same station net broadcasting revenue increasing to \$51.7 million to \$52.2 million from a base of \$50.6 million in fourth quarter 2005, reflecting low single digit growth;

- 

Non-broadcast revenue increasing to approximately \$5.9 million from a base of \$3.0 million in fourth quarter 2005;

- 

Same station SOI declining to \$17.8 million to \$18.3 million from a base of \$20.0 million in fourth quarter 2005;

- 

Increased marketing costs on News Talk stations in Los Angeles, Chicago, Dallas, Phoenix, Portland and Louisville, and increased programming costs in Chicago, Dallas and Phoenix (incremental marketing and programming expenses of \$1.0 million);

- 

Continued growth from our core block programming business and our underdeveloped radio stations, particularly our News Talk stations;

-



Ongoing softness in the radio advertising market;

- 

Fixed costs associated with recently acquired stations in the Detroit, Honolulu, Miami, Omaha, Sacramento and Tampa markets; and

- 

The impact of recent acquisition, exchange and divestiture transactions.

### **Conference Call Information**

Salem will host a teleconference to discuss its results today, on November 6, 2006 at 12:00 p.m. Eastern Time. To access the teleconference, please dial 973-935-8511 ten minutes prior to the start time or listen via the investor relations portion of the company's website, located at [www.salem.cc](http://www.salem.cc). A replay of the teleconference will be available through November 20, 2006 and can be heard by dialing 973-341-3080, pass code 8013409 or on the investor relations portion of the company's website, located at [www.salem.cc](http://www.salem.cc).

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Salem Communications Corporation (Nasdaq: SALM) is a leading U.S. radio broadcaster, Internet content provider and magazine publisher targeting audiences interested in Christian and family-themed content and conservative values. In addition to its radio properties, Salem owns Salem Radio Network®, which syndicates talk, news and music programming to approximately 2,000 affiliates; Salem Radio Representatives™, a national radio advertising sales force; Salem Web Network™, an Internet provider of Christian content and online streaming; and Salem Publishing™, a publisher of Christian-themed magazines. Upon the close of all announced transactions, the company will own 98 radio stations, including 64 stations in 23 of the top 25 markets. Additional information about Salem may be accessed at the company's website, [www.salem.cc](http://www.salem.cc).

Media Contact:

Investor / Analyst Contact:

Denise Davis

Eric Jones

Director of Communications

Investor Relations

Salem Communications

Salem Communications

(805) 987-0400 ext. 1081

(805) 987-0400 ext. 1048

[denised@salem.cc](mailto:denised@salem.cc)

[ericj@salem.cc](mailto:ericj@salem.cc)

### ***Forward Looking Statements***

*Statements used in this press release that relate to future plans, events, financial results, prospects or performance are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those anticipated as a result of certain risks and uncertainties, including but not limited to the ability of Salem to close and integrate announced transactions, market acceptance of Salem's radio station formats, competition from new technologies, adverse economic conditions, and other risks and uncertainties detailed from time to time in Salem's reports on Forms 10-K, 10-Q, 8-K and other filings filed with or furnished to the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Salem undertakes no obligation to update or revise any forward-looking statements to reflect new information, changed circumstances or unanticipated events.*

**Regulation G**

*Station operating income, non-broadcast operating income, EBITDA and Adjusted EBITDA are financial measures not prepared in accordance with generally accepted accounting principles ( GAAP ). Station operating income is defined as net broadcasting revenues minus broadcasting operating expenses. Non-broadcast operating income is defined as non-broadcast revenue minus non-broadcast operating expenses. EBITDA is defined as net income before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before loss on early redemption of long-term debt, discontinued operations (net of tax), litigation costs, gain or loss on the disposal of assets and non-cash compensation expense. In addition, Salem has provided supplemental information as an attachment to this press release, reconciling these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP. The company believes these non-GAAP financial measures, when considered in conjunction with the most directly comparable GAAP financial measures, provide useful measures of the company s operating performance.*

*Station operating income, non-broadcast operating income, EBITDA and Adjusted EBITDA are generally recognized by the broadcasting industry as important measures of performance and are used by investors as well as analysts who report on the industry to provide meaningful comparisons between broadcasting. Station operating income, non-broadcast operating income, EBITDA and Adjusted EBITDA are not a measure of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to and not a substitute for, or superior to, the company s results of operations presented on a GAAP basis such as operating income and net income. In addition, Salem s definitions of station operating income, non-broadcast operating income, EBITDA and Adjusted EBITDA are not necessarily comparable to similarly titled measures reported by other companies.*

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**Salem Communications Corporation**  
**Condensed Consolidated Statements of**  
**Operations**  
(in thousands, except share, per share and  
margin data)

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2005</b>               | <b>2006</b> | <b>2005</b>              | <b>2006</b> |
|  |                           |             | (unaudited)              |             |
| Net broadcasting revenue                               | \$ 50,329                 | \$ 52,509   | \$ 147,937               | \$ 154,664  |
| Non-broadcast revenue                                  | 2,647                     | 5,402       | 7,815                    | 13,338      |
| Total revenue  | 52,976                    | 57,911      | 155,752                  | 168,002     |
| Operating expenses:                                    |                           |             |                          |             |
| Broadcasting operating expenses                        | 30,439                    | 31,821      | 90,457                   | 97,013      |
| Non-broadcast operating expenses                       | 2,457                     | 5,311       | 7,328                    | 12,570      |
| Litigation costs                                       | -                         | -           | 650                      | -           |
| Corporate expenses                                     | 4,688                     | 5,637       | 14,671                   | 18,333      |
| Depreciation and amortization                          | 3,177                     | 3,957       | 9,783                    | 11,118      |
| (Gain) loss on disposal of assets                      | 544                       | 167         | 559                      | (18,872)    |
| Total operating expenses                               | 41,305                    | 46,893      | 123,448                  | 120,162     |
| Operating income                                       | 11,671                    | 11,018      | 32,304                   | 47,840      |
| Other income (expense):                                |                           |             |                          |             |
| Interest income  | 92                        | 68          | 137                      | 114         |
| Interest expense                                       | (5,856)                   | (6,490)     | (16,561)                 | (19,857)    |
| Loss on early redemption of long-term debt             | (24)                      | (3,625)     | (24)                     | (3,625)     |
| Other expense, net                                     | (224)                     | (120)       | (363)                    | (466)       |
| Income before income taxes and discontinued operations | 5,659                     | 851         | 15,493                   | 24,006      |
| Provision for income taxes                             | 2,133                     | 200         | 5,712                    | 9,378       |
| Income before discontinued operations                  | 3,526                     | 651         | 9,781                    | 14,628      |
| Discontinued operations, net of tax                    | (103)                     | 802         | (413)                    | 1,106       |
| Net income   | \$ 3,423                  | \$ 1,453    | \$ 9,368                 | \$ 15,734   |
| Other comprehensive income (loss), net of tax          | 1,208                     | (1,468)     | (118)                    | 462         |
| Comprehensive income (loss)                            | \$ 4,631                  | \$ (15)     | \$ 9,250                 | \$ 16,196   |
| Basic income per share before discontinued operations  | \$ 0.14                   | \$ 0.03     | \$ 0.38                  | \$ 0.60     |
| Discontinued operations, net of tax                    | \$ -                      | \$ 0.03     | \$ (0.02)                | \$ 0.05     |

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|   |            |            |            |            |    |        |    |      |
|---|------------|------------|------------|------------|----|--------|----|------|
| Basic income per share after discontinued operations    | \$         | 0.13       | \$         | 0.06       | \$ | 0.36   | \$ | 0.65 |
| Diluted income per share before discontinued operations | \$         | 0.14       | \$         | 0.03       | \$ | 0.38   | \$ | 0.60 |
| Discontinued operations, net of tax                     | \$         | -          | \$         | 0.03       | \$ | (0.02) | \$ | 0.05 |
| Diluted income per share after discontinued operations  | \$         | 0.13       | \$         | 0.06       | \$ | 0.36   | \$ | 0.65 |
| Basic weighted average shares outstanding               | 25,714,684 | 23,983,085 | 25,855,197 | 24,338,649 |    |        |    |      |
| Diluted weighted average shares outstanding             | 25,784,072 | 23,990,729 | 25,915,394 | 24,347,388 |    |        |    |      |

**Other Data:**

|                          |    |        |    |        |    |        |    |        |
|--------------------------|----|--------|----|--------|----|--------|----|--------|
| Station operating income | \$ | 19,890 | \$ | 20,688 | \$ | 57,480 | \$ | 57,651 |
| Station operating margin |    | 39.5%  |    | 39.4%  |    | 38.9%  |    | 37.3%  |

**Salem Communications Corporation**  
**Condensed Consolidated Balance Sheets**  
(in thousands)

|   | <b>December 31,<br/>2005</b> | <b>September 30,<br/>2006<br/>(unaudited)</b> |
|---|------------------------------|---|
| <b>Assets</b>                                     |                              |   |
| Cash  | \$ 3,979                     | \$ 490  |
| Accounts receivable, net                          | 30,953                       | 31,481  |
| Deferred income taxes                             | 4,614                        | 3,852   |
| Other current assets                              | 4,047                        | 4,875   |
| Assets of discontinued operations                 | 12,456                       | 3,346   |
| Property, plant and equipment, net                | 116,245                      | 127,471                                       |
| Intangible assets, net                            | 463,139                      | 508,434                                       |
| Bond issue costs                                  | 2,742                        | 630   |
| Bank loan fees                                    | 3,709                        | 3,250   |
| Fair value of interest rate swaps                 | 743                          | 1,298   |
| Other assets                                      | 3,303                        | 4,673   |
| <b>Total assets</b>                               | <b>\$ 645,930</b>            | <b>\$ 689,800</b>                             |
| <b>Liabilities and Stockholders' Equity</b>       |                              |   |
| Current liabilities                               | \$ 20,658                    | \$ 27,539                                     |
| Long-term debt and capital lease obligations      | 326,685                      | 369,323                                       |
| Deferred income taxes                             | 40,810                       | 51,195  |
| Other liabilities                                 | 8,659                        | 8,224   |
| Stockholders' equity                              | 249,118                      | 233,519                                       |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 645,930</b>            | <b>\$ 689,800</b>                             |

**Salem Communications Corporation**  
**Supplemental Information**  
(in thousands)

|  | <b>Three Months Ended</b> |                  | <b>Nine Months Ended</b> |                   |
|--|---------------------------|------------------|--------------------------|-------------------|
|  | <b>September 30,</b>      |                  | <b>September 30,</b>     |                   |
|  | <b>2005</b>               | <b>2006</b>      | <b>2005</b>              | <b>2006</b>       |
|  | (unaudited)               |                  |                          |                   |
| <b>Capital expenditures</b>  |                           |                  |                          |                   |
| Acquisition related / income producing   | \$ 2,063                  | \$ 4,002         | \$ 5,744                 | \$ 11,796         |
| Maintenance  | 1,653                     | 869              | 5,573                    | 4,333             |
| <b>Total capital expenditures</b>  | <b>\$ 3,716</b>           | <b>\$ 4,871</b>  | <b>\$ 11,317</b>         | <b>\$ 16,129</b>  |
| <b>Tax information</b>   |                           |                  |                          |                   |
| Cash tax expense   | \$ 15                     | \$ 123           | \$ 164                   | \$ 199            |
| Deferred tax expense   | 2,118                     | 77               | 5,548                    | 9,179             |
|  |                           |                  | 894                      |                   |
| <b>Provision for income taxes</b>  | <b>\$ 2,133</b>           | <b>\$ 200</b>    | <b>\$ 5,712</b>          | <b>\$ 9,378</b>   |
| Tax benefit of non-book amortization   | \$ 2,925                  | \$ 3,358         | \$ 9,060                 | \$ 10,620         |
| <b>Reconciliation of Same Station Net Broadcasting Revenue to Total Net Broadcasting Revenue</b>               |                           |                  |                          |                   |
| Net broadcasting revenue - same station  | \$ 49,672                 | \$ 50,332        | \$ 145,673               | \$ 148,078        |
| Net broadcasting revenue - acquisitions / dispositions / format changes  | 657                       | 2,177            | 2,264                    | 6,586             |
| <b>Total net broadcasting revenue</b>  | <b>\$ 50,329</b>          | <b>\$ 52,509</b> | <b>\$ 147,937</b>        | <b>\$ 154,664</b> |
| <b>Reconciliation of Same Station Broadcasting Operating Expenses to Total Broadcasting Operating Expenses</b> |                           |                  |                          |                   |
| Broadcasting operating expenses - same station   | \$ 29,637                 | \$ 30,211        | \$ 87,988                | \$ 90,337         |
| Broadcasting operating expenses - acquisitions / dispositions / format changes                                 | 802                       | 1,610            | 2,469                    | 6,676             |

|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| <b>Total broadcasting operating expenses</b> | <b>\$ 30,439</b> | <b>\$ 31,821</b> | <b>\$ 90,457</b> | <b>\$ 97,013</b> |
|--|------------------|------------------|------------------|------------------|

**Reconciliation of Same Station Station  
Operating Income to**

**Total Station Operating Income**

|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Station operating income - same station                                    | \$ 20,035        | \$ 20,121        | \$ 57,685        | \$ 57,741        |
| Station operating income - acquisitions /<br>dispositions / format changes | (145)            | 567              | (205)            | (90)             |
| <b>Total station operating income</b>                                      | <b>\$ 19,890</b> | <b>\$ 20,688</b> | <b>\$ 57,480</b> | <b>\$ 57,651</b> |

---



|  | <b>Three Months Ended</b> |                  | <b>Nine Months Ended</b> |                  |
|--|---------------------------|------------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                  | <b>September 30,</b>     |                  |
|  | <b>2005</b>               | <b>2006</b>      | <b>2005</b>              | <b>2006</b>      |
|  | (unaudited)               |                  |                          |                  |
| <b>Reconciliation of Station</b>           |                           |                  |                          |                  |
| <b>Operating Income and</b>                |                           |                  |                          |                  |
| <b>Non-Broadcast</b>                       |                           |                  |                          |                  |
| <b>Operating Income to</b>                 |                           |                  |                          |                  |
| <b>Operating Income</b>                    |                           |                  |                          |                  |
| Station operating income                   | \$ 19,890                 | \$ 20,688        | \$ 57,480                | \$ 57,651        |
| Non-broadcast operating income             | 190                       | 91               | 487                      | 768              |
| Less:                                      |                           |                  |                          |                  |
| Corporate expenses                         | (4,688)                   | (5,637)          | (14,671)                 | (18,333)         |
| Litigation costs                           | -                         | -                | (650)                    | -                |
| Depreciation and amortization              | (3,177)                   | (3,957)          | (9,783)                  | (11,118)         |
| Gain (loss) on disposal of assets          | (544)                     | (167)            | (559)                    | 18,872           |
| <b>Operating income</b>                    | <b>\$ 11,671</b>          | <b>\$ 11,018</b> | <b>\$ 32,304</b>         | <b>\$ 47,840</b> |
| <br>                                       |                           |                  |                          |                  |
| <b>Reconciliation of Adjusted</b>          |                           |                  |                          |                  |
| <b>EBITDA to EBITDA to Net</b>             |                           |                  |                          |                  |
| <b>Income</b>                              |                           |                  |                          |                  |
| Adjusted EBITDA                            | \$ 15,168                 | \$ 15,948        | \$ 42,933                | \$ 43,166        |
| Less:                                      |                           |                  |                          |                  |
| Stock-based compensation                   | -                         | (926)            | -                        | (3,546)          |
| Discontinued operations, net of tax        | (103)                     | 802              | (413)                    | 1,106            |
| Gain (loss) on disposal of assets          | (544)                     | (167)            | (559)                    | 18,872           |
| Litigation costs                           | -                         | -                | (650)                    | -                |
| Loss on early redemption of long-term debt | (24)                      | (3,625)          | (24)                     | (3,625)          |
| EBITDA                                     | 14,497                    | 12,032           | 41,287                   | 55,973           |
| Plus:                                      |                           |                  |                          |                  |
| Interest income                            | 92                        | 68               | 137                      | 114              |
| Less:                                      |                           |                  |                          |                  |
| Depreciation and amortization              | (3,177)                   | (3,957)          | (9,783)                  | (11,118)         |
| Interest expense                           | (5,856)                   | (6,490)          | (16,561)                 | (19,857)         |

|                            |                 |                 |                 |                  |
|----------------------------|-----------------|-----------------|-----------------|------------------|
| Provision for income taxes | (2,133)         | (200)           | (5,712)         | (9,378)          |
| <b>Net income</b>          | <b>\$ 3,423</b> | <b>\$ 1,453</b> | <b>\$ 9,368</b> | <b>\$ 15,734</b> |

|  | <b>Outstanding<br/>at 9/30/2006</b> | <b>Applicable<br/>Interest<br/>Rate</b> |
|--|-------------------------------------|---|
| <b>Selected Debt and Swap Data</b>                       |                                     |   |
| 7 3/4% senior subordinated notes                         | \$ 100,000                          | 7.75%                                   |
| Senior bank term loan B debt                             | 73,500                              | 7.25%                                   |
| Senior bank term loan C debt (swap matures 7/1/2012) (1) | 30,000                              | 6.74%                                   |
| Senior bank term loan C debt (swap matures 7/1/2012) (1) | 30,000                              | 6.45%                                   |
| Senior bank term loan C debt (swap matures 7/1/2012) (1) | 30,000                              | 6.28%                                   |
| Senior bank term C debt (at variable rates) (2)          | 75,000                              | 7.25%                                   |
| Senior bank revolving debt (at variable rates) (2)       | 29,100                              | 7.25%                                   |
| Swingline credit facility                                | 599                                 | 8.00%                                   |

(1) Under its swap agreements, the Company pays a fixed rate plus a spread based on the Company's leverage, as defined in its

credit agreement. As of September 30, 2006, that spread was 1.75% and is incorporated into the applicable interest rates set

forth above.

(2) Subject to rolling LIBOR plus a spread currently at 1.75% and incorporated into the rate set forth above.

**Salem Communications Corporation**  
**Supplemental Information**  
(in millions)

|  | <b>Projected</b>           |                |                          |             |
|--|----------------------------|----------------|--------------------------|-------------|
|  | <b>Three Months Ending</b> |                | <b>Three Months</b>      |             |
|  | <b>December 31, 2006</b>   |                | <b>Ended</b>             |             |
|  | <b>Low</b>                 | <b>High</b>    |                          |             |
|  | (unaudited)                |                | <b>December 31, 2005</b> |             |
| <b>Reconciliation of Station Operating Income to Operating Income</b>                            |                            |                |                          |             |
| Station operating income   | \$ 18.2                    | \$ 18.7        |                          |             |
| Plus:  |                            |                |                          |             |
| Non-broadcast revenue  | 5.9                        | 5.9            |                          |             |
| Less:  |                            |                |                          |             |
| Non-broadcast operating expenses   | (5.4)                      | (5.4)          |                          |             |
| Corporate expenses   | (5.4)                      | (5.4)          |                          |             |
| Stock-based compensation (corporate expense portion)   | (0.6)                      | (0.6)          |                          |             |
| Depreciation and amortization  | (3.9)                      | (3.9)          |                          |             |
| <b>Operating income</b>  | <b>\$ 8.8</b>              | <b>\$ 9.3</b>  |                          |             |
| <b>Reconciliation of Same Station Net Broadcasting Revenue to Total Net Broadcasting Revenue</b> |                            |                |                          |             |
| Net broadcasting revenue - same station  | \$ 51.7                    | \$ 52.2        | \$                       | 50.6        |
| Net broadcasting revenue - acquisitions / dispositions / format changes                          | 0.9                        | 0.9            |                          | 0.3         |
| <b>Total net broadcasting revenue</b>  | <b>\$ 52.6</b>             | <b>\$ 53.1</b> | <b>\$</b>                | <b>50.9</b> |
| <b>Reconciliation of Same Station Station Operating Income to Total Station Operating Income</b> |                            |                |                          |             |
| Station operating income - same station  | \$ 17.8                    | \$ 18.3        | \$                       | 20.0        |
| Station operating income - acquisitions / dispositions / format changes                          | 0.4                        | 0.4            |                          | (0.1)       |

|                                       |           |             |           |             |           |             |
|---------------------------------------|-----------|-------------|-----------|-------------|-----------|-------------|
| <b>Total station operating income</b> | <b>\$</b> | <b>18.2</b> | <b>\$</b> | <b>18.7</b> | <b>\$</b> | <b>19.9</b> |
|---------------------------------------|-----------|-------------|-----------|-------------|-----------|-------------|