SALEM COMMUNICATIONS CORP /DE/
Form 10-Q
November 08, 2010

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

OR

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

COMMISSION FILE NUMBER 000-26497

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]

No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes [ ]

No [ ]

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

Large accelerated filer [ ]

Accelerated filer

[ ]

Non-accelerated filer [ ]

Smaller Reporting Company

[X]

(Do not check if a Smaller Reporting Company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]

No [X]

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

Class A Common Stock, $0.01 par value per share	Outstanding at November 1, 2010 18,598,465 shares
Class B Common Stock, $0.01 par value per share	Outstanding at November 1, 2010 5,553,696 shares

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FORWARD-LOOKING STATEMENTS

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

PART I FINANCIAL INFORMATION

SALEM COMMUNICATIONS CORPORATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	December 31, 2009 (Note 1)	**September 30, 2010 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,945	**$ 1,035**
Restricted cash	100	**100**
Trade accounts receivable (less allowance for doubtful accounts of $10,303 in 2009 and $10,110 in 2010)	27,289	**28,014**
Other receivables	282	**345**
Assets held for sale		**677**
Prepaid expenses	3,177	**3,595**
Deferred income taxes	4,700	**5,631**
Total current assets	44,493	**39,397**
Property, plant and equipment (net of accumulated depreciation of $107,141 in 2009 and $114,949 in 2010)	121,174	**117,123**
Broadcast licenses	375,317	**378,299**
Goodwill	17,642	**18,361**
Other indefinite-lived intangible assets	1,961	**1,961**
Amortizable intangible assets (net of accumulated amortization of $18,412 in 2009 and $19,887 in 2010)	2,881	**6,109**
Bond issue costs	7,078	**6,659**
Bank loan fees	1,515	**1,203**
Notes receivable	2,673	**2,384**
Other assets	4,311	**4,202**
Total assets	$ 579,045	**$ 575,698**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,758	**$ 1,050**
Accrued expenses	5,318	**6,998**
Accrued compensation and related expenses	4,677	**4,460**
Accrued interest	2,450	**8,026**
Deferred revenue	6,005	**6,297**
Income tax payable	87	**25**
Current portion of long-term debt and capital lease obligations	78	**95**
Total current liabilities	20,373	**26,951**
Long-term debt and capital lease obligations, less current portion	313,969	**299,261**
Deferred income taxes	38,973	**40,882**
Deferred revenue	7,728	**7,994**
Other liabilities	803	**644**
Total liabilities	381,846	**375,732**
Commitments and contingencies		
Stockholders equity:		

Class A common stock, $0.01 par value; authorized 80,000,000 shares; 20,437,742 and 20,910,267 issued and 18,120,092 and 18,592,617 outstanding at December 31, 2009 and September 30, 2010, respectively	204	**209**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2009 and September 30, 2010	56	**56**
Additional paid-in capital	228,839	**230,356**
Retained earnings	2,106	**3,351**
Treasury stock, at cost (2,317,650 shares at December 31, 2009 and September 30, 2010)	(34,006)	**(34,006)**
Total stockholders equity	197,199	**199,966**
Total liabilities and stockholders equity	$ 579,045	**$ 575,698**

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2010**	2009	**2010**
Net broadcast revenue	$ 42,368	**$ 43,507**	$ 128,708	**$ 130,386**
Non-broadcast revenue	6,856	**7,883**	19,667	**22,452**
Total revenue	49,224	**51,390**	148,375	**152,838**
Operating expenses:				
Broadcast operating expenses exclusive of depreciation and amortization shown below (including $312 and $317 for the three months ended September 30, 2009 and 2010, respectively, and $934 and $948 for the nine months ended September 30, 2009 and 2010, respectively, paid to related parties)	27,194	**27,940**	81,900	**82,921**
Non-broadcast operating expenses exclusive of depreciation and amortization shown below	6,163	**7,393**	17,400	**20,516**
Corporate expenses exclusive of depreciation and amortization shown below (including $0 and $30 for the three months ended September 30, 2009 and 2010, and $112 and $164 for the nine months ended September 30, 2009 and 2010, respectively, paid to related parties)	3,440	**4,154**	10,054	**12,140**
Depreciation (including $510 and $503 for the three months ended September 30, 2009 and 2010, respectively, and $1,469 and $1,464 for the nine months ended September 30, 2009 and 2010, respectively, for non-broadcast businesses)	3,345	**3,126**	10,084	**9,415**
Amortization (including $314 and $564 for the three months ended September 30, 2009 and 2010, respectively, and $1,304 and $1,413 for the nine months	334	**587**	1,339	**1,475**

ended September 30, 2009 and 2010, respectively, for non-broadcast businesses)				
Cost of denied tower site and abandoned projects			1,111	
Impairment of indefinite-lived intangible assets	14,146		27,809	
Loss on disposal of assets	54	**18**	1,670	**13**
Total operating expenses	54,676	**43,218**	151,367	**126,480**
Operating income (loss) from continuing operations	(5,452)	**8,172**	(2,992)	**26,358**
Other income (expense):				
Interest income	91	**48**	238	**142**
Interest expense	(4,291)	**(7,435)**	(12,929)	**(22,903)**
Change in fair value of interest rate swaps	(842)		1,534	
Gain on bargain purchase	1,634		1,634	
Gain (loss) on early redemption of long-term debt			660	**(1,050)**
Other income (expense), net	(24)	**13**	(72)	**(18)**
Income (loss) from continuing operations before income taxes	(8,884)	**798**	(11,927)	**2,529**
Provision for (benefit from) income taxes	(4,253)	**455**	(5,155)	**1,284**
Income (loss) from continuing operations	(4,631)	**343**	(6,772)	**1,245**
Income (loss) from discontinued operations, net of tax	(5)		8	
Net income (loss)	$ (4,636)	**$ 343**	$ (6,764)	**$ 1,245**
Other comprehensive loss, net of tax				
Comprehensive income (loss)	$ (4,636)	**$ 343**	$ (6,764)	**$ 1,245**
Basic earnings per share data:				
Earnings (loss) per share from continuing operations	$ (0.19)	$ **0.01**	$ (0.29)	$ **0.05**
Income (loss) per share from discontinued operations				
Basic earnings (loss) per share	$ (0.19)	$ **0.01**	$ (0.28)	$ **0.05**
Diluted earnings per share data:				
Earnings (loss) per share from continuing operations	$ (0.19)	$ **0.01**	$ (0.29)	$ **0.05**
Income (loss) from discontinued operations				
Diluted earnings (loss) per share	$ (0.19)	$ **0.01**	$ (0.28)	$ **0.05**
Basic weighted average shares outstanding	23,933,940	**24,357,042**	23,760,505	**23,966,797**
Diluted weighted average shares outstanding	23,933,940	**24,822,412**	23,760,505	**24,602,258**

See accompanying notes

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

	Nine Months Ended September 30, 2009	**2010**
OPERATING ACTIVITIES		
Income (loss) from continuing operations	$ (6,772)	**$ 1,245**
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Non-cash stock-based compensation	379	**1,109**
Depreciation and amortization	11,423	**10,890**
Amortization of bond issue costs and bank loan fees	1,022	**1,214**
Amortization and accretion of financing items	5	**141**
Provision for bad debts	3,568	**1,280**
Deferred income taxes	(4,741)	**978**
Change in fair value of interest rate swaps	(1,534)	
Cost of denied tower site and abandoned projects	1,111	
Impairment of indefinite-lived intangible assets	27,809	
Loss on disposal of assets	1,670	**13**
Gain on bargain purchase	(1,634)	
(Gain) loss on early retirement of debt	(660)	**1,050**
Changes in operating assets and liabilities:		
Accounts receivable	(1,059)	**(2,068)**
Prepaid expenses and other current assets	777	**(449)**
Accounts payable and accrued expenses	4,796	**5,081**
Deferred revenue	401	**690**
Other liabilities	(527)	**(368)**
Income taxes payable	(128)	**(62)**
Net cash provided by continuing operating activities	35,906	**20,744**
INVESTING ACTIVITIES		
Capital expenditures	(2,995)	**(5,866)**
Deposits on radio station acquisitions	2,725	
Purchases of broadcast businesses and assets	(3,745)	**(3,090)**
Purchases of non-broadcast businesses and assets		**(5,245)**
Proceeds from the disposal of assets	353	**36**
Deposit received on pending sale of broadcast business and assets		**1,000**
Proceeds from eminent domain of property		**996**
Related party residential purchase		**(676)**
Reimbursement of tower relocation costs	1,742	
Other	(82)	**(42)**
Net cash used in investing activities of continuing operations	(2,002)	**(12,887)**
FINANCING ACTIVITIES		
Payments of costs related to bank credit facilities	(1,292)	**(96)**
Payments of bond issue costs		**(659)**
Payment of bond premium in connection with early redemption		**(525)**
Proceeds from bank credit facility		**29,000**
Payments on bank credit facility	(1,200)	**(26,500)**

Payments to redeem $7^{3}/_{4}$% Notes		(290)		
Payments to redeem $9^{5}/_{8}$% Notes				**(17,500)**
Proceeds from exercise of stock options				**278**
Tax benefit related to stock options exercised				**135**
Issuance of capital lease obligations				**165**
Payments on capital lease obligations and seller financed note		(1,356)		**(65)**
Net cash used in financing activities		(4,138)		**(15,767)**
CASH FLOWS FROM DISCONTINUED OPERATIONS				
Operating cash flows		8		
Net cash provided by discontinued operations		8		
Net increase (decrease) in cash and cash equivalents		29,774		**(7,910)**
Cash and cash equivalents at beginning of year		1,892		**8,945**
Cash and cash equivalents at end of period	$	31,666	$	**1,035**
Supplemental disclosures of cash flow information:				
Interest	$	9,951	$	**15,982**
Income taxes	$	318	$	**236**

See accompanying notes

SALEM COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

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

Information with respect to the three and nine months ended September 30, 2009 and 2010 is unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the Company. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended December 31, 2009.

The balance sheet at December 31, 2009 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

Description of Business

Salem is a domestic commercial radio broadcasting company that provides programming targeting audiences interested in Christian and family-themed content. Our core business is the ownership and operation of radio stations in large metropolitan markets. Upon the close of all announced transactions we will own and/or operate 93 radio stations across the United States. We also own and operate Salem Radio Network® (SRN), SRN News Network (SNN), Salem Music Network (SMN), Reach Satellite Network (RSN), Salem Media Representatives (SMR) and

Vista Media Representatives (VMR). SRN, SNN, SMN and RSN are radio networks that produce and distribute talk, news and music programming to numerous radio stations in the U.S., including some of our own stations. SMR and VMR sell commercial air time to national advertisers for Salem s radio stations and networks, as well as for independent radio station affiliates.

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 in addition to audio and video 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 that 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 Consumer Products, an online site providing books, DVD s and editorial content. The revenue and related operating expenses of these businesses are reported as non-broadcast on our condensed consolidated Statements of Operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas for which management uses estimates are allowance for bad debts, income tax valuation allowance, impairment analysis for indefinite-lived intangible assets including broadcast licenses and goodwill, impairment analysis on other long-lived assets, stock-based compensation expense, and liabilities incurred under our partial self-insurance plan.

NOTE 2. RECLASSIFICATIONS

Certain reclassifications were made to the prior year financial statements to conform to the current year presentation. These reclassifications include the operating results of WRFD-AM, Columbus, Ohio which are now shown as part of continuing operations from discontinued operations. We had entered into an Asset Purchase Agreement (APA) on July 31, 2008, to sell this radio station and exit the Columbus market. At that time, the Condensed 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 APA 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 APA. Because of the buyer terminating the agreement, we have reclassified the accompanying Condensed 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.

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

We account for goodwill and other indefinite-lived intangible assets in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 350 Intangibles Goodwill and Other. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. Broadcast licenses account for approximately 95% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 5%. We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. During the period ended September 30, 2010, we did not have indications of impairment for our broadcast licenses. Based on deteriorating macro-economic factors, including declining radio industry revenues throughout 2009 and a weakening in prevailing radio station transaction multiples, we tested our broadcast licenses for impairment during the interim period ended September 30, 2009.

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 amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820 Fair Value Measurements and Disclosures as Level 3 inputs discussed in detail in Note 12 Fair Value Accounting.

When performing our impairment testing for broadcast licenses we review the financial performance of the market clusters against established internal benchmarks. The first step of our impairment testing process compares the fair value as determined from valuations obtained in prior periods from an independent third-party to the carrying value to determine the degree by which the amounts differ. For our impairment reviews completed during 2009, we compared our actual operating revenues as of the period end to the projected revenues used in the most recent appraisals. Markets with actual operating results that exceeded the projections, which were not subject to changes in other assumptions such as the weighted average cost of capital, were deemed not to be impaired.

The second step of our impairment testing process compared the carrying value of the broadcast licenses for each market cluster to the station operating income (SOI) for each market cluster as of the period end. If the carrying value of the broadcast licenses was less than six times the annualized SOI, the broadcast licenses were deemed not to be impaired. As radio stations are typically sold on the basis of a multiple of projected operating income usually up to a multiple of eight, we believe that a benchmark of six appears conservative even in today s market. We evaluate the SOI multiples used in our testing based on market data available as of each testing date.

For the market clusters that did not meet the internal benchmarks, Bond & Pecaro, an independent third-party appraisal and valuation firm, was engaged to perform an appraisal of the indefinite-lived asset(s). Bond & Pecaro utilized an income approach to value broadcast licenses. The income approach measures the expected economic benefits that the broadcast licenses provides and discounts these future benefits using a discounted cash flow analysis. The discounted cash flow analysis assumes that the broadcast licenses are held by hypothetical start-up stations and the values yielded by the discounted cash flow analysis represent the portion of the stations value attributable solely to the broadcast license. The discounted cash flow model incorporates variables such as projected revenues, operating profit margins, and a discount rate. The variables used reflect historical company growth trends, industry projections, and the anticipated performance of the business. The discounted cash flow projection period was determined to be ten years, which is typically the time radio station operators and investors expect to recover their investments as widely used by industry analysts in their forecasts.

The key assumptions used in the Bond & Pecaro analysis to estimate the fair value of each major category of assets in our broadcast segment for the interim period ended September 30, 2009, were as follows:

As of the interim testing period ended September 30, 2009:	**Broadcast Licenses**	**Goodwill**
Discount rate	9.5%	9.5%
Market growth rates next 12 months	(2.0%)	(2.0%)
Out-year market growth range	0.4% 0.6%	0.4% 0.6%
Market share range	0.7% - 15.3%	0.7% - 15.3%
Operating profit margin range	4.7% - 40.7%	4.7% - 40.7%

We also test goodwill balances within the broadcast segment for impairment on an annual basis and between annual tests when there are indications of impairment. The first step of our goodwill impairment test, used to identify potential impairment, compares the appraised fair value of the market cluster for markets with actual operating results that exceeded the estimates used in the appraisal model to the carrying value of the market cluster, including goodwill. If the appraised fair value exceeded the carrying value, goodwill was deemed not to be impaired. For market clusters that were not appraised, we determined the implied fair value of the market cluster as a multiple of SOI as noted in our second test of the FCC license value. If the implied fair value exceeded the carrying value of the market cluster, goodwill was deemed not to be impaired. Market clusters that did not meet these two tests were subject to appraisal.

The second test of the goodwill impairment test, used to measure the impairment loss, compared either the appraised value or the implied fair value of the market cluster including goodwill to the carrying value of the market cluster including goodwill. If the carrying value exceeded these amounts, a loss was recognized in an amount equal to the excess.

The results of our impairment testing for our broadcast segment for the testing period ended September 30, 2009, was as follows:

As of the interim testing period ended September 30, 2009

Market Cluster	**Indication of impairment based on internal benchmarks**	**Percentage by which fair value exceeds carrying value**	
Dallas-Fort Worth, TX	Yes	1.1%	(1)
Atlanta, GA	Yes	0.0%	(1)
Detroit, MI	Yes	0.0%	(1)
Portland, OR	Yes	0.0%	(1)
Cleveland, OH	Yes	0.0%	

Note (1) Markets with a 0.0% spread between fair value and carrying value were deemed to be impaired as of the balance sheet date with corresponding adjustments to the FCC license value recorded.

As a result of our interim review and valuation for the testing period ended September 30, 2009,we recognized a pre-tax impairment charge of $14.1 million associated with the value of broadcast licenses in the Cleveland, Atlanta, Detroit and Portland markets. These charges are in addition to a pre-tax impairment charge of $12.5 million associated with the value of broadcast licenses and goodwill in the Dallas and Portland markets that were recognized as of the testing period ended June 30, 2009. The impairments are driven in part by declining revenue at the industry and market levels, declining radio stations transaction multiples and a higher cost of capital. The impairments are indicative of a trend in the broadcast industry and are not unique to the Company.

We also complete our non-broadcast annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. We did not have indications of impairment of our non-broadcast indefinite-lived assets during the period ended September 30, 2010. Based on deteriorating macro-economic factors, including declining publishing revenues, we did perform a review of these assets as of September 30, 2009.

The first step of our impairment testing compares the fair value as determined from an independent third-party to the carrying value to determine the degree by which the amounts differed. For our impairment reviews completed during 2010, we compared our actual operating revenues as of the period end to the projected revenues used in the most recent appraisals. Reporting units with actual operating results that exceeded the projections, which were not subject to changes in other assumptions such as the weighted average cost of capital, were deemed not to be impaired.

The second step of our impairment testing process compared the carrying value of the indefinite-lived intangible assets, specifically mastheads and goodwill, for each reporting unit as of the testing date to the enterprise value. Enterprise value is defined as six times the net operating income for each reporting unit as of the trailing 12 months plus the net book value of the property, plant and equipment of the operating unit. As media entities are typically sold on the basis of a multiple of projected operating income, usually in excess of eight, we believe that a benchmark of six appears conservative even in today s market. We evaluate the multiples used in our testing based on market data available as of each testing date. If the carrying value of the intangibles is less than the enterprise value, the intangible assets are deemed not to be impaired.

For the reporting units that did not meet the internal benchmarks, Bond & Pecaro, an independent third-party appraisal and valuation firm, was engaged to perform an appraisal of the indefinite-lived intangible asset(s). Bond & Pecaro utilized an income approach to estimate the fair value of the businesses. The income approach measures the expected economic benefits these assets bring to the holder. The fair value of the business may be expressed by discounting these future benefits. The discounted cash flow model incorporated variables such as projected revenues, operating cash flow margins, and a discount rate. The variables used reflect historical company growth trends, industry projections, and the anticipated performance of the business. The discounted cash flow projection period was determined to be ten years; which is typically the time media and technology property investors expect to recover their investments as widely used by industry analysts in their forecasts.

The key assumptions used in the Bond & Pecaro analysis to estimate the fair value of each major category of assets in our non-broadcast segment for the testing period ended September 30, 2009, were as follows

As of the interim testing period ended September 30, 2009:	**Other indefinite-lived intangible assets**	**Goodwill**
Discount rate	17.0%	17.0%
Operating cash flow growth rate	3.5%	3.5%
Long-term growth rate	3.5%	3.5%

We also test goodwill balances within the non-broadcast segment for impairment on an annual basis and between annual dates when there are indications of impairment. The first step of the goodwill impairment test is used to identify potential impairment by comparing the appraised fair value of the reporting unit to the carrying value of the reporting unit including goodwill. If the appraised fair value exceeded the carrying value, goodwill was deemed not to be impaired. For reporting units that were not appraised, we used the implied fair value of the reporting unit, or enterprise value, as noted in our second test of the internal review. If the implied fair value exceeded the carrying value, goodwill was deemed not to be impaired. If these criteria are not met, a second test was applied.

The second test of the goodwill impairment test, used to measure the amount of any impairment loss, compared either the appraised fair value or the implied fair value of the reporting unit including goodwill to the carrying value of the reporting unit including goodwill. If the carrying value exceeded these amounts, a loss was recognized in an amount equal to the excess.

The results of our impairment testing process for our non-broadcast segment for the testing period ended September 30, 2009, were as follows:

As of the interim testing period ended September 30, 2009		
Reporting Unit	**Indication of impairment based on internal benchmarks**	**Percentage by which fair value exceeds carrying value**
Salem Web Network	Yes	35.5%
Townhall.com	Yes	57.0%

As a result of our interim review and valuation for the testing period ended September 30, 2009, there was no pre-tax impairment charge associated with the value of non-broadcast non-amortizable intangible assets. However, we did recognize a $1.2 million charge as of the testing period ended June 30, 2009 related to the value of mastheads and goodwill in our non-broadcast segment.

The economic downturn over the last two years has negatively impacted our ability to generate revenues. The discount rate assumptions used are based on an assessment of the risk inherent in the future cash flows of the respective market clusters and reporting units. 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. Included in our broadcast valuation estimates are a 3% decline in advertising revenue for 2010 as compared to 2009 followed by up to a 2.5% increase in 2011 as compared to 2010. Included in our non-broadcast valuation estimates are projected profit margins of up to 3.3% projected for 2011. Failure to achieve the anticipated growth rates and/or declines in excess of those amounts may result in future impairment losses, the amount of which may be material.

NOTE 4. SIGNIFICANT TRANSACTIONS

On September 28, 2010, we received approximately $1.0 million as compensation for loss of our property rights under an Eminent Domain Petition from the Dallas Independent School District. We recorded as expense the net book value of our property associated with the operations of radio station, KSKY-AM, Dallas, Texas, resulting in a pre-tax gain of $0.3 million. The property rights were related to our back-up transmitter site. We do not expect the loss of these property rights to negatively impact our operations.

On September 1, 2010, we acquired Samaritan Fundraising, a web-based fundraising products company, for $0.6 million in cash plus $0.2 million contingent consideration payable in the future based on achieving certain revenue and profit goals as specified in the APA. The accompanying Condensed Consolidated Balance Sheets and Statements of Operations for the three and nine months ended September 30, 2010, reflect the operating results and net assets of this entity as of the acquisition date. The acquisition resulted in goodwill of $0.3 million representing the excess value of the business as a result of the integrated business model and services already established that provide future economic benefit to us.

On August 3, 2010, we completed the acquisition of WWRC-AM in Washington DC for $3.1 million. We had begun operating the station under a local marketing agreement (LMA) effective May 15, 2010. The accompanying Condensed Consolidated Balance Sheets and Statements of Operations for the three and nine months ended September 30, 2010, reflect the operating results and net assets of this entity as of the LMA date.

On June 1, 2010, we redeemed $17.5 million of our $9^5/_8$% Notes for $18.9 million, or at a price equal to 103% of the face value. This transaction resulted in a $1.1 million pre-tax loss on the early retirement of debt, including $0.1 million of unamortized discount and $0.4 million of bond issues costs associated with the $9^5/_8$% Notes.

On June 8, 2010, we completed the acquisition of tangle.com and GodTube.com, Christian content and community websites, for $2.5 million. The accompanying Condensed Consolidated Balance Sheets and Statements of Operations for the three and nine months ended September 30, 2010, reflect the operating results and net assets of these entities as of the acquisition date. The acquisition resulted in goodwill of $0.3 million representing the excess value of the business as a result of the integrated business model and services already established that provide future economic benefit to us.

On February 12, 2010, we completed the acquisition of HotAir.com, a website blog featuring news, analysis and commentary, for $2.0 million. The accompanying Condensed Consolidated Balance Sheets and Statements of Operations for the three and nine months ended September 30, 2010, reflect the operating results and net assets of this entity as of the acquisition date. The acquisition resulted in goodwill of $0.2 million representing the excess value of the business as a result of the integrated business model and services already established that provide future economic benefit to us.

A summary of our acquisitions for the nine months ended September 30, 2010, none of which were material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Cost	
		(Dollars in thousands)	
February 12, 2010	HotAir.com (business acquisition)	$	2,000
June 8, 2010	tangle.com / GodTube.com (business acquisition)		2,500
August 3, 2010	WWRC-AM, Washington D.C. (old acquisition)		3,090
September 28, 2010	Samaritan Fundraising (business acquisition)		775
Various	Purchase of various Internet domain names (asset purchases)		170
		$	8,535

Under the acquisition method of accounting as specified in FASB ASC Topic 805, the total acquisition consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. We obtained an independent third-party appraisal of the estimated fair value of the acquired net assets as of the acquisition date for the transaction noted.

The total acquisition consideration was allocated to the net assets acquired as follows:

Asset	Net Assets Acquired	
	(Dollars in thousands)	
Property and equipment	$	159
Broadcast licenses		2,948
Goodwill		724
Customer lists and contracts		1,834
Domain and brand names		2,072
Other amortizable intangible assets		798

Liabilities			
	Contingent consideration arrangement		(200)
		$	8,335

Pending Transactions:

On September 23, 2010, we entered into an APA to sell radio station, WAMD-AM, Aberdeen, Maryland, for $1. The sale is expected to close in the fourth quarter of 2010. The probable loss on the sale of $0.2 million was recognized in the quarter ended September 30, 2010.

On June 24, 2010, we entered into an agreement to sell radio station KXMX-AM, Los Angeles, California, for $12.0 million. We have collected an earnest deposit on the sale of $1.0 million that is included in current liabilities as of September 30, 2010. The sale is subject to the approval by the FCC and is expected to close late in the fourth quarter of 2010.

On March 5, 2010, we entered into an APA to re-acquire KTEK-AM, Houston, Texas for $3.7 million, which includes forgiveness of the promissory note that we received upon our original sale of the station. We began programming the station pursuant to a Time Brokerage Agreement (TBA) with the current owner on March 8, 2010. The accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 reflect the operating results of this entity as of the TBA date. The purchase is subject to the approval by the FCC and is expected to close in the fourth quarter of 2010.

Discontinued Operations

We sold radio station WRRD-AM in Milwaukee, Wisconsin for $3.8 million on March 28, 2008 and sold radio station WFZH-FM in Milwaukee, Wisconsin for $8.1 million on May 30, 2008. The Milwaukee market cluster was reported as a discontinued operation in accordance with FASB ASC Subtopic 205-20 Discontinued Operations for all periods presented. During the three and nine months ended September 30, 2009, we incurred facility related costs associated with the Milwaukee facility that were reported as discontinued operations.

On July 31, 2008, we entered into an agreement to sell radio station WRFD-AM in Columbus, Ohio for $4.0 million. As a result of the sale, we were to exit the Columbus, Ohio market. The Condensed Consolidated Balance Sheets and Statements of Operations for all periods presented were reclassified as of the date of the APA to reflect the operating results and net assets of this market as a discontinued operation. 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 APA. Because of the buyer terminating the agreement, we reclassified operating results and net assets of this market into continuing operations as of December 2009 and for all periods presented. In January 2010, we collected a $0.2 million termination fee from the buyer pursuant to the APA that is included as a component of other income in the accompanying Condensed Consolidated Statement of Operations.

The following table sets forth the components of income from discontinued operations as reclassified, net of tax, for the three and nine months ended September 30, 2009:

		Three Months Ended September 30, 2009		**Nine Months Ended September 30, 2009**
		(Dollars in thousands)		
Net revenue	$		$	(3)
Operating expenses		36		38
Loss from discontinued operations	$	(36)	$	(41)
Benefit from income taxes		(31)		(49)
Income (loss) from discontinued operations, net of tax	$	(5)	$	8

NOTE 5. STOCK OPTION PLAN

The Company has one stock option plan. The Amended and Restated 1999 Stock Incentive Plan (the Plan) allows the Company to grant stock options and shares of restricted stock to employees, directors, officers and advisors of the Company. A maximum of 3,100,000 shares are authorized under the Plan. Options generally vest over a four year period and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated in certain corporate transactions of the Company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options. We recognize non-cash stock based compensation expense related to the estimated fair value of stock options granted in accordance with FASB ASC Topic 718 Compensation Stock Compensation.

The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2010**	2009	**2010**
	(Dollars in thousands)			
Stock option compensation expense included in corporate expenses	$ 79	**$ 221**	$ 193	**$ 739**
Restricted stock compensation expense included in corporate expenses		**5**		**12**
Stock option compensation expense included in broadcast operating expenses	27	**118**	111	**278**
Stock option compensation expense included in non-broadcast operating expenses	43	**29**	75	**80**
Total stock-based compensation expense, pre-tax	149	**$ 373**	379	**$ 1,109**
Tax provision for stock-based compensation expense	(88)	**(213)**	(170)	**(573)**
Total stock-based compensation expense, net of tax	$ 61	**$ 160**	$ 209	**$ 536**

Stock option and restricted stock grants

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

We use the Black-Scholes option valuation model to estimate the grant date fair value of stock options. The expected volatility reflects the consideration of the historical volatility of our stock as determined by the closing price over a six to twelve year term that is generally commensurate with the expected term of the option. The expected dividend rate is zero as no dividends, other than the payment of special dividends in 2006 and 2007, have been paid. The expected term of the option is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted. We use historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the option valuation model.

The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model were as follows for the three and nine months ended September 30, 2009 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2010**	2009	**2010**
Expected volatility	89.84%	**%**	76.54%	**94.26%**
Expected dividends	0.00 %	**%**	0.00 %	**0.00%**
Expected term (in years)	7.5		6.1	**7.3**

Risk-free interest rate	3.06%	**%**	2.30%	**3.11%**

Stock option information with respect to the Company s stock-based compensation plans during the nine months ended September 30, 2010 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	1,341,875	$5.01	$3.80	5.0 years	$ 2,049
Granted	430,500	5.20	4.32		
Exercised	(467,525)	0.60	0.40		1,476
Forfeited or expired	(53,851)	11.68	8.68		35
Outstanding at September 30, 2010	1,250,999	6.44	5.03	5.1 years	902
Exercisable at September 30, 2010	648,527	7.81	4.75	3.7 years	722
Expected to Vest	572,047	4.95	5.34	6.7 years	171

The aggregate intrinsic value represents the difference between the Company s closing stock price on September 30, 2010 of $2.98 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options.

The fair values of shares of restricted stock are determined based on the closing price of the Company common stock on the grant dates. Information regarding the Company s restricted stock during the nine months ended September 30, 2010 is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value
Non-Vested at January 1, 2010	**5,000**	**$ 0.36**
Granted	**10,000**	**2.03**
Lapsed	**(5,000)**	**0.36**
Forfeited		
Non-Vested at September 30, 2010	**10,000**	**$ 2.03**

As of September 30, 2010, there was $1.8 million of total unrecognized compensation cost related to non-vested awards of stock options and restricted stock. This cost is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of options vested during the nine months ended September 30, 2010 and 2009, was $0.9 million and $0.7 million, respectively.

NOTE 6. RECENT ACCOUNTING PRONOUNCEMENTS

With the exception of those listed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2010, as compared to the recent accounting pronouncements described in our annual report on Form 10-K for the year ended December 31, 2009, that are of material significance, or have potential material significance, on our financial position, results of operations or cash flows.

In February 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-09, Amendments to Certain Recognition and Disclosure Requirements (ASU 2010-09), which is included in the FASB Accounting Standards Codification (the "ASC") Topic 855 (Subsequent Events). ASU 2010-09 clarifies that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective upon the issuance of the final update and had no impact on our financial position, results of operations or cash flows.

Effective January 2010, an amendment to the Consolidation Topic of the Codification (ASU 810) replaced the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity (VIE) with a primarily qualitative analysis. The qualitative analysis is based on identifying the party that has both the power to direct the activities that most significantly impact the VIE s economic performance (the power criterion) and the obligation to absorb losses from or the right to receive benefits of the VIE that could potentially be significant to the VIE (the losses/benefit criterion). The party that meets both these criteria is deemed to have a controlling financial interest. The party with the controlling financial interest is considered to be the primary beneficiary and as a result is required to consolidate the VIE. The amendment to ASU 810 had no impact on our financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements which provides amendments to the FASB ASC Subtopic 820-10 that require new disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We are currently evaluating the disclosure impact of adoption on our condensed consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 provides guidance for arrangements with multiple deliverables. Specifically, the updated accounting standard requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. ASU 2009-13 also eliminates the residual method of allocation and requires use of the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. ASU 2009-13 is effective as of January 2011 with early adoption permitted. We adopted the provisions of ASU No. 2009-13 as of January 1, 2010, which did not impact our accounting for multiple-deliverables. Multiple-deliverables apply when we enter into bundled advertising agreements that include spot advertisements on our radio stations, Internet banner placements, print magazine advertisements and booth space at specific events or some combination thereof. The multiple deliverables contained in each agreement are accounted for separately over their respective delivery period provided that they are separate units of accounting. The selling price used for each deliverable is based on vendor specific objective evidence if available or estimated selling price if vendor specific objective evidence is not available. Objective evidence of fair value includes the price charged for each element when it is sold separately. The estimated selling price is the price that we would transact if the deliverable were sold regularly on a standalone basis. Arrangement consideration is allocated at the inception of each arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable s selling price. The adoption of ASU 2009-13 did not have a material impact on our financial position, results of operations or cash flows.

NOTE 7. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718 Compensation Stock Expense. As a result, $0.4 million and $1.1 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and nine months ended September 30, 2010, respectively, in comparison to $0.1 million and $0.4 million for the three and nine months ended September 30, 2009.

NOTE 8. NOTES PAYABLE AND LONG-TERM DEBT

On December 1, 2009, our parent company, Salem Communications Corporation, entered into a new senior credit facility, which is a revolving credit facility (Revolver). We believe that the Revolver will allow us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements. The Revolver 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 we may increase the commitments available, subject to the terms and conditions of the credit agreement relating to the Revolver facility (the Credit Agreement). Amounts outstanding under the Revolver 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 pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Revolver may be paid and then reborrowed at Salem s discretion without penalty or premium. At September 30, 2010, the blended interest rate on amounts outstanding under the Revolver was 3.76%.

On November 1, 2010, we amended our Revolver to allow us to use borrowings under the Revolver, subject to the Available Amount as defined by the terms of the Credit Agreement, to redeem applicable portions of our $9^5/_8$% Senior Secured Second Lien Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ration is above 5.0 to 1. Additionally, we increased the total capacity of the Revolver from $30.0 million to $40.0 million.

With respect to financial covenants, the Credit Agreement includes a maximum leverage ratio of 7.0 to 1 and a minimum interest coverage ratio of 1.5 to 1. The Credit Agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of Salem and the guarantors (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party; (viii) to prepay indebtedness; and (ix) to pay dividends. As of September 30, 2010, our leverage ratio was 5.69 to 1 and our interest coverage ratio was 1.74 to 1. We were and remain compliant with our debt covenants.

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

Senior Secured Second Lien Notes

On December 1, 2009, we issued $300.0 million principal amount of $9^5/_8$% Senior Secured Second Lien Notes due December 2016 ($9^5/_8$% Notes) at a discount for $298.1 million resulting in an effective yield of 9.75%. Interest is due and payable on June 15 and December 15 of each year, commencing June 15, 2010 until maturity. We are not required to make principal payments on the $9^{5}/_{8}$% Notes that are due in full in December 2016. The $9^{5}/_{8}$% Notes are guaranteed by all of our existing domestic restricted subsidiaries. We are required to pay $28.9 million per year in interest on the $9^{5}/_{8}$% Notes. As of September 30, 2010, accrued interest on the $9^{5}/_{8}$% Notes was $8.0 million. The discount is being amortized to interest expense over the term of the $9^{5}/_{8}$% Notes based on the effective interest method. For the three and nine months ended September 30, 2010, approximately $48,000 and $0.1 million, respectively, of the discount has been recognized as interest expense. The carrying amount of the $9^{5}/_{8}$% Notes is $298.1 million and $280.9 million as of December 31, 2009 and September 30, 2010, respectively.

On June 1, 2010, we redeemed $17.5 million of our $9^{5}/_{8}$% Notes for $18.9 million, or at a price equal to 103% of the face value. This transaction resulted in a $1.1 million pre-tax loss on the early retirement of debt which includes $0.1 million of unamortized discount and $0.4 million of bond issues costs associated with the $9^{5}/_{8}$% Notes.

On November 1, 2010, we launched a redemption of $12.5 million of our $9^{5}/_{8}\%$ Senior Secured Second Lien Notes at a price of 103. We expect the redemption to close on December 1, 2010.

Prior Credit Facility

Our wholly-owned subsidiary, Salem Communications Holding Corporation (Salem Holding), was the borrower under our prior credit facilities. The prior credit facilities included a $75.0 million senior secured reducing revolving credit facility (revolving credit facility), a $75.0 million term loan B facility (Term Loan B facility) and a $165.0 million term loan C facility (term loan C facility). On December 1, 2009, we used the proceeds of the $9^{5}/_{8}\%$ Notes, a portion of the senior credit facility, and approximately $27 million of cash on hand to fully repay amounts outstanding under the Term Loan B of $71.2 million, the Term Loan C of $160.0 million, and to fully repay all outstanding aggregate principal of $89.7 million on the 7¾% Notes.

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. We terminated the Swingline on December 1, 2009.

$7^{3}/_{4}\%$ Notes

In December 2002, Salem Holding issued $100.0 million principal amount of $7^{3}/_{4}\%$ Notes. On December 1, 2009, we used the net proceeds from the $9^{5}/_{8}\%$ 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 remaining outstanding aggregate principal amount of $89.7 million on the $7^{3}/_{4}\%$ Notes. Accrued interest on the tendered $7^{3}/_{4}\%$ Notes was also paid. Since all outstanding $7^{3}/_{4}\%$ Notes were tendered, accepted for payment and cancelled, the indenture relating to the $7^{3}/_{4}\%$ Notes was discharged as of that date.

Summary of long-term debt obligations

Long-term debt consisted of the following:

		As of December 31, 2009		As of September 30, 2010
		(Dollars in thousands)		
Revolver under senior credit facility	$	**15,000**	**$**	**17,500**
$9^{5}/_{8}\%$ senior secured second lien notes due 2016		**298,111**		**280,860**
Capital leases and other loans		**936**		**996**
		314,047		**299,356**
Less current portion		**(78)**		**(95)**
	$	**313,969**	**$**	**299,261**

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of September 30, 2010:

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Outstanding borrowings of $17.5 million under the revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;

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$282.5 million notional amount notes with semi-annual interest payments at an annual rate of $9^5/_8$%; and

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Commitment fees of 0.75% on the unused portion of the revolver.

Other Debt

We have several capital leases related to various office equipment. The obligation recorded at December 31, 2009 and September 30, 2010 represents the present value of future commitments under the lease agreements.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at September 30, 2010 for each of the next five years and thereafter are as follows:

		Amount *(Dollars in thousands)*
2011	$	95
2012		17,603
2013		92
2014		74
2015		65
Thereafter		281,427
	$	299,356

NOTE 9. AMORTIZABLE INTANGIBLE ASSETS

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

	As of September 30, 2010					
	Cost		Accumulated Amortization *(Dollars in thousands)*		**Net**	
Customer lists and contracts	$	12,881	$	(10,160)	$	2,721
Domain and brand names		7,667		(5,142)		2,525
Favorable and assigned leases		1,649		(1,421)		228
Other amortizable intangible assets		3,799		(3,164)		635
	$	25,996	$	(19,887)	$	6,109

	As of December 31, 2009					
	Cost		Accumulated Amortization *(Dollars in thousands)*		**Net**	
Customer lists and contracts	$	11,018	$	(9,826)	$	1,192
Domain and brand names		5,626		(4,236)		1,390
Favorable and assigned leases		1,581		(1,365)		216
Other amortizable intangible assets		3,068		(2,985)		83
	$	21,293	$	(18,412)	$	2,881

Based on the amortizable intangible assets as of September 30, 2010, we estimate amortization expense for the next five years to be as follows:

Year Ending December 31,		**Amortization Expense** *(Dollars in thousands)*
2010 (July Dec)	$	607

2011		1,901
2012		1,248
2013		924
2014		796
Thereafter		633
Total	$	6,109

NOTE 10. BASIC AND DILUTED NET EARNINGS PER SHARE

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

Options to purchase 1,327,075 and 1,250,999 shares of Class A common stock and unvested restricted stock shares of 5,000 and 10,000 were outstanding at September 30, 2009 and 2010, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the Company s stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. There were no dilutive shares for the quarter end September 30, 2009. As of September 30, 2010, there were 465,370 dilutive shares.

NOTE 11. DERIVATIVE INSTRUMENTS

During 2005, we entered into three interest rate swap transactions intended to offset the risks associated with the variable interest rate on our then outstanding Term Loan C. The interest rate swaps were designated and qualified as cash flow hedges under FASB ASC Topic 815 Derivatives and Hedging. The effective portion of the gain or loss on these derivative instruments was reported as a component of other comprehensive income (outside earnings) and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affected earnings. Effective October 1, 2008, we elected a one-month reset on our Term Loan C rather than a three-month, resulting in the swaps no longer qualifying as a cash flow hedge. As the interest rate swap agreements contained a three month reset period, the swaps were no longer effective and no longer qualified as a cash flow hedge. Changes in the fair value of these swaps as of October 1, 2008 were reported in current period income rather than deferred in other comprehensive income. For the three and nine months ended September 30, 2009, we recorded $0.2 million and $0.6 million of accumulated other comprehensive losses into current period earnings in order to recognize the impact over the same period in which the hedged transactions affected earnings. We also recorded an additional $0.8 million and $1.5 million of expenses during the three and nine months ended September 30, 2009 associated with the changes in fair value of the ineffective portion of the swaps transactions. On December 1, 2009, the swap transactions were terminated when the underlying Term Loan C was paid in full.

NOTE 12. FAIR VALUE ACCOUNTING

FASB ASC Topic 820 Fair Value Measurements and Disclosures established a single definition of fair value in generally accepted accounting principles and expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. We adopted the fair value provisions for financial assets and financial liabilities effective January 1, 2008. The adoption had a material impact on our condensed consolidated financial position, results of operations or cash flows. We adopted fair value provisions for nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value. As of September 30, 2010 and December 31, 2009, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the Company.

NOTE 13. INCOME TAXES

We account for income taxes in accordance with FASB ASC Topic 740 Income Taxes. During 2009, we recognized a net increase of $0.1 million in liabilities and at December 31, 2009, had $3.8 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.1 million accrued for the related interest, net of federal income tax benefits, and $0.1 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations. We recorded an increase in our unrecognized tax benefits of $0.1 million as of September 30, 2010.

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

On July 10, 2010, Asia Vision, Inc. and Rehan Siddiqi amended a complaint they had previously filed against third parties in the 152nd Judicial District Court of Harris County, Houston, Texas, naming Salem Communications Corporation, South Texas Broadcasting, Inc. and one of Salem s officers as defendants. In their complaint, Asia Vision claims that the Salem defendants interfered with Asia Vision s contractual right to purchase radio station KTEX-AM from BusinessRadio Licensee, LLC. In their complaint, Asia Vision and Rehan Siddiqi make a claim for injunctive relief and monetary damages. On July 21, 2010, Salem

Communications and South Texas Broadcasting were served with the complaint but the Salem officer has not been served. Salem has retained counsel, has tendered defense of the matter to several insurance companies, and will vigorously defend this action.

NOTE 15. SEGMENT DATA

FASB ASC Topic 280 Segment Reporting requires companies to provide certain information about their operating segments. We have one reportable operating segment - radio broadcasting. The remaining non-reportable segments consist of our Internet businesses, SWN, Townhall.com, and Salem Consumer Products and our publishing businesses, Salem Publishing and Xulon Press, which do not meet the reportable segment quantitative thresholds and accordingly are aggregated below as non-broadcast. The radio-broadcasting segment also operates various radio networks.

Management uses operating income before depreciation, amortization, cost of denied tower site and abandoned projects, impairment of indefinite-lived intangible assets and loss on disposal of assets, as its measure of profitability for purposes of assessing performance and allocating resources.

	Radio Broadcast		Non-broadcast		Corporate		Consolidated	
				(Dollars in thousands)				
Three Months Ended September 30, 2010								
Net revenue	**$**	**43,507**	**$**	**7,883**	**$**		**$**	**51,390**
Operating expenses		**27,940**		**7,393**		**4,154**		**39,487**
Operating income (loss) before depreciation, amortization, cost of denied tower site and abandoned projects, impairment of indefinite-lived intangible assets and loss on disposal of assets		**15,567**		**490**		**(4,154)**		**11,903**
Depreciation		**2,330**		**503**		**293**		**3,126**
Amortization		**22**		**564**		**1**		**587**
Cost of denied tower site and abandoned projects								
Impairment of indefinite-lived intangible assets								
Loss on disposal of assets		**9**		**9**				**18**
Operating income (loss) from continuing operations	**$**	**13,206**	**$**	**(586)**	**$**	**(4,448)**	**$**	**8,172**
Three Months Ended September 30, 2009								
Net revenue	$	42,368	$	6,856	$		$	49,224
Operating expenses		27,194		6,163		3,440		36,797
Operating income (loss) before depreciation, amortization, cost of denied tower site and abandoned projects, impairment of indefinite-lived intangible assets and loss on disposal of assets		15,174		693		(3,440)		12,427
Depreciation		2,572		510		263		3,345
Amortization		19		314		1		334
Cost of denied tower site and abandoned projects								
Impairment of indefinite-lived intangible assets		14,146						14,146
Loss on disposal of assets		54						54
Operating loss from continuing operations	$	(1,617)	$	(131)	$	(3,704)	$	(5,452)

Nine Months Ended September 30, 2010				
Net revenue	**$ 130,386**	**$ 22,452**	**$**	**$ 152,838**
Operating expenses	**82,921**	**20,516**	**12,140**	**115,577**
Operating income (loss) before depreciation, amortization, cost of denied tower site and abandoned projects, impairment of indefinite-lived intangible assets and loss on disposal of assets	**47,465**	**1,936**	**(12,140)**	**37,261**
Depreciation	**7,100**	**1,464**	**851**	**9,415**
Amortization	**58**	**1,413**	**4**	**1,475**
Cost of denied tower site and abandoned projects				
Impairment of indefinite-lived intangible assets				
(Gain) loss on disposal of assets	**(9)**	**17**	**5**	**13**
Operating income (loss) from continuing operations	**$ 40,316**	**$ (958)**	**$ (13,000)**	**$ 26,358**
Nine Months Ended September 30, 2009				
Net revenue	$ 128,708	$ 19,667	$	$ 148,375
Operating expenses	81,900	17,400	10,054	109,354
Operating income (loss) before depreciation, amortization, cost of denied tower site and abandoned projects, impairment of indefinite-lived intangible assets and loss on disposal of assets	46,808	2,267	(10,054)	39,021
Depreciation	7,825	1,469	790	10,084
Amortization	27	1,304	8	1,339
Cost of denied tower site and abandoned projects	1,111			1,111
Impairment of indefinite-lived intangible assets	26,650	1,159		27,809
(Gain) loss on disposal of assets	1,661	11	(2)	1,670
Operating income (loss) from continuing operations	$ 9,534	$ (1,676)	$ (10,850)	$ (2,992)

	Radio Broadcast	Non-broadcast	Corporate	Consolidated
		(Dollars in thousands)		
As of September 30, 2010				
Total property, plant and equipment, net	$ **100,763**	$ **6,449**	$ **9,911**	$ **117,123**
Goodwill	**4,006**	**14,347**	**8**	**18,361**
As of December 31, 2009				
Total property, plant and equipment, net	$ 105,726	$ 5,564	$ 9,884	$ 121,174
Goodwill	4,003	13,631	8	17,642

NOTE 16. RELATED PARTY TRANSACTIONS

Our board of directors has adopted a written policy for review, approval and monitoring of transactions between the Company and its related parties. Related parties include our directors, executive officers, nominees to become a director, any person beneficially owning more than 5% of any class of our stock, immediate family members of any of the foregoing, and any entity in which any of the forgoing persons is employed or is a general partner or principal or in which the person has a 10% or greater beneficial ownership interest. The policy covers material transactions in which a related party had, has or will have a direct or indirect interest.

On June 3, 2010, we entered into a related party transaction under which the Company purchased the former primary residence of our President, Radio Division. The transaction was entered to facilitate the relocation of the President, Radio Division, in order to effectively perform his job related duties. We obtained an independent third-party appraisal of the purchase price of the residence. The residence is reflected as assets held for sale on the accompanying condensed consolidated balance sheet as of September 30, 2010. We believe that we will sell the property at an amount equal to or greater than the carrying value.

On March 31, 2010, we recorded a loss of $0.2 million associated with a second lien real estate note with an employee.

NOTE 17. SUBSEQUENT EVENTS

On October 15, 2010, we entered into an APA to sell radio station KKMO-AM in Seattle, Washington for $2.7 million. The sale is subject to the approval of the FCC and is expected to close in the first quarter of 2011.

On November 1, 2010, we amended our Revolver to allow us to use borrowings under the Revolver, subject to the Available Amount as defined by the terms of the Credit Agreement, to redeem applicable portions of our $9^5/_8$% Senior Secured Second Lien Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ration is above 5.0 to 1. Additionally, we increased the total capacity of the Revolver from $30.0 million to $40.0 million.

On November 1, 2010, we launched a redemption of $12.5 million of our $9^5/_8$% Senior Secured Second Lien Notes at a price of 103. We expect the redemption to close on December 1, 2010.

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

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

GENERAL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. Our condensed consolidated financial statements are not directly comparable from period to period due to acquisitions and dispositions of selected assets of radio stations and acquisitions of non-broadcast businesses. See Note 4 of our condensed consolidated financial statements for additional information.

We believe that we are the largest commercial U.S. radio broadcasting company that provides programming targeting audiences interested in Christian and family-themed 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 and/or operate a national portfolio of 93 radio stations in 36 markets, including 58 stations in 22 of the top 25 markets, which consists of 27 FM stations and 66 AM stations. 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, and beginning November 30, 2010, on SIRIUS, Channel 161.

Our radio business focuses on the clustering of strategic formats, mainly Christian Teaching and Talk, Contemporary Christian Music and conservative News Talk. We 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. We also own and operate Salem Media Representatives® (SMR), a national radio advertising sales firm with offices in 12 U.S. cities.

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 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, audio and video, can be accessed through our national portals that 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.

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 39 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 41% of total net broadcast revenue from 2006 through September 2010. We also program 23 News Talk stations, 11 Contemporary Christian Music stations, seven business format stations, and six 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 maintain a website at www.salem.cc. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission (SEC). *Any information found on our website is not a part of, or incorporated by reference into, this or any other report of the Company filed with, or furnished to, the SEC.*

OVERVIEW

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:

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the sale of block program time, both to national and local program producers,

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the sale of advertising time on our radio stations, both to national and local advertisers, and

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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:

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audience share,

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how well our stations perform for our clients,

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the size of the market,

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the general economic conditions in each market, and

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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.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009	2009	**2010**	**2010**	2009	2009	**2010**	**2010**
				(Dollars in thousands)				
Block program time:								
National	$ 9,628	22.7%	**$ 9,923**	**22.8%**	$ 29,308	22.8%	**$ 28,718**	**22.0%**

Local	7,617	18.0%	**7,978**	**18.3%**	23,342	18.1%	**23,717**	**18.2%**
	17,245	40.7%	**17,901**	**41.1%**	52,650	40.9%	**52,435**	**40.2%**
Advertising:								
National	3,425	8.1%	**3,473**	**8.0%**	9,183	7.1%	**10,328**	**7.9%**
Local	15,024	35.5%	**15,412**	**35.4%**	46,277	36.0%	**45,787**	**35.1%**
	18,449	43.6%	**18,885**	**43.4%**	55,460	43.1%	**56,115**	**43.0%**
Infomercials	1,739	4.1%	**1,528**	**3.5%**	5,543	4.3%	**5,079**	**3.9%**
Network	3,903	9.2%	**3,631**	**8.4%**	11,305	8.8%	**11,808**	**9.1%**
Other	1,032	2.4%	**1,562**	**3.6%**	3,750	2.9%	**4,949**	**3.8%**
Net broadcast revenue	$ 42,368	100.0%	**$ 43,507**	**100.0%**	$ 128,708	100.0%	**$ 130,386**	**100.0%**

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

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 that subscribe to Arbitron.

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds with quarterly fluctuations in the retail advertising industry. 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. For the nine months ended September 30, 2010, we sold 93% 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 Condensed Consolidated Statement of Operations.

SAME STATION DEFINITION

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

RESULTS OF OPERATIONS

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, **2010**	% Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, **2010**	% Change
	(Dollars in thousands)					
Net broadcast revenue	$ 42,368	$ **43,507**	2.7%	$ 128,708	$ **130,386**	1.3%
Non-broadcast revenue	6,856	**7,883**	15.0%	19,667	**22,452**	14.2%
Total revenue	49,224	**51,390**	4.4%	148,375	**152,838**	3.0%
Operating expenses:						
Broadcast operating expenses	27,194	**27,940**	2.7%	81,900	**82,921**	1.2%
Non-broadcast operating expenses	6,163	**7,393**	20.0%	17,400	**20,516**	17.9%
Corporate expenses	3,440	**4,154**	20.8%	10,054	**12,140**	20.7%
Depreciation	3,345	**3,126**	(6.5)%	10,084	**9,415**	(6.6)%
Amortization	334	**587**	75.7%	1,339	**1,475**	(10.2)%
Cost of denied tower site and abandoned projects			%	1,111		(100.0)%
Impairment of indefinite-lived intangible assets	14,146		(100.0)%	27,809		(100.0)%
Loss on disposal of assets	54	**18**	(66.7)%	1,670	**13**	(99.2)%
Total operating expenses	54,676	**43,218**	(21.0)%	151,367	**126,480**	(16.4)%
Operating income (loss) from continuing operations	(5,452)	**8,172**	(249.9)%	(2,992)	**26,358**	(980.9)%
Other income (expense):						
Interest income	91	**48**	(47.3)%	238	**142**	(40.3)%
Interest expense	(4,291)	**(7,435)**	73.3%	(12,929)	**(22,903)**	77.1%
Change in fair value of interest rate swaps	(842)		(100.0)%	1,534		(100.0)%
Gain on bargain purchase	1,634		(100.0)%	1,634		(100.0)%
Gain (loss) on early redemption of long-term debt			%	660	**(1,050)**	(259.1)%
Other income (expense), net	(24)	**13**	(154.2)%	(72)	**(18)**	(75.0)%
Income (loss) from continuing operations before income taxes	(8,884)	**798**	(109.0)%	(11,927)	**2,529**	(121.2)%
Provision for (benefit from) income taxes	(4,253)	**455**	(110.7)%	(5,155)	**1,284**	(124.9)%
Income (loss) from continuing operations	(4,631)	**343**	107.4%	(6,772)	**1,245**	118.4%
Income (loss) from discontinued operations, net of tax	(5)		(100.0)%	8		(100.0)%
Net income (loss)	$ (4,636)	$ **343**	107.4%	$ (6,764)	$ **1,245**	118.4%

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		**2010**		2009		**2010**	
Net broadcast revenue	86	%	**85**	%	87	%	**85**	%
Non-broadcast revenue	14	%	**15**	%	13	%	**15**	%
Total revenue	100	%	**100**	%	100	%	**100**	%
Operating expenses:		%		%		%		%
Broadcast operating expenses	55	%	**55**	%	55	%	**55**	%
Non-broadcast operating expenses	12	%	**14**	%	12	%	**13**	%
Corporate expenses	7	%	**8**	%	7	%	**8**	%
Depreciation	7	%	**6**	%	7	%	**6**	%
Amortization	1	%	**1**	%	1	%	**1**	%
Cost of denied tower site and abandoned projects		%		%		%		%
Impairment of indefinite-lived intangible assets	29	%		%	19	%		%
Loss on disposal of assets		%		%	1	%		%
Total operating expenses	111	%	**84**	%	102	%	**83**	%
Operating income (loss) from continuing operations	(11)	%	**16**	%	(2)	%	**17**	%
Other income (expense):		%		%		%		%
Interest income		%		%		%		%
Interest expense	(9)	%	**(14)**	%	(9)	%	**(15)**	%
Change in fair value of interest rate swaps	(1)	%		%	1	%		%
Gain on bargain purchase	3	%		%	1	%		%
Gain (loss) on early redemption of long-term debt		%		%		%		%
Other income (expense), net		%		%		%		%
Income (loss) from continuing operations before income taxes	(18)	%	**2**	%	(8)	%	**2**	%
Provision for (benefit from) income taxes	(9)	%	**1**	%	(3)	%	**1**	%
Income (loss) from continuing operations	(9)	%	**1**	%	(5)	%	**1**	%
Income (loss) from discontinued operations, net of tax		%		%		%		%
Net income (loss)	(9)	%	**1**	%	(5)	%	**1**	%

Three months ended September 30, 2010 compared to the three months ended September 30, 2009

NET BROADCAST REVENUE. Net broadcast revenue increased $1.1 million, or 2.7%, to $43.5 million for the three months ended September 30, 2010, from $42.4 million for the same period of the prior year. On a same station basis, net broadcast revenue increased $1.0 million, or 2.3%, to $43.2 million for the three months ended September 30, 2010, from $42.2 million for the same period of the prior year. The increase is comprised of a $0.4 million increase in local advertising revenues primarily from our Contemporary Christian Music format stations, a $0.3 million increase in national program revenues, a $0.4 million increase in local program revenues, and a $0.5 million increase in event revenue, partially offset by a $0.2 million decline in infomercial revenue and a $0.3 million decline in network revenue. Included in this increase in revenue is a $0.4 million increase in non-recurring political advertisements. Revenue from advertising as a percentage of our net broadcast revenue decreased to 43.4% for the three months ended September 30, 2010, from 43.6% for the same period of the prior year. Revenue from block program time as a percentage of our net broadcast revenue increased to 41.1% for the three months ended September 30, 2010, from 40.7% for the same period of the prior year.

NON-BROADCAST REVENUE. Non-broadcast revenue increased $1.0 million, or 15.0%, to $7.9 million for the three months ended September 30, 2010, from $6.9 million for the same period of the prior year. The increase includes a $0.8 million increase in banner advertising revenue generated from our Internet businesses, a $0.1 million increase in website hosting revenue from Salem Consumer Products and a $0.2 million increase in publishing revenues associated with magazines and books. The increase in revenue includes the impact of recent acquisitions that generate revenues across all web-based platforms.

BROADCAST OPERATING EXPENSES. Broadcast operating expenses increased $0.7 million, or 2.7%, to $27.9 million for the three months ended September 30, 2010, from $27.2 million for the same period of the prior year. On a same station basis, broadcast operating expenses increased $0.6 million, or 2.5%, to $27.6 million for the three months ended September 30, 2010, compared to $27.0 million for the same period of the prior year. The increase in broadcast operating expenses includes a $1.5 million increase in personnel-related costs, and a $0.3 million increase in facility related costs, offset by a $0.1 million decrease in professional services, a $0.2 million decrease in production and programming expenses, a $0.1 million decrease in music license fees, and a $0.6 million decrease in bad debt expense associated with customer receivables.

NON-BROADCAST OPERATING EXPENSES. Non-broadcast operating expenses increased $1.2 million, or 20.0%, to $7.4 million for the three months ended September 30, 2010, compared to $6.2 million for the same period of the prior year. The increase is comprised of a $0.5 million increase in personnel-related costs including higher commissions based on collected revenue, a $0.5 million increase in advertising expense promoting our publishing and Internet businesses, a $0.1 million increase in streaming, hosting and software expenses related to our Internet businesses, a $0.1 million increase in royalty payments generated from our Internet businesses and a $0.1 million increase in royalty payments for Salem Consumer Products.

CORPORATE EXPENSES. Corporate expenses increased $0.8 million, or 20.8%, to $4.2 million for the three months ended September 30, 2010, compared to $3.4 million for the same period of the prior year. The increase includes $0.3 million of accrued management bonuses not applicable to the prior year, a $0.1 million increase in non-cash stock based compensation expense associated with new option grants, $0.2 million increase in payroll and personnel related expenses and a $0.2 million increase in computer software costs.

DEPRECIATION. Depreciation expense decreased $0.2 million, or 6.5%, to $3.1 million for the three months ended September 30, 2010, compared to $3.3 million for the same period of the prior year. The decrease reflects the overall impact of reduced capital expenditures and reduced station acquisitions in 2009 as compared to prior years.

AMORTIZATION. Amortization expense increased $0.3 million, or 75.7%, to $0.6 million for the three months ended September 30, 2010, compared to $0.3 million for the same period of the prior year. The increase is due to the amortization of certain intangibles associated with our recent acquisitions of HotAir.com, tangle.com, GodTube.com and Samaritan Fundraising.

IMPAIRMENT OF INDEFINITE-LIVED INTANGIBLE ASSETS. 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 quarter ended September 30, 2009, we recorded an impairment charge of $14.1 million associated with the FCC Licenses and goodwill in the Atlanta, Georgia, Detroit, Michigan, Portland, Oregon and Cleveland, Ohio markets. The impairment charge resulted from then weakening radio station valuations as a result of lower revenues and lower growth expectations. These trends were not specific to any of our individual market clusters, but rather were affecting valuations in the industry as a whole. For the three months ended September 30, 2010 and 2009, the markets for which impairment charges were recorded during 2009 accounted for 15.8% and 14.1% of total net revenues, respectively. There were no impairment losses for the three months ended September 30, 2010.

LOSS ON DISPOSAL OF ASSETS. The net loss on disposal of assets of $18,000 for the three months ended September 30, 2010, is comprised of a $0.3 million pre-tax gain associated with the seizure of our property by Eminent Domain of the Dallas County School District offset by a $0.2 million pre-tax loss pending the probable sale of WAMD-AM, Aberdeen, Maryland, and various fixed assets and equipment disposals.

GAIN ON BARGAIN PURCHASE. In accordance with FASB ASC Topic 805 Business Combinations, 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 WZAB-AM in Miami, Florida, of $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.

OTHER EXPENSE. Interest income of $0.1 million for the three months ended September 30, 2010 and 2009 was interest earned on excess cash. Interest expense increased $3.1 million, or 73.3%, to $7.4 million for the three months ended September 30, 2010, compared to $4.3 million for the same period of the prior year primarily due to the issuance of our $9^5/_8$% Notes in December 2009 as compared to the prior capital structure. Change in fair value of interest rate swaps of $0.9 million for the three months ended September 30, 2009, represents the change in the fair market value of our swaps. Other expense, net, of $13,000 for the three months ended September 30, 2010 and $24,000 for the three months ended September 30, 2009 relates to bank commitment fees associated with our credit facility offset with royalty income from real estate properties.

PROVISION FOR (BENEFIT FROM) INCOME TAXES. In accordance with FASB ASC Topic 740 Income Taxes, our provision for income taxes was $0.5 million for the three months ended September 30, 2010 compared to a tax benefit of $4.3 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 57.0% for the three months ended September 30, 2010 compared to 47.9% 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.

LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX. The loss from discontinued operations of $5,000 net of taxes, for the three months ended September 30, 2009 relates to facility charges incurred on the Milwaukee property.

NET INCOME (LOSS). We recognized net income of $0.3 million for the three months ended September 30, 2010 compared to a net loss of $4.6 million for the same period of the prior year. The increase of $4.9 million is primarily due to a $13.7 million increase in net operating income and the $0.8 million benefit related to the change in fair value of our interest swaps outstanding in the prior year, offset by a $3.1 million increase in interest expense associated with our $9^5/_8$% Notes, a $1.6 million gain on bargain purchase of WZAB-AM, Miami, Florida, and a $4.8 million increase in our tax provision.

Nine months ended September 30, 2010 compared to the nine months ended September 30, 2009

NET BROADCAST REVENUE. Net broadcast revenue increased $1.7 million, or 1.3%, to $130.4 million for the nine months ended September 30, 2010, from $128.7 million for the same period of the prior year. On a same station basis, net broadcast revenue increased $1.4 million, or 1.1%, to $129.7 million for the nine months ended September 30, 2010, from $128.3 million for the same period of the prior year. The increase includes a $0.5 million increase in national program revenue, a $0.4 million increase in local program revenue, a $0.5 million increase in network revenue, and a $1.2 million increase in event revenue, offset by a $0.6 million decrease in national program revenue primarily on our Christian Teaching and Talk stations, a $0.5 million decrease in local advertising revenues across all station formats, and a $0.5 million decrease in infomercial revenue primarily on our Christian Teaching and Talk and News Talk formats. Included in this increase in revenue is a $1.5 million increase in non-recurring political advertisements. Revenue from advertising as a percentage of our net broadcast revenue decreased to 43.0% for the nine months ended September 30, 2010 compared to 43.1% for the same period of the prior year. Revenue from block program time as a percentage of our net broadcast revenue decreased to 40.2% for the nine months ended September 30, 2010, from 40.9% for the same period of the prior year.

NON-BROADCAST REVENUE. Non-broadcast revenue increased $2.8 million, or 14.2%, to $22.5 million for the nine months ended September 30, 2010, from $19.7 million for the same period of the prior year. The increase is comprised of a $2.3 million increase in banner advertising revenue generated from our Internet businesses, and a $0.3 million increase in website hosting revenues from Salem Consumer Products, and a $0.2 million increase in publishing revenues associated with magazines and books. The increase in revenue includes the impact of recent acquisitions that generate revenues across all web-based platforms.

BROADCAST OPERATING EXPENSES. Broadcast operating expenses increased $1.0 million, or 1.2%, to $82.9 million for the nine months ended September 30, 2010, from $81.9 million for the same period of the prior year. On a same station basis, broadcast operating expense increased $0.8 million, or 1.0%, to $82.1 million for the nine months ended September 30, 2010, compared to $81.3 million for the same period of the prior year. The increase includes $3.7 million of higher personnel-related costs and a $0.6 million increase in advertising expenses, offset by a $2.3 million decrease in bad debt expense, a $0.3 million decrease in music license fees, and a $0.4 million decrease in production and programming expenses.

NON-BROADCAST OPERATING EXPENSES. Non-broadcast operating expenses increased $3.1 million, or 17.9%, to $20.5 million for the nine months ended September 30, 2010, compared to $17.4 million for the same period of the prior year. The increase is comprised of a $1.4 million increase in personnel-related costs including commissions based on higher levels of collected revenues, a $1.1 million increase in advertising expenses promoting our Internet businesses and publishing businesses, a $0.3 million increase in streaming, hosting and software expenses related to our Internet businesses, a $0.2 million increase in royalties generated from our Internet businesses, and a $0.2 million increase in royalties generated from our Salem Consumer Products business.

CORPORATE EXPENSES. Corporate expenses increased $2.0 million, or 20.7%, to $12.1 million for the nine months ended September 30, 2010, compared to $10.1 million for the same period of the prior year. The increase includes $0.7 million of accrued management bonuses not applicable to the prior year, a $0.6 million increase in non-cash stock based compensation expense associated with new option grants, a $0.2 million increase in personnel-related costs, a $0.3 million increase in repairs and maintenance costs and a $0.2 million increase in facility related costs.

DEPRECIATION. Depreciation expense decreased $0.7 million, or 6.6%, to $9.4 million for the nine months ended September 30, 2010, compared to $10.1 million for the same period of the prior year. The decrease reflects the overall impact of reduced capital expenditures and reduced station acquisitions in 2009 as compared to prior years.

AMORTIZATION. Amortization expense increased $0.2 million, or 10.2%, to $1.5 million for the nine months ended September 30, 2010, compared to $1.3 million for the same period of the prior year. The increase is due to certain intangibles associated with our recent acquisitions of HotAir.com, tangle.com, GodTube.com and Samaritan Fundraising.

COST OF DENIED TOWER SITE AND ABANDONED PROJECTS. During the nine months ended September 30, 2009, we expensed deferred costs of $0.9 million associated with a tower relocation project for radio station KDOW-AM, San Francisco, California, that was rejected by the City of Hayward. During this same period, we also expensed an additional $0.2 million of costs associated with capital projects that we determined would no longer be pursued.

IMPAIRMENT OF INDEFINITE-LIVED INTANGIBLE ASSETS. 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 nine months ended September 30, 2009, 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 an impairment charge of $1.2 million associated with the value of goodwill and Mastheads in the non-broadcast segment. The impairment charge resulted from weakening radio station valuations as a result of lower revenues and lower growth expectations. These trends were not specific to any of our individual market clusters, but rather were affecting valuations in the industry as a whole. For the nine months ended September 30, 2010 and 2009, the markets for which impairment charges were recorded during 2009 accounted 23.3% and 22.7% of total net revenues, respectively. There were no impairment losses for the nine months ended September 30, 2010.

LOSS ON DISPOSAL OF ASSETS. The net loss on disposal of assets of $13,000 for the nine months ended September 30, 2010, is comprised of a $0.3 million pre-tax gain associated with the seizure of our property by the Dallas County School District offset by a $0.2 million pre-tax loss pending the probable sale of WAMD-AM, Aberdeen, Maryland, and other losses on various fixed assets and equipment disposals. The loss on disposal of assets of $1.6 million for the nine months ended September 30, 2009, was comprised of the sale of radio station KPXI-FM, Tyler-Longview, Texas for $0.4 million resulting in a pre-tax loss of $1.6 million.

GAIN ON BARGAIN PURCHASE. In accordance with FASB ASC Topic 805 Business Combinations, 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 WZAB-AM in Miami, Florida, of $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.

OTHER INCOME (EXPENSE). Interest income of $0.1 million for the nine months ended September 30, 2010 and 2009 was interest earned on excess cash. Interest expense increased $10.0 million, or 77.1%, to $22.9 million for the nine months ended September 30, 2010, compared to $12.9 million for the same period of the prior year due to the issuance of our $9^5/_8$% Notes in December 2009 as compared to the prior capital structure. 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. Other expense, net of $18,000 for the nine months ended September 30, 2010 includes the APA termination fee of $0.2 million received from escrow upon the termination of the sale agreement for WRFD-AM, Columbus, Ohio offset by a $0.2 million charge related to a loss taken on a second lien real estate note with an employee not associated with our operating activities. Other expense, net, of $0.1 million for the nine months ended September 30, 2009 primarily relates to bank commitment fees associated with our credit facility offset with royalty income from real estate properties.

PROVISION FOR (BENEFIT FROM) INCOME TAXES. In accordance with FASB ASC Topic 740   Income Taxes, our provision for income taxes was $1.3 million for the nine months ended September 30, 2010 compared to a tax benefit of $5.2 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 50.8% for the nine months ended September 30, 2010 compared to 43.2% 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 taxes, for the nine months ended September 30, 2009 relates to facility charges incurred on the Milwaukee property offset by property, plant and equipment that was previously written off and added back when transferred to markets of continuing operations.

NET INCOME (LOSS). We recognized net income of $1.2 million for the nine months ended September 30, 2010 compared to a net loss of $6.8 million for the same period of the prior year. The increase of $8.0 million is primarily due to a $29.4 million increase in net operating income offset by a $10.0 million increase in interest expense associated with our $9^5/_8$% Notes, a $1.6 million gain on bargain purchase of WZAB-AM, Miami, Florida, a $1.5 million benefit related to the change in fair value of our interest rate swaps, a $1.1 million loss on the early redemption of the $9^5/_8$% Notes and a $6.5 million increase in our tax provision.

NON-GAAP FINANCIAL MEASURES

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

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

Three months ended September 30, 2010 compared to the three months ended September 30, 2009

STATION OPERATING INCOME. SOI increased $0.4 million, or 2.6%, to $15.6 million for the three months ended September 30, 2010, compared to $15.2 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI remained consistent at 35.8% for the three months ended September 30, 2010 and for the same period of the prior year. On a same station basis, SOI increased $0.3 million, or 2.0%, to $15.6 million for the three months ended September 30, 2010 from $15.3 million for the same period of the prior year. As a percentage of same station net broadcast revenue, same station SOI decreased to 36.0% for the three months ended September 30, 2010 compared to 36.1% for the same period of the prior year.

Nine months ended September 30, 2010 compared to the nine months ended September 30, 2009

STATION OPERATING INCOME. SOI increased $0.7 million, or 1.4%, to $47.5 million for the nine months ended September 30, 2010, compared to $46.8 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI remained consistent at 36.4% for the nine months ended September 30, 2010 and for the same period of the prior year. On a same station basis, SOI increased $0.6 million, or 1.2%, to $47.6 million for the nine months ended September 30, 2010 from $47.0 million from the same period of the prior year. As a percentage of same station net broadcast revenue, same station SOI increased to 36.7% for the nine months ended September 30, 2010 compared to 36.6% for the same period of the prior year.

The following table provides a reconciliation of SOI (a non-GAAP financial measure) to operating income (as presented in our financial statements) for the three and nine months ended September 30, 2009 and 2010:

	Three Months Ended	Nine Months Ended

	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
	(Dollars in thousands)			
Station operating income	$ 15,174	**$ 15,567**	$ 46,808	**$ 47,465**
Plus non-broadcast revenue	6,856	**7,883**	19,667	**22,452**
Less non-broadcast operating expenses	(6,163)	**(7,393)**	(17,400)	**(20,516)**
Less corporate expenses	(3,440)	**(4,154)**	(10,054)	**(12,140)**
Less deprecation and amortization	(3,679)	**(3,713)**	(11,423)	**(10,890)**
Less cost of denied tower site and abandoned projects			(1,111)	
Less impairment of indefinite-lived intangible assets	(14,146)		(27,809)	
Less loss on disposal of assets	(54)	**(18)**	(1,670)	**(13)**
Operating income (loss)	$ (5,452)	**$ 8,172**	$ (2,992)	**$ 26,358**

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

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

Accounting for acquisitions and upgrades of radio station and network assets

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

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

Revenue recognition

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

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

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

Multiple-Deliverables

We may enter bundled advertising agreements that include spot advertisements on our radio stations, Internet banner placements, print magazine advertisements and booth space at specific events or some combination thereof. The multiple deliverables contained in each agreement are accounted for separately over their respective delivery period provided that they are separate units of accounting. The selling price used for each deliverable is based on vendor specific objective evidence if available or estimated selling price if vendor specific objective evidence is not available. Objective evidence of fair value includes the price charged for each element when it is sold separately. The estimated selling price is the price that we would transact if the deliverable were sold regularly on a standalone basis. Arrangement consideration is allocated at the inception of each arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable s selling price. The adoption of ASU 2009-13 did not change the units of accounting, how we allocate consideration to various units of accounting, or the timing of revenue recognition.

Allowance for doubtful accounts

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

Accounting for discontinued operations

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

Goodwill and indefinite-lived intangible assets

Approximately 69% of our total assets consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 350, Intangibles Goodwill and Other. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired. The unit of accounting used to test broadcast licenses is the cluster level, which we defines as a group of radio stations operating in the same geographic market, sharing the same building and equipment and being managed by a single general manager. Goodwill and mastheads, primarily attributable to our non-broadcast operating segment, are tested at the business unit level, which we define by publication or website. Broadcast licenses account for approximately 95% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 5%. We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. During the period ended September 30, 2010, we did not have indications of impairment for our broadcast licenses. Based on deteriorating macro-economic factors, including declining radio industry revenues throughout 2009 and a weakening in prevailing radio station transaction multiples, we tested our broadcast licenses for impairment during the interim period ended September 30, 2009.

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 amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820 Fair Value Measurements and Disclosures as Level 3 inputs discussed in detail in Note 12 Fair Value Accounting.

When performing our impairment testing for broadcast licenses we review the financial performance of the market clusters against established internal benchmarks. The first step of our impairment testing process compares the fair value as determined from valuations obtained in prior periods from an independent third-party to the carrying value to determine the degree by which the amounts differ. For our impairment reviews completed during 2009, we compared our actual operating revenues as of the period end to the projected revenues used in the most recent appraisals. Markets with actual operating results that exceeded the projections, which were not subject to changes in other assumptions such as the weighted average cost of capital, were deemed not to be impaired.

The second step of our impairment testing process compared the carrying value of the broadcast licenses for each market cluster to the station operating income (SOI) for each market cluster as of the period end. If the carrying value of the broadcast licenses was less than six times the annualized SOI, the broadcast licenses were deemed not to be impaired. As radio stations are typically sold on the basis of a multiple of projected operating income usually up to a multiple of eight, we believe that a benchmark of six appears conservative even in today s market. We evaluate the SOI multiples used in our testing based on market data available as of each testing date.

For the market clusters that did not meet the internal benchmarks, Bond & Pecaro, an independent third-party appraisal and valuation firm, was engaged to perform an appraisal of the indefinite-lived asset(s). Bond & Pecaro utilized an income approach to value broadcast licenses. The income approach measures the expected economic benefits that the broadcast licenses provides and discounts these future benefits using a discounted cash flow analysis. The discounted cash flow analysis assumes that the broadcast licenses are held by hypothetical start-up stations and the values yielded by the discounted cash flow analysis represent the portion of the stations value attributable solely to the broadcast license. The discounted cash flow model incorporates variables such as projected revenues, operating profit margins, and a discount rate. The variables used reflect historical company growth trends, industry projections, and the anticipated performance of the business. The discounted cash flow projection period was determined to be ten years; which is typically the time radio station operators and investors expect to recover their investments as widely used by industry analysts in their forecasts.

The key assumptions used in the Bond & Pecaro analysis to estimate the fair value of each major category of assets in our broadcast segment for the interim period ended September 30, 2009, were as follows:

As of the interim testing period ended September 30, 2009:	**Broadcast Licenses**	**Goodwill**
Discount rate	9.5%	9.5%
Market growth rates next 12 months	(2.0%)	(2.0%)
Out-year market growth range	0.4% 0.6%	0.4% 0.6%
Market share range	0.7% - 15.3%	0.7% - 15.3%
Operating profit margin range	4.7% - 40.7%	4.7% - 40.7%

We also test goodwill balances within the broadcast segment for impairment on an annual basis and between annual tests when there are indications of impairment. The first step of our goodwill impairment test, used to identify potential impairment, compares the appraised fair value of the market cluster for markets with actual operating results that exceeded the estimates used in the appraisal model to the carrying value of the market cluster, including goodwill. If the appraised fair value exceeded the carrying value, goodwill was deemed not to be impaired. For market clusters that were not appraised, we determined the implied fair value of the market cluster as a multiple of SOI as noted in our second test of the FCC license value. If the implied fair value exceeded the carrying value of the market cluster, goodwill was deemed not to be impaired. Market clusters that did not meet these two tests were subject to appraisal.

The second test of the goodwill impairment test, used to measure the impairment loss, compared either the appraised value or the implied fair value of the market cluster including goodwill to the carrying value of the market cluster including goodwill. If the carrying value exceeded these amounts, a loss was recognized in an amount equal to the excess.

The results of our impairment testing for our broadcast segment for the testing period ended September 30, 2009, was as follows:

As of the interim testing period ended September 30, 2009

Market Cluster	**Indication of impairment based on internal benchmarks**	**Percentage by which fair value exceeds carrying value**	
Dallas-Fort Worth, TX	Yes	1.1%	(1)
Atlanta, GA	Yes	0.0%	(1)
Detroit, MI	Yes	0.0%	(1)
Portland, OR	Yes	0.0%	(1)
Cleveland, OH	Yes	0.0%	

Note (1) Markets with a 0.0% spread between fair value and carrying value were deemed to be impaired as of the balance sheet date with corresponding adjustments to the FCC license value recorded.

As a result of our interim review and valuation for the testing period ended September 30, 2009,we recognized a pre-tax impairment charge of $14.1 million associated with the value of broadcast licenses in the Cleveland, Atlanta, Detroit and Portland markets. These charges are in addition to a pre-tax impairment charge of $12.5 million associated with the value of broadcast licenses and goodwill in the Dallas and Portland markets that were recognized as of the testing period ended June 30, 2009. The impairments are driven in part by declining revenue at the industry and market levels, declining radio stations transaction multiples and a higher cost of capital. The impairments are indicative of a trend in the broadcast industry and are not unique to the Company.

We also complete our non-broadcast annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. We did not have indications of impairment during the period ended September 30, 2010. Based on deteriorating macro-economic factors, including declining publishing revenues, we did perform a review of these assets as of September 30, 2009.

The first step of our impairment testing compares the fair value as determined from an independent third-party to the carrying value to determine the degree by which the amounts differed. For our impairment reviews completed during 2010, we compared our actual operating revenues as of the period end to the projected revenues used in the most recent appraisals. Reporting units with actual operating results that exceeded the projections, which were not subject to changes in other assumptions such as the weighted average cost of capital, were deemed not to be impaired.

The second step of our impairment testing process compared the carrying value of the indefinite-lived intangible assets, specifically mastheads and goodwill, for each reporting unit as of the testing date to the enterprise value. Enterprise value is defined as six times the net operating income for each reporting unit as of the trailing 12 months plus the net book value of the property, plant and equipment of the operating unit. As media entities are typically sold on the basis of a multiple of projected operating income, usually in excess of eight, we believe that a benchmark of six appears conservative even in today s market. We evaluate the multiples used in our testing based on market data available as of each testing date. If the carrying value of the intangibles is less than the enterprise value, the intangible assets are deemed not to be impaired.

For the reporting units that did not meet the internal benchmarks, Bond & Pecaro, an independent third-party appraisal and valuation firm, was engaged to perform an appraisal of the indefinite-lived intangible asset(s). Bond & Pecaro utilized an income approach to estimate the fair value of the businesses. The income approach measures the expected economic benefits these assets bring to the holder. The fair value of the business may be expressed by discounting these future benefits. The discounted cash flow model incorporated variables such as projected revenues, operating cash flow margins, and a discount rate. The variables used reflect historical company growth trends, industry projections, and the anticipated performance of the business. The discounted cash flow projection period was determined to be ten years; which is typically the time media and technology property investors expect to recover their investments as widely used by industry analysts in their forecasts.

The key assumptions used in the Bond & Pecaro analysis to estimate the fair value of each major category of assets in our non-broadcast segment for the testing period ending September 30, 2009 were as follows:

As of the interim testing period ended September 30, 2009:	**Other indefinite-lived intangible assets**	**Goodwill**
Discount rate	17.0%	17.0%
Operating cash flow growth rate	3.5%	3.5%
Long-term growth rate	3.5%	3.5%

We also test goodwill balances within the non-broadcast segment for impairment on an annual basis and between annual dates when there are indications of impairment. The first step of the goodwill impairment test is used to identify potential impairment by comparing the appraised fair value of the reporting unit to the carrying value of the reporting unit including goodwill. If the appraised fair value exceeded the carrying value, goodwill was deemed not to be impaired. For reporting units that were not appraised, we used the implied fair value of the reporting unit, or enterprise value, as noted in our second test of the internal review. If the implied fair value exceeded the carrying value, goodwill was deemed not to be impaired. If these criteria are not met, a second test was applied.

The second test of the goodwill impairment test, used to measure the amount of any impairment loss, compared either the appraised fair value or the implied fair value of the reporting unit including goodwill to the carrying value of the reporting unit including goodwill. If the carrying value exceeded these amounts, a loss was recognized in an amount equal to the excess.

The results of our impairment testing process for our non-broadcast segment for the testing period ending September 30, 2009 were as follows:

As of the interim testing period ended September 30, 2009

Reporting Unit	**Indication of impairment based on internal benchmarks**	**Percentage by which fair value exceeds carrying value**
Salem Web Network	Yes	35.5%
Townhall.com	Yes	57.0%

As a result of our interim review and valuation for the testing period ended September 30, 2009, there was no pre-tax impairment charge associated with the value of non-broadcast non-amortizable intangible assets. However, we did recognize a $1.2 million charge as of the testing period ended June 30, 2009 related to the value of mastheads and goodwill in our non-broadcast segment

The economic downturn over the last two years has negatively impacted our ability to generate revenues. The discount rate assumptions used are based on an assessment of the risk inherent in the future cash flows of the respective market clusters and reporting units. 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. Included in our broadcast valuation estimates are a 3% decline in advertising revenue for 2010 as compared to 2009 followed by up to a 2.5% increase in 2011 as compared to 2010. Included in our non-broadcast valuation estimates are projected profit margins of up to 3.3%projected for 2011. Failure to achieve the anticipated growth rates and/or declines in excess of those amounts may result in future impairment losses, the amount of which may be material.

Uncertain tax positions

We account for income taxes in accordance with FASB ASC Topic 740   Income Taxes.   Upon the adoption of the provisions on January 1, 2007 we had $3.0 million in liabilities related to uncertain tax positions, including $0.9 million recognized under FASB ASC Topic 450   Contingencies   and carried forward from prior years and $2.1 million recognized upon adoption of the tax provision changes as a reduction to retained earnings. Included in the $2.1 million accrual was $0.1 million related interest, net of federal income tax benefits. During 2009, we recognized a net increase of $0.1 million in liabilities and at December 31, 2009, had $3.8 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.1 million accrued for the related interest, net of federal income tax benefits, and $0.1 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations. We recorded an increase in our unrecognized tax benefits of $0.1 million as of September 30, 2010.

Valuation allowance (deferred taxes)

For financial reporting purposes, we recorded a valuation allowance of $2.3 million as of September 30, 2010 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. Management regularly reviews our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on management s estimate of the benefit the Company will receive from such carryforwards.

Derivative instruments

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

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

During 2005, we entered into three interest rate swap transactions intended to offset the risks associated with the variable interest rate on our then outstanding Term Loan C. The interest rate swaps were designated and qualified as cash flow hedges under FASB ASC Topic 815 Derivatives and Hedging. The effective portion of the gain or loss on these derivative instruments was reported as a component of other comprehensive income (outside earnings) and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affected earnings. Effective October 1, 2008, we elected a one-month reset on our Term Loan C rather than a three-month, resulting in the swaps no longer qualifying as a cash flow hedge. As the interest rate swap agreements contained a three month reset period, the swaps were no longer effective and no longer qualified as a cash flow hedge. Changes in the fair value of these swaps as of October 1, 2008 were reported in current period income rather than deferred in other comprehensive income. For the three and nine months ended September 30, 2009, we recorded $0.2 million and $0.6 million of accumulated other comprehensive losses into current period earnings in order to recognize the impact over the same period in which the hedged transactions affected earnings. We also recorded an additional $0.8 million and $1.5 million of expenses during the three and nine months ended September 30, 2009 associated with the changes in fair value of the ineffective portion of the swaps transactions. On December 1, 2009, the swap transactions were terminated when the underlying Term Loan C was paid in full.

Fair Value Accounting

FASB ASC Topic 820 Fair Value Measurements and Disclosures established a single definition of fair value in generally accepted accounting principles and expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. We adopted the fair value provisions for financial assets and financial liabilities effective January 1, 2008. The adoption had a material impact on our condensed consolidated financial position, results of operations or cash flows. We adopted fair value provisions for nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value. As of September 30, 2010 and December 31, 2009, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the Company.

Long-term debt and debt covenant compliance

Our classification of borrowings under our Revolver as long-term debt on our balance sheet is based on our assessment that, under the terms of our Credit Agreement and after considering our projected operating results and cash flows for the coming year, no principal payments are required to be made. These projections are estimates dependent upon a number of factors including developments in the markets in which we are operating in and economic and political factors, among other factors. Accordingly, these projections are inherently uncertain and our actual results could differ from these estimates.

Stock-Based compensation

We have one stock option plan, The Amended and Restated 1999 Stock Incentive Plan, (the Plan) under which stock options and restricted stock units are granted to employees, directors, officers and advisors of the Company. A maximum of 3,100,000 shares are authorized under the plan, of which 1,260,999 options and restricted shares are outstanding and 648,527 are exercisable as of September 30, 2010.

We account for stock based compensation under the provisions of FASB ASC Topic 718 Compensation Stock Compensation. We record equity awards under the fair value method with share-based compensation measured as of the grant date, based on the fair value of the award. The exercise price of options is equal to the market price of Salem Communications common stock on the date of grant. We use the straight-line attribution method to recognize share-based compensation costs over the service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock units, deferred tax assets for options and restricted stock units with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. Total stock based compensation expense for the three and nine months ended September 30, 2010 was $0.4 million and $1.1 million compared to $0.1 million and $0.4 million for the three and nine months ended September 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash provided by operations and cash available through our credit facilities. We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and selected asset dispositions. We expect to fund future acquisitions from cash on hand, proceeds from debt and equity offerings, borrowings under our credit facility, 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, borrowings under our credit facility and, if necessary, proceeds from the sale of selected assets or radio stations.

Cash Flows

Cash and cash equivalents were $1.0 million on September 30, 2010 compared to $8.9 million as of December 31, 2009. As of September 30, 2010, we had working capital of $12.4 million compared to $24.1 million as of December 31, 2009. The decrease in working capital of $11.7 million reflects the $7.9 million decrease in cash and cash equivalents associated with our acquisition activity during 2010, including: the $2.0 million purchase of HotAir.com, the $2.5 million purchase of tangle.com and GodTube.com, the $3.1 million purchase of WWRC-AM, Washington DC, and the $0.6 million purchase of Samaritan Fundraising. The decrease in working capital also includes the redemption of $17.5 million in principal of our $9^5/_8$% Notes for $18.9 million offset by cash flows from operations and a $2.5 million increase on our revolver. Restricted cash of $0.1 million includes amounts that are contractually restricted in connection with a security agreement between the Company and Traveler s Insurance.

Cash Flows from Operating Activities

Our cash flows from operations are derived from our earnings from ongoing operations prior to non-cash expenses such as depreciation, amortization, bad debt, and stock-based compensation and changes in our working capital. Cash flows generated from continuing operations was $20.7 million for the nine months ended September 30, 2010 compared to $35.9 million for the same period of the prior year. The decrease of $15.2 million reflects an $8.0 million increase in income from continuing operations without the favorable impact on the current year of the non-recurring items on the prior year including the $27.8 million non-cash impairment loss offset by the $4.7 million change in fair value of interest rate swaps, $1.6 million gain on bargain purchase, $1.1 million cost of denied tower site and abandoned projects and the $1.0 million loss on early retirement of debt.

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 $12.9 million for the nine months ended September 30, 2010 compared $2.0 million in the same period of the prior year. The increase of $10.9 million includes the impact of 2010 acquisition activity, including the purchase of HotAir.com for $2.0 million, the purchase of tangle.com and GodTube.com for $2.5 million, the purchase of WWRC-AM, Washington DC for $3.1 million, the purchase of Samaritan Fundraising for $0.6 million, and a $2.9 million increase in capital expenditures offset by a $1.0 million deposit pending the sale of KXMX-AM, Los Angeles and $1.0 million of proceeds related to the just reimbursement for seized property under Eminent Domain.

Cash Flows from Financing Activities

Our financing activities primarily relate to proceeds and repayments under our credit facility, payments of capital lease obligations, payments of dividends and repurchases of our Class A Common Stock. Net cash used in financing activities increased to $15.8 million for the nine months ended September 30, 2010 from $4.1 million for the same period of the prior year. The increase of $11.7 million is due to the redemption of $17.5 million in principal of our $9^5/_8$% Notes for $18.9 million offset with net borrowings of $2.5 million on our revolver and proceeds from stock option exercises and reduced fees paid in association with our credit facility.

Credit Facilities

Senior Credit Facility

On December 1, 2009, our parent company, Salem Communications Corporation entered into a new senior credit facility, which is a revolving credit facility (Revolver). We believe that the Revolver will allow us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements. The Revolver is a three-year $30 million 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 we may increase the commitments available, subject to the terms and conditions of the credit agreement relating to the Revolver (the Credit Agreement). Amounts outstanding under the Revolver 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 pay a commitment fee on the unused balance of 0.75% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the Revolver may be paid and then reborrowed at Salem s discretion without penalty or premium. At September 30, 2010, the blended interest rate on amounts outstanding under the Revolver was 3.76%.

On November 1, 2010, we amended our Revolver to allow us to use borrowings under the Revolver, subject to the Available Amount as defined by the terms of the Credit Agreement, to redeem applicable portions of our 9 5/8% Senior Secured Second Lien

Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ration is above 5.0 to 1. Additionally, we increased the total capacity of the Revolver from $30.0 million to $40.0 million.

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. As of September 30, 2010, our leverage ratio was 5.69 to 1.0 and our interest coverage ratio was 1.74 to 1.0. We were and remain compliant with our debt covenants.

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

Senior Secured Second Lien Notes

On December 1, 2009, we issued $300.0 million principal amount of $9^{5}/_{8}$% Senior Secured Second Lien Notes due December 2016 ($9^{5}/_{8}$% Notes) at a discount for $298.1 million resulting in an effective yield of 9.75%. Interest is due and payable on June 15 and December 15 of each year, commencing June 15, 2010 until maturity. We are not required to make principal payments on the $9^{5}/_{8}$% Notes that are due in full in December 2016. The $9^{5}/_{8}$% Notes are guaranteed by all of our existing domestic restricted subsidiaries. We are required to pay $28.9 million per year in interest on the $9^{5}/_{8}$% Notes. As of September 30, 2010, accrued interest on the $9^{5}/_{8}$% Notes was $8.0 million. The discount is being amortized to interest expense over the term of the $9^{5}/_{8}$% Notes based on the effective interest method. For the three and nine months ended September 30, 2010, approximately $48,000 and $0.1 million, respectively, of the discount has been recognized as interest expense. The carrying amount of the $9^{5}/_{8}$% Notes is $298.1 million and $280.9 million as of December 31, 2009 and September 30, 2010, respectively.

On June 1, 2010, we redeemed $17.5 million of our $9^{5}/_{8}$% Notes for $18.9 million, or at a price equal to 103% of the face value. This transaction resulted in a $1.1 million pre-tax loss on the early retirement of debt, including $0.1 million of unamortized discount and approximately $0.4 million of bond issues costs associated with the redemption of the $9^{5}/_{8}$% Notes.

On November 1, 2010, we launched a redemption of $12.5 million of our $9^{5}/_{8}$% Senior Secured Second Lien Notes at a price of 103. We expect the redemption to close on December 1, 2010.

Prior Credit Facility

Our wholly-owned subsidiary, Salem Communications Holding Corporation (Salem Holding), was the borrower under our prior credit facilities. The prior credit facilities included commitments of $75.0 million senior secured reducing revolving credit facility (revolving credit facility), a $75.0 million term loan B facility (Term Loan B facility) and a $165.0 million term loan C facility (term loan C facility). On December 1, 2009, we used the proceeds of the $9^{5}/_{8}$% Notes, a portion of the senior credit facility, and approximately $27 million of cash on hand to fully repay amounts outstanding under the Term Loan B of $71.2 million, the Term Loan C of $160.0 million, and to fully repay all outstanding aggregate principal of $89.7 million on the 7 ¾% Notes. We recorded a loss of $1.7 million which included $1.1 million of unamortized bank loan fees on the prior credit facility, $0.1 million of unamortized bond issue costs on the 7 ¾% Notes and $0.4 million of legal and dealer fees associated with the calling of the 7 ¾% Notes and prior credit facility.

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 on December 1, 2009.

7$^3/_4$% Notes

In December 2002, Salem Holding issued $100.0 million principal amount of 7$^3/_4$% Notes. The indenture for the 7$^3/_4$% 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 $9.4 million of our 7$^3/_4$% Notes for $4.7 million in December 2008. As of December 1, 2009, we used the

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net proceeds from the offering of the $9^5/_8$% Notes, borrowings under the Revolver, and approximately $27 million of cash on hand 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 $7^3/_4$% Notes. Accrued interest on the tendered $7^3/_4$% Notes was also paid. Since all outstanding $7^3/_4$% Notes were tendered, accepted for payment and cancelled, the indenture relating to the $7^3/_4$% Notes was discharged.

Summary of long-term obligations

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

	As of December 31, 2009		As of September 30, 2010
	(Dollars in thousands)		
Revolver under senior credit facility	$	**15,000**	**$**	**17,500**
$9^5/_8$% senior secured second lien notes due 2016		**298,111**		**280,860**
Capital leases and other loans		**936**		**996**
		314,047		**299,356**
Less current portion		**(78)**		**(95)**
	$	**313,969**	**$**	**299,261**

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of September 30, 2010:

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Outstanding borrowings of $17.5 million under revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;

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$282.5 million notional amount notes with semi-annual interest payments at an annual rate of $9^5/_8$%; and

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Commitment fee of 0.75% on the unused portion of the revolver.

Impairment Losses on Non-Amortizable Intangible Assets

We have incurred significant impairment losses with regard to our broadcast indefinite-lived intangible assets. These losses were attributable to estimated increases in the weighted average cost of capital, a decline in the estimated terminal or exit values assigned to the broadcast licenses as a result of industry wide declines in radio station transaction multiples, decreases in projected future cash flows, and a significant decline in projected revenues as of the impairment dates as compared to prior periods.

We have also incurred significant impairment losses with regard to our non-broadcast indefinite-lived intangible assets. These losses were attributable to an increase in the weighted average cost of capital, 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, a decrease in projected future cash flows, and a significant decline in projected profit margins.

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 the broadcast valuation estimates prepared by Bond & Pecaro on a market participant basis are declines of 3% in advertising revenues for 2010 as compared to 2009 followed by increases of 2.0% to 2.5% in 2011 as compared to 2010. Included in the non-broadcast valuation estimates prepared by Bond & Pecaro on a market participant basis are projected profit margins of 11.5% to 27.0% projected for 2010. 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 indefinite-lived intangible fair value estimates will prove to be accurate. Using market indicators from several industry analysts, our valuation estimates prepared by Bond & Pecaro on a market participant basis anticipate the decline in revenues to level off and begin to show improvements of between 2.0% to 2.5% 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 amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. 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 that have been recognized were non-cash in nature and did not result in a violation of our then existing credit facilities or Revolver. 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.

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2010, Salem did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Salem is not materially exposed to any financing, liquidity, market or credit risk that could arise if Salem had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

DERIVATIVE INSTRUMENTS

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

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

During the year ended December 31, 2005, we entered into three interest rate swap transactions intended to offset the risks associated with the variable interest rate on our then outstanding Term Loan C. The interest rate swaps were designated and qualified as cash flow hedges under FASB ASC Topic 815 Derivatives and Hedging. The effective portion of the gain or loss on these derivative instruments was reported as a component of other comprehensive income (outside earnings) and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affected earnings. Effective October 1, 2008, we elected a one-month reset on our Term Loan C rather than a three-month, resulting in the swaps no longer qualifying as a cash flow hedge. As the interest rate swap agreements contained a three month reset period, the swaps were no longer effective and no longer qualified as a cash flow hedge. Changes in the fair value of these swaps as of October 1, 2008 were reported in current period income rather than deferred in other comprehensive income. For the three and nine months ended September 30, 2009, we recorded $0.2 million and $0.6 million of accumulated other comprehensive losses into current period earnings in order to recognize the impact over the same period in which the hedged transactions affected earnings. We also recorded an additional $0.8 million and $1.5 million of expenses during the three and nine months ended September 30, 2009 associated with the changes in fair value of the ineffective portion of the swaps transactions. On December 1, 2009, the swap transactions were terminated when the underlying Term Loan C was paid in full.

ITEM 4T. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2010.

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

On July 10, 2010, Asia Vision, Inc. and Rehan Siddiqi amended a complaint they had previously filed against third parties in the 152nd Judicial District Court of Harris County, Houston, Texas, naming Salem Communications Corporation, South Texas Broadcasting, Inc. and one of Salem s officers as defendants. In their complaint, Asia Vision claims that the Salem defendants interfered with Asia Vision s contractual right to purchase radio station KTEX-AM from BusinessRadio Licensee, LLC. In their complaint, Asia Vision and Rehan Siddiqi make a claim for injunctive relief and monetary damages. On July 21, 2010, Salem Communications and South Texas Broadcasting were served with the complaint but the Salem officer has not been served. Salem has retained counsel, has tendered defense of the matter to several insurance companies, and will vigorously defend this action.

ITEM 1A. RISK FACTORS.

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the Risk Factors). The Risk Factors are hereby incorporated in Part II, Item 1A of this Form 10-Q. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

SIGNATURES

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

	SALEM COMMUNICATIONS CORPORATION
November 8, 2010	
	By: /s/ EDWARD G. ATSINGER III Edward G. Atsinger III President and Chief Executive Officer (Principal Executive Officer)
November 8, 2010	
	By: /s/ EVAN D. MASYR Evan D. Masyr Senior Vice President and Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
23.3	Consent of Bond & Pecaro, Inc.					X
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.					X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.					X