SALEM COMMUNICATIONS CORP /DE/
Form 10-Q
August 08, 2011

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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 JUNE 30, 2011

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 [X] 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 August 1, 2011 18,725,555 shares
Class B Common Stock, $0.01 par value per share	Outstanding at August 1, 2011 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 exp intended to identify forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company s current expectations and are based upon data available to the company at the time the statements are made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in Salem s reports on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission. Forward-looking statements made in this report speak as of the date hereof. Except as required by law, the company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections or forward-looking statements fall under the safe harbors of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

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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, 2010 (Note 1)	**June 30, 2011 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 828	**$ 1,370**
Restricted cash	100	**100**
Trade accounts receivable (less allowance for doubtful accounts of $10,040 in 2010 and $10,011 in 2011)	29,363	**30,225**
Other receivables	623	**463**
Prepaid expenses	3,320	**3,990**
Deferred income taxes	5,974	**5,665**
Total current assets	40,208	**41,813**
Property, plant and equipment (net of accumulated depreciation of $117,212 in 2010 and $121,129 in 2011)	115,867	**113,877**
Broadcast licenses	378,362	**369,367**
Goodwill	18,361	**20,342**
Other indefinite-lived intangible assets	1,961	**1,961**
Amortizable intangible assets (net of accumulated amortization of $20,496 in 2010 and $21,734 in 2011)	5,528	**7,948**
Deferred financing costs	7,349	**6,125**
Notes receivable	2,327	**3,250**
Other assets	4,523	**1,063**
Total assets	$ 574,486	**$ 565,746**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 961	**$ 3,206**
Accrued expenses	6,020	**5,257**
Accrued compensation and related expenses	7,730	**7,138**
Accrued interest	1,264	**1,119**
Deferred revenue	6,513	**7,398**
Income tax payable	210	**114**
Current portion of long-term debt and capital lease obligations	111	**121**
Total current liabilities	22,809	**24,353**
Long-term debt and capital lease obligations, less current portion	304,416	**288,058**
Deferred income taxes	42,296	**44,727**
Deferred revenue	7,898	**7,759**
Other liabilities	663	**229**
Total liabilities	378,082	**365,126**

Commitments and contingencies (Note 15)

Stockholders equity:				
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 21,000,193 and 21,043,205 issued and 18,682,543 and 18,725,555 outstanding at December 31, 2010 and June 30, 2011, respectively		209		**210**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2010 and June 30, 2011		56		**56**
Additional paid-in capital		230,947		**231,475**
Retained earnings (loss)		(802)		**2,885**
Treasury stock, at cost (2,317,650 shares at December 31, 2010 and June 30, 2011)		(34,006)		**(34,006)**
Total stockholders equity		196,404		**200,620**
Total liabilities and stockholders equity	$	574,486	**$**	**565,746**

See accompanying notes

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SALEM COMMUNICATIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2011**	2010	**2011**
Net broadcast revenue	$ 45,471	**$ 45,406**	$ 86,879	**$ 88,136**
Internet revenue	4,712	**7,582**	9,202	**13,794**
Publishing revenue	2,940	**3,144**	5,366	**5,985**
Total revenue	53,123	**56,132**	101,447	**107,915**
Operating expenses:				
Broadcast operating expenses exclusive of depreciation and amortization shown below (including $319 and $324 for the three months ended June 30, 2010 and 2011, respectively, and $630 and $648 for the six months ended June 30, 2010 and 2011, respectively, paid to related parties)	28,984	**29,054**	54,981	**56,856**
Internet operating expenses exclusive of depreciation and amortization shown below	3,946	**6,158**	7,814	**11,519**
Publishing operating expenses exclusive of depreciation and amortization shown below	2,785	**2,771**	5,308	**5,651**
Corporate expenses exclusive of depreciation and amortization shown below (including $51 and $170 for the three months ended June 30, 2010 and 2011, and $134 and $326 for the six months ended June 30, 2010 and 2011, respectively, paid to related parties)	3,717	**4,204**	7,986	**8,755**
Depreciation (including $2,367, $413, $58 and $294 related to broadcast, Internet, publishing and corporate, respectively, for the three months ended June 30, 2010 and $2,210, $523, $71 and $314 related to broadcast, Internet, publishing and corporate, respectively, for the three months ended June 30, 2011. Also including $4,771, $834, $126 and $558 related to broadcast, Internet, publishing and corporate, respectively for the six months ended June 30, 2010 and $4,488, $1,052, $137 and $624 related to broadcast, Internet, publishing and corporate, respectively for the six months ended June 30, 2011)	3,132	**3,118**	6,289	**6,301**
Amortization (including $18, $395, $74 and $2 related to broadcast, Internet, publishing and corporate, respectively, for the three months ended June 30, 2010 and $35, $655, $42 and $1 related to broadcast, Internet, publishing and corporate, respectively, for the three months ended June 30, 2011. Also including $36, $700, $149 and $3 related to broadcast, Internet, publishing and corporate, respectively for the six months ended June 30, 2010 and $66, $1,139, $96 and $1 related to broadcast, Internet, publishing and corporate, respectively for the six months ended June 30, 2011)	489	**733**	888	**1,302**
(Gain) loss on disposal of assets	(18)	**150**	(5)	**(4,375)**
Total operating expenses	43,035	**46,188**	83,261	**86,009**
Operating income	10,088	**9,944**	18,186	**21,906**
Other income (expense):				
Interest income	46	**54**	94	**97**
Interest expense	(7,776)	**(7,064)**	(15,468)	**(14,299)**
Loss on early redemption of long-term debt	(1,050)	**(1,090)**	(1,050)	**(1,090)**
Other income (expense), net	0	**(12)**	(31)	**(23)**

Income before income taxes		1,308		**1,832**		1,731		**6,591**
Provision for income taxes		610		**732**		829		**2,904**
Net income	$	698	**$**	**1,100**	$	902	**$**	**3,687**
Basic earnings per share data:	$	0.03	**$**	**0.05**	$	0.04	**$**	**0.15**
Diluted earnings per share data:	$	0.03	**$**	**0.04**	$	0.04	**$**	**0.15**
Basic weighted average shares outstanding		23,819,158		**24,279,251**		23,771,675		**24,400,054**
Diluted weighted average shares outstanding		24,542,417		**24,491,530**		24,492,180		**24,625,391**

See accompanying notes

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SALEM COMMUNICATIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30, 2010	2011
OPERATING ACTIVITIES		
Net income	$ 902	**$ 3,687**
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	736	**481**
Excess tax benefit from stock options exercised	(62)	**(29)**
Depreciation and amortization	7,177	**7,603**
Amortization of deferred financing costs	807	**847**
Amortization and accretion of financing items	94	**94**
Provision for bad debts	603	**1,537**
Deferred income taxes	636	**2,769**
(Gain) loss on disposal of assets	(5)	**(4,375)**
Loss on early redemption of long-term debt	1,050	**1,090**
Changes in operating assets and liabilities:		
Accounts receivable	(383)	**(660)**
Prepaid expenses and other current assets	(360)	**(670)**
Accounts payable and accrued expenses	(623)	**1,745**
Deferred revenue	1	**(749)**
Other liabilities	(292)	**2,799**
Income taxes payable	(23)	**(96)**
Net cash provided by operating activities	10,258	**16,073**
INVESTING ACTIVITIES		
Capital expenditures	(3,786)	**(4,411)**
Deposits on radio station acquisitions and equipment		**248**
Purchases of broadcast assets and radio stations		**(550)**
Purchases of Internet businesses and assets	(4,650)	**(6,000)**
Deposit received on pending sale of broadcast business	1,000	
Proceeds from the disposal of assets	43	**12,739**
Related party residential purchase	(676)	
Other	(25)	**(425)**
Net cash provided by (used in) investing activities	(8,094)	**1,601**
FINANCING ACTIVITIES		
Payments of costs related to bank credit facility	(95)	**(52)**
Payments of bond issue costs	(627)	**(43)**
Payment of bond premium in connection with early redemption	(525)	**(525)**
Payments to redeem 9 $^{5}/8$% Notes	(17,500)	**(17,500)**
Proceeds from borrowings under bank credit facility	26,000	**39,700**
Payments on bank credit facility	(15,000)	**(38,700)**
Proceeds from exercise of stock options	93	**19**
Excess tax benefit from stock options exercised	62	**29**
Payments on capital lease obligations	(42)	**(60)**

Net cash used in financing activities		(7,634)		**(17,132)**
Net increase (decrease) in cash and cash equivalents		(5,470)		**542**
Cash and cash equivalents at beginning of year		8,945		**828**
Cash and cash equivalents at end of period	$	3,475	**$**	**1,370**
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	15,741	**$**	**13,497**
Income taxes	$	252	**$**	**233**
Non-cash investing and financing activities:				
Note receivable acquired in exchange for radio station	$		**$**	**1,000**
Assets acquired under capital leases	$	189	**$**	**25**

See accompanying notes

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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 six months ended June 30, 2010 and 2011 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, 2010.

The balance sheet at December 31, 2010 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 multimedia company with integrated business operations covering radio broadcasting, publishing and the Internet. Our programming is intended for all audiences interested in Christian and family-themed content and complementary programming. Our primary 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 95 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 programming, such as talk, news and music segments to radio stations throughout the United States, including Salem owned and operated stations. SMR and VMR sell commercial air time to national advertisers on radio stations and networks that we own, as well as on independent radio station affiliates.

Salem Web Network (SWN), is one of our two non-broadcast segments. SWN operates our Internet businesses providing Christian and conservative-themed content, audio and video streaming, and other resources on the web. SWN s Internet portals include OnePlace.com, Jesus.org, HotAir.com, Crosswalk.com®, Christianity.com, GodTube.com, Townhall.com®, Samaritan Fundraising and WorshipHouse Media. SWN s content is accessible through our radio station websites that feature content of interest to local listeners throughout the United States. SWN operates these Salem radio station websites as well as Salem Consumer Products, a website offering books, DVD s and editorial content that is developed by many of our on-air radio personalities and are available for purchase. The revenues generated from this segment are reported as Internet revenue on our Condensed Consolidated Statements of Operations.

Our second non-broadcast segment, Salem Publishing produces and distributes Christian and conservative opinion print magazines. Salem Publishing also operates Xulon Press , a print-on-demand self-publishing service for Christian authors. The revenues generated from this segment are reported as publishing revenue 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 separation of our non-broadcast segment into two components, Internet and Publishing. We believe that this information regarding our non-broadcast segment is useful to readers of our financial statements. Additionally, due to growth within our Internet operations, including the acquisition of WorshipHouse Media as discussed in Note 4, our Internet segment qualifies for disclosure as a reportable segment. All prior periods have been updated to reflect the separation of these non-broadcast segments.

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. We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. There were no indications of impairment present during the period ending June 30, 2011. Broadcast licenses account for approximately 95% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 5%.

NOTE 4. SIGNIFICANT TRANSACTIONS

On June 1, 2011, we redeemed $17.5 million of our 9 ^{5}/8% senior secured second lien notes due 2016 (the 9 ^{5}/8% Notes) for $18.0 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 $0.5 million of bond issues costs associated with the 9 ^{5}/8% Notes.

On March 28, 2011, we completed the acquisition of the Internet business, WorshipHouse Media, an on-line church media and video ministry website, for $6.0 million in cash. WorshipHouse Media offers users worship and small group resources, including movie illustrations, song tracks, worship backgrounds, small group video curriculum and worship software, to churches that may face budget, time and in-house talent constraints. The site also includes WorshipHouse Kids, which offers similar products crafted to meet the needs of children s ministry media in the church. The accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations reflect the operating results and net assets of this entity as of the acquisition date. The acquisition resulted in goodwill of $2.1 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 March 14, 2011, we completed the acquisition of radio station WDDZ-AM, Pawtucket, Rhode Island, for $0.6 million in cash. We began operating the station as WBZS-AM upon the close of the transaction. The accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations reflect the operating results and net assets of this entity as of the acquisition date.

On March 1, 2011, we sold radio station WAMD-AM in Aberdeen, Maryland resulting in a pre-tax loss of $0.2 million that was previously recognized upon entering into the Asset Purchase Agreement (APA) in September 2010.

On February 25, 2011, we sold radio station KXMX-AM in Los Angeles, California for $12.0 million, which was comprised of $11.0 million in cash and a $1.0 million promissory note. The $1.0 million promissory note has a three-year term, bearing interest at 7% compounded annually, due on February 25, 2016. The sale resulted in a pre-tax gain of $2.1 million.

On January 6, 2011, we sold radio station KKMO-AM in Seattle, Washington for $2.7 million in cash resulting in a pre-tax gain of $2.4 million.

On January 3, 2011, we began programming radio station KVCE-AM, Highland Park, Texas pursuant to a long-term Time Brokerage Agreement (TBA).

A summary of our business acquisitions for the six months ended June 30, 2011, none of which were material to our condensed consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Cost
		(Dollars in thousands)
March 28, 2011	WorshipHouse Media	$ 6,000
March 14, 2011	WBZS-AM, Pawtucket, Rhode Island	550
		$ 6,550

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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:

	Net Assets Acquired
	(Dollars in thousands)
Asset	
Property and equipment	$ 416
Broadcast licenses	141
Goodwill	2,144
Customer lists and contracts	80
Domain and brand names	457
Internally developed software	311
Customer relationships	2,451
Other amortizable intangible assets	550
	$ 6,550

Pending Transactions:

On March 5, 2010, we entered into an APA to re-acquire radio station 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 TBA with the current owner on March 8, 2010. The accompanying Condensed Consolidated Statements of Operations 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 third quarter of 2011.

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 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 six months ended June 30, 2010 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2011**	2010	**2011**
	(Dollars in thousands)			
Stock option compensation expense included in corporate expenses	$ 207	**$ 115**	$ 518	**$ 298**
Restricted stock compensation expense included in corporate expenses	5		7	**4**
Stock option compensation expense included in broadcast operating expenses	150	**44**	160	**144**
Stock option compensation expense included in Internet operating expenses	40	**13**	47	**32**
Stock option compensation expense included in Publishing operating expenses	2	**3**	4	**3**
Total stock-based compensation expense, pre-tax	404	**$ 175**	736	**$ 481**
Tax provision for stock-based compensation expense	(188)	**(70)**	(360)	**(210)**

Total stock-based compensation expense, net of tax	$ 216	**$ 105**	$ 376	**$ 270**

Stock option and restricted stock grants

The Plan allows the company to grant stock options and shares of restricted stock to employees, directors, officers and advisors of the company. The option exercise price is set at the closing price of the company s common stock on the date of grant, and the related number of shares granted is fixed at that point in time. The Plan also provides for grants of restricted stock. Eligible employees may

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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 been awarded 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 options during pre-defined black out periods. Employees may participate in 10b5-1 Plans that allow them to exercise options according to predefined criteria.

We use the Black-Scholes option valuation model to estimate the fair value of stock options as of the grant date. The expected volatility considers the historical volatility of our stock as determined by the closing price over a six to ten year term that is generally commensurate with the expected term of the option. The expected dividend is zero as the 2010 distribution is not expected to be recurring in nature. The expected term of the options are 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 six months ended June 30, 2010 and 2011:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2011**	2010	**2011**
Expected volatility	n/a	**n/a**	94.26%	**100.5%**
Expected dividends	n/a	**n/a**	%	**%**
Expected term (in years)	n/a	**n/a**	7.3	**7.6**
Risk-free interest rate	n/a	**n/a**	3.11%	**3.08%**

Stock option information with respect to the company s stock-based compensation plans during the six months ended June 30, 2011 is as follows (Dollars in thousands, except weighted average exercise price and weighted average grant date fair value):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	**1,151,998**	**$ 6.83**	**$ 5.36**	**5.0 years**	**$ 748**
Granted	**21,000**	**3.83**	**3.25**		**2**
Exercised	**(33,012)**	**0.57**	**0.41**		**109**
Forfeited or expired	**(25,311)**	**14.64**	**8.99**		**5**
Outstanding at June 30, 2011	**1,114,675**	**$ 6.78**	**$ 5.38**	**4.6 years**	**$ 761**
Exercisable at June 30, 2011	**688,928**	**$ 8.08**	**$ 5.46**	**3.3 years**	**$ 647**
Expected to Vest	**405,306**	**$ 4.67**	**$ 5.26**	**6.6 years**	**$ 109**

The aggregate intrinsic value represents the difference between the company s closing stock price on June 30, 2011 of $3.55 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 total fair value of options vested during the six months ended June 30, 2010 and 2011 was $0.9 million and $0.8 million, respectively.

The fair values of shares of restricted stock are determined based on the closing price of the company s common stock on the grant dates. Information regarding the company s restricted stock during the six months ended June 30, 2011 is as follows:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Non-Vested at January 1, 2011	**10,000**	**$ 2.03**

Granted			
Lapsed	**(10,000)**	**$**	**(2.03)**
Forfeited			
Non-Vested at June 30, 2011			

As of June 30, 2011, there was $1.0 million of total unrecognized compensation cost related to non-vested awards of stock options and restricted shares. This cost is expected to be recognized over a weighted-average period of 1.9 years.

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 six months ended June 30, 2011, as compared to the recent accounting pronouncements described in the annual report on Form 10-K for the year ended December 31, 2010 that are of material significance, or have potential material significance, on our financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU No. 2011-05), which is an update to ASC Topic 220, Comprehensive Income , eliminating the option to present other comprehensive income and its components in the statement of shareholders equity. We can elect to present the items of net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. Under either method the statement would need to be presented with equal prominence as the other primary financial statements. The amended guidance, which must be applied retroactively, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with earlier adoption permitted. The adoption of ASC No. 2011-05 will not impact our financial position, results of operations, cash flows, or presentation thereof.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04), which amends ASC Topic 820, Fair Value Measurement . ASU No. 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards (IFRSs). ASU No. 2011-14 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU No. 2011-14 clarifies the FASB s intent about the application of existing fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. We will adopt this guidance at the beginning of our first quarter of fiscal year 2012. We not expect the adoption of ASU No. 2011-04 to 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, $0.2 million and $0.5 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and six months ended June 30, 2011, respectively, in comparison to $0.4 million and $0.7 million for the three and six months ended June 30, 2010.

NOTE 8. NOTES PAYABLE AND LONG-TERM DEBT

Senior Credit Facility

On December 1, 2009, our parent company, Salem Communications Corporation entered into a senior credit facility which is a revolver (Revolver). We amended the Revolver on November 1, 2010 to increase the borrowing capacity from $30 million to $40 million. The amendment allows 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 the $9^5/_8$% Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ratio is above 5.0 to 1. The Revolver is a three-year credit facility, which includes a $5 million subfacility for standby letters of credit and a subfacility for swingline loans of up to $5 million, subject to the terms and conditions of the Credit Agreement relating to the Revolver. 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, 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 June 30, 2011, the blended interest rate on amounts outstanding under the Revolver was 3.68%. We believe that the Revolver will allow us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

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

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dividends. As of June 30, 2011, our leverage ratio was 5.53 to 1 and our interest coverage ratio was 1.81 to 1. We were in compliance with our debt covenants at June 30, 2011 and we remain in compliance.

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 $9^5/_8$% 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. Upon issuance, we were required to pay $28.9 million per year in interest on the then outstanding $9^5/_8$% Notes. As of December 31, 2010 and June 30, 2011, accrued interest on the $9^5/_8$% Notes was $1.2 million and $1.1 million, respectively. The discount is being amortized to interest expense over the term of the $9^5/_8$% Notes based on the effective interest method. For each of the three and six months ended June 30, 2010 and 2011, approximately $48,000 and $0.1 million, respectively, of the discount has been recognized as interest expense.

On June 1, 2011, we redeemed an additional $17.5 million of the $9^5/_8$% Notes for $18.0 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 $0.5 million of bond issues costs associated with the $9^5/_8$% Notes.

Information regarding redemptions of the $9^5/_8$% Notes are as follows:

Date	Principal Redeemed	Premium Paid	Unamortized Discount	Bond Issue Costs
	(Dollars in thousands)			
June 1, 2010	$ 17,500	$ 525	$ 105	$ 417
December 1, 2010	12,500	375	70	334
June 1, 2011	17,500	525	93	472

The carrying value of the $9^5/_8$% Notes was $268.5 million and $251.2 million at December 31, 2010 and June 30, 2011, respectively.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2010	**As of June 30, 2011**
	(Dollars in thousands)	
Revolver under senior credit facility	$ 35,000	**$ 36,000**
$9^5/_8$% senior secured second lien notes due 2016	268,479	**251,166**
Capital leases and other loans	1,048	**1,013**
	304,527	**288,179**
Less current portion	(111)	**(121)**
	$ 304,416	**$ 288,058**

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2011:

- Outstanding borrowings of $36.0 million under the Revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;

- $252.5 million $9^5/_8$% Notes with semi-annual interest payments at an annual rate of $9^5/_8$%; and

- Commitment fees of 0.75% on the unused portion of the Revolver.

Other Debt

We lease various office equipment under agreements that are accounted for as capital leases. The liability recorded at December 31, 2010 and June 30, 2011 represents the present value of future commitments under these lease agreements.

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Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at June 30, 2011 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended June 30,	Amount *(Dollars in thousands)*
2012	$ 121
2013	36,117
2014	99
2015	90
2016	63
Thereafter	251,689
	$ 288,179

NOTE 9. DEFERRED FINANCING COSTS

Deferred financing costs consist of bond issue costs and bank loan fees associated with the $9^{5}/_{8}$% Notes and our Revolver. The capitalized costs are being amortized over the debt term on a straight-line basis. Deferred financing costs consist of the following:

	As of December 31, 2010	**As of June 30, 2011**
	(Dollars in thousands)	
Bond issue costs	$ 6,084	$ **5,149**
Bank loan fees	1,265	**976**
	$ 7,349	$ **6,125**

NOTE 10. AMORTIZABLE INTANGIBLE ASSETS

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

		As of June 30, 2011	
	Cost	Accumulated Amortization	**Net**
		(Dollars in thousands)	
Customer lists and contracts	**$ 15,556**	**$ (10,796)**	**$ 4,760**
Domain and brand names	**8,135**	**(6,011)**	**2,124**
Favorable and assigned leases	**1,649**	**(1,490)**	**159**
Other amortizable intangible assets	**4,342**	**(3,437)**	**905**
	$ 29,682	**$ (21,734)**	**$ 7,948**

		As of December 31, 2010	
	Cost	Accumulated Amortization	**Net**
		(Dollars in thousands)	

Customer lists and contracts	$ **12,881**	$ **(10,313)**	$ **2,568**
Domain and brand names	**7,695**	**(5,492)**	**2,203**
Favorable and assigned leases	**1,649**	**(1,444)**	**205**
Other amortizable intangible assets	**3,799**	**(3,247)**	**552**
	$ **26,024**	$ **(20,496)**	$ **5,528**

Based on the amortizable intangible assets as of June 30, 2011, we estimate amortization expense for the next five years to be as follows:

Year Ending December 31,	Amortization Expense
	(Dollars in thousands)
2011 (July Dec)	$ 1,335
2012	2,142
2013	1,802
2014	1,394
2015	803
Thereafter	472
Total	$ 7,948

NOTE 11. 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 1,559,885 and 1,114,675 shares of Class A common stock were outstanding at June 30, 2010 and 2011, respectively. Also outstanding on June 30, 2010 were unvested restricted stock shares of 10,000. 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. As of June 30, 2010 and 2011, there were 723,259 and 212,279 dilutive shares, respectively.

NOTE 12. 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.

NOTE 13. FAIR VALUE ACCOUNTING

FASB ASC Topic 820 Fair Value Measurements and Disclosures established a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the FASB ASC Topic 820 hierarchy are as follows:

Level 1 Inputs quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Level 2 Inputs inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and

Level 3 Inputs unobservable inputs for the asset or liability. These unobservable inputs reflect the entity s own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity s own data).

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As of June 30, 2011, 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 14. INCOME TAXES

We account for income taxes in accordance with FASB ASC Topic 740 Income Taxes. We recorded an increase in our unrecognized tax benefits of $0.1 million as of June 30, 2010. At December 31, 2010, had $3.7 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 $0.05 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 $0.2 million as of June 30, 2011.

Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of $2.7 million as of June 30, 2011 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.

NOTE 15. COMMITMENTS AND CONTINGENCIES

The company enters into various agreements in the normal course of business that contain minimum guarantees. The typical minimum guarantee is tied to future revenue amounts that exceed the contractual level. Accordingly, the fair value of these arrangements is zero.

The company and its subsidiaries, incident to its business activities, at various times are parties to a number of legal proceedings, lawsuits, arbitration and other claims including the purported class action described below. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. 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 KTEK-AM from Business Radio 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. On March 7, 2011, Salem entered into a tentative settlement of the matter, which still requires court approval. If approved, the settlement will result in no liability to the Salem defendants.

NOTE 16. SEGMENT DATA

FASB ASC Topic 280 Segment Reporting requires companies to provide certain information about their operating segments. We have two reportable operating segments, radio broadcasting and Internet. The remaining non-reportable segment consists of our publishing businesses, Salem Publishing and Xulon Press , which do not meet the reportable segment quantitative thresholds. The radio-broadcasting segment also owns and operates radio networks.

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

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NOTE 16. SEGMENT DATA Continued.

	Radio Broadcast	Internet	Publishing	Corporate	Consolidated
			(Dollars in thousands)		
Three Months Ended June 30, 2011					
Net revenue	$ 45,406	$ 7,582	$ 3,144	$	$ 56,132
Operating expenses	29,054	6,158	2,771	4,204	42,187
Operating income (loss) before depreciation, amortization and (gain) loss on disposal of assets	$ 16,352	$ 1,424	$ 373	$ (4,204)	$ 13,945
Depreciation	2,210	523	71	314	3,118
Amortization	35	655	42	1	733
(Gain) loss on disposal of assets		1		149	150
Operating income (loss)	$ 14,107	$ 245	$ 260	$ (4,668)	$ 9,944
Three Months Ended June 30, 2010					
Net revenue	$ 45,471	$ 4,712	$ 2,940	$	$ 53,123
Operating expenses	28,984	3,946	2,785	3,717	39,432
Operating income (loss) before depreciation, amortization and (gain) loss on disposal of assets	$ 16,487	$ 766	$ 155	$ (3,717)	$ 13,691
Depreciation	2,367	413	58	294	3,132
Amortization	18	395	74	2	489
(Gain) loss on disposal of assets	(18)				(18)
Operating income (loss)	$ 14,120	$ (42)	$ 23	$ (4,013)	$ 10,088

	Radio Broadcast	Internet	Publishing	Corporate	Consolidated
			(Dollars in thousands)		
Six Months Ended June 30, 2011					
Net revenue	$ 88,136	$ 13,794	$ 5,985	$	$ 107,915
Operating expenses	56,856	11,519	5,651	8,755	82,781
Operating income (loss) before depreciation, amortization and (gain) loss on disposal of assets	$ 31,280	$ 2,275	$ 334	$ (8,755)	$ 25,134
Depreciation	4,488	1,052	137	624	6,301
Amortization	66	1,139	96	1	1,302
(Gain) loss on disposal of assets	(4,540)	16		149	(4,375)
Operating income (loss)	$ 31,266	$ 68	$ 101	$ (9,529)	$ 21,906
Six Months Ended June 30, 2010					
Net revenue	$ 86,879	$ 9,202	$ 5,366	$	$ 101,447
Operating expenses	54,981	7,814	5,308	7,986	76,089
Operating income (loss) before depreciation, amortization and (gain) loss on disposal of assets	$ 31,898	$ 1,388	$ 58	$ (7,986)	$ 25,358

Depreciation		4,771		834		126		558		6,289
Amortization		36		700		149		3		888
(Gain) loss on disposal of assets		(18)				8		5		(5)
Operating income (loss)	$	27,109	$	(146)	$	(225)	$	(8,552)	$	18,186

	Radio Broadcast		Internet		Publishing		Corporate		Consolidated
					(Dollars in thousands)				
As of June 30, 2011									
Total property, plant and equipment, net	$ 97,212	$	5,981	$	1,070	$	9,614	$	113,877
Goodwill	3,870		15,127		1,337		8		20,342
As of December 31, 2010									
Total property, plant and equipment, net	$ 99,621	$	5,517	$	969	$	9,760	$	115,867
Goodwill	4,006		13,010		1,337		8		18,361

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NOTE 17. SUBSEQUENT EVENTS

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

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

GENERAL

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

Salem is a domestic multimedia company with integrated business operations covering radio broadcasting, publishing and the Internet. Our programming is intended for all audiences interested in Christian and family-themed content and complementary programming.

Our primary business is the ownership and operation of radio stations in large metropolitan markets. Upon completion of all announced transactions, we will own/operate a national portfolio of 95 radio stations in 37 markets, including 59 stations in 22 of the top 25 markets, which consists of 27 FM stations and 68 AM stations. We believe that we are the largest commercial U.S. radio broadcasting company providing programming targeting audiences interested in Christian and family-themed content and complementary programming as measured by number of stations and audience coverage. 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 SiriusXM Channel 131.

Our radio segment focuses on the clustering of strategic formats, mainly Christian Teaching and Talk, Contemporary Christian Music, conservative News Talk and Business News. 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 programming, such as talk, news and music segments to radio stations throughout the United States, including Salem owned and operated stations. SMR and VMR sell commercial air time to national advertisers on radio stations and networks that we own, as well as on independent radio station affiliates.

Salem Web Network (SWN), is one of our two non-broadcast segments. SWN operates our Internet businesses providing Christian and conservative-themed content, audio and video streaming, and other resources on the web. SWN s Internet portals include OnePlace.com, Jesus.org, HotAir.com, Crosswalk.com®, Christianity.com, GodTube.com, Townhall.com®, Samaritan Fundraising and WorshipHouse Media. SWN s content is also accessible through our radio station websites that feature content of interest to local listeners throughout the United States. SWN operates our radio station websites and Salem Consumer Products, a website offering books, DVD s and editorial content that is developed by many of our on-air radio personalities and are available for purchase. The revenues generated from this segment are reported as Internet revenue on our Condensed Consolidated Statements of Operations.

Our second non-broadcast segment, Salem Publishing produces and distributes Christian and conservative opinion print magazines. Salem Publishing also operates Xulon Press , a print-on-demand self-publishing service for Christian authors. The revenues generated from this segment are reported as publishing revenue on our Condensed Consolidated Statements of Operations.

Our principal business strategy is to expand our national presence in order to reach all audiences interested in Christian and family-themed content as well as conservative news talk and complementary programming. To do this, we must continually improve our radio platform and invest in and build our Internet and publishing businesses as the marketplace expands. We are fundamentally committed to content that emphasizes 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 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. Our top ten programmers have averaged nearly 25 years on-air and have remained relatively constant. Total programming revenue has comprised 35% to 41% of total net broadcast revenue from 2007 through 2011. We also program 24 News Talk stations, 11 Contemporary Christian Music stations, 11 Business format stations, and five 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.

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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

RADIO BROADCASTING

Our radio segment derives revenue primarily from the sale of broadcast time and radio advertising on a national and local basis.

Our principal sources of broadcast revenue include:

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

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

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

The following table shows the dollar amount and percentage of net broadcast revenue for each broadcast revenue source.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	2010	**2011**	**2011**	2010	2010	**2011**	**2011**
				(Dollars in thousands)				
Block program time:								
National	$ 9,672	21.3%	**$ 10,693**	**23.6%**	$ 18,795	21.6%	**$ 21,121**	**24.0%**
Local	7,817	17.2%	**7,349**	**16.2%**	15,739	18.1%	**15,087**	**17.1%**
	17,489	38.5%	**18,042**	**39.8%**	34,534	39.7%	**36,208**	**41.1%**
Advertising:								
National	3,647	8.0%	**3,631**	**8.0%**	6,855	7.9%	**6,563**	**7.4%**
Local	16,492	36.3%	**16,499**	**36.3%**	30,375	35.0%	**31,578**	**35.8%**
	20,139	44.3%	**20,130**	**44.3%**	37,230	42.9%	**38,141**	**43.2%**
Infomercials	1,732	3.8%	**1,562**	**3.4%**	3,551	4.1%	**3,139**	**3.6%**
Network	3,977	8.7%	**3,862**	**8.5%**	8,177	9.4%	**7,320**	**8.3%**
Other	2,134	4.7%	**1,810**	**4.0%**	3,387	3.9%	**3,328**	**3.8%**
Net broadcast revenue	$ 45,471	100.0%	**$ 45,406**	**100.0%**	$ 86,879	100.0%	**$ 88,136**	**100.0%**

Our broadcast revenues are impacted 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 most of our radio stations. Instead, we have marketed ourselves to advertisers based upon the responsiveness of our audiences. In selected markets, we do subscribe to Arbitron, which develops quarterly reports to measure a radio station s audience share in the demographic groups targeted by advertisers. Each of our radio stations and our networks has a pre-determined level of time that they make available for block programming and/or advertising, which may vary at different times of the day.

Arbitron has developed technology to collect data for its ratings service. The PPM is a 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 methodology 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 clear what long-term impact, if any, the introduction of the PPM methodology 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.

Historically, our cash flow is affected by a transitional period experienced when we change a radio station format. At various times due to the nature of the radio station, our plans for the market in which the station operates, or other circumstances, we find it beneficial to change a station format. This transitional period occurs when we develop the radio station s listener and customer base. During this transitional 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. During the six months ending June 30, 2011, we sold 97% of our net broadcast revenue 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.

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.

INTERNET

Salem Web Network and our Internet business earns revenues from the sales of streaming services, sales of advertising and, to a lesser extent, sales of software and software support contracts. The revenues of these businesses are reported as Internet revenue on our Condensed Consolidated Statements of Operations.

Our principal sources of Internet revenue include:

- the sale of Internet advertising;
- the support and promotion to stream third-party content on our websites;
- sales of software and support services; and
- product sales and royalties for on-air host materials.

The primary operating expense incurred in the ownership and operation of our Internet businesses 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) streaming costs.

PUBLISHING

Our publishing business, Salem Publishing , earns revenues by selling advertising in and subscriptions to its publications and by selling books. Xulon Press generally earns its revenue from fees paid by authors in association with the publishing of their books. The revenues of these businesses are reported as Publishing on our Condensed Consolidated Statements of Operations.

Our principal sources of publishing revenue include:

- subscription fees for our magazines;
- the sale of print magazine advertising;
- fees from authors for book publishing; and
- the sale of books.

The primary operating expenses incurred by Salem Publishing 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) printing and production costs, including paper costs.

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RESULTS OF OPERATIONS

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011	% Change	Six Months Ended June 30, 2010	Six Months Ended June 30, 2011	% Change
			(Dollars in thousands)			
Net broadcast revenue	$ 45,471	**$ 45,406**	(0.1)%	$ 86,879	**$ 88,136**	1.4%
Internet revenue	4,712	**7,582**	60.9%	9,202	**13,794**	49.9%
Publishing revenue	2,940	**3,144**	6.9%	5,366	**5,985**	11.5%
Total revenue	53,123	**56,132**	5.7%	101,447	**107,915**	6.4%
Operating expenses:						
Broadcast operating expenses	28,984	**29,054**	0.2%	54,981	**56,856**	3.4%
Internet operating expenses	3,946	**6,158**	56.1%	7,814	**11,519**	47.4%
Publishing operating expenses	2,785	**2,771**	(0.5)%	5,308	**5,651**	6.5%
Corporate expenses	3,717	**4,204**	13.1%	7,986	**8,755**	9.6%
Depreciation	3,132	**3,118**	(0.4)%	6,289	**6,301**	0.2%
Amortization	489	**733**	49.9%	888	**1,302**	46.6%
Loss on disposal of assets	(18)	**150**	(933.3)%	(5)	**(4,375)**	87,400.0%
Total operating expenses	43,035	**46,188**	7.3%	83,261	**86,009**	3.3%
Operating income	10,088	**9,944**	(1.4)%	18,186	**21,906**	20.5%
Other income (expense):						
Interest income	46	**54**	17.4%	94	**97**	3.2%
Interest expense	(7,776)	**(7,064)**	(9.2)%	(15,468)	**(14,299)**	(7.6)%
Loss on early redemption of long-term debt	(1,050)	**(1,090)**	3.8%	(1,050)	**(1,090)**	3.8%
Other income (expense), net		**(12)**	%	(31)	**(23)**	(25.8)%
Income before income taxes	1,308	**1,832**	40.1%	1,731	**6,591**	280.8%
Provision for (benefit from) income taxes	610	**732**	20.0%	829	**2,904**	250.3%
Net income	$ 698	**$ 1,100**	57.6%	$ 902	**$ 3,687**	308.8%

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2011	Six Months Ended June 30, 2010	Six Months Ended June 30, 2011
Net broadcast revenue	86 %	**81 %**	86 %	**82 %**
Internet revenue	9 %	**13 %**	9 %	**13 %**
Publishing revenue	5 %	**6 %**	5 %	**5 %**
Total revenue	100 %	**100 %**	100 %	**100 %**
Operating expenses:	%	**%**	%	**%**
Broadcast operating expenses	55 %	**52 %**	54 %	**53 %**
Internet operating expenses	7 %	**11 %**	8 %	**11 %**
Publishing operating expenses	5 %	**5 %**	5 %	**5 %**
Corporate expenses	7 %	**7 %**	8 %	**8 %**
Depreciation	6 %	**6 %**	6 %	**6 %**
Amortization	1 %	**1 %**	1 %	**1 %**
Loss on disposal of assets	%	**%**	%	**(4) %**

Total operating expenses	81	%	**82**	**%**	82	%	**80**	**%**
Operating income	19	%	**18**	**%**	18	%	**20**	**%**
Other income (expense):		%		**%**		%		**%**
Interest income		%		**%**		%		**%**
Interest expense	(15)	%	**(13)**	**%**	(15)	%	**(13)**	**%**
Loss on early redemption of long-term debt	(2)	%	**(2)**	**%**	(1)	%	**(1)**	**%**
Other income (expense), net		%		**%**		%		**%**
Income from before income taxes	2	%	**3**	**%**	2	%	**6**	**%**
Provision for income taxes	1	%	**2**	**%**	1	%	**3**	**%**
Net income	1	%	**1**	**%**	1	%	**3**	**%**

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Three months ended June 30, 2011 compared to the three months ended June 30, 2010

NET BROADCAST REVENUE. Net broadcast revenue decreased $0.1 million, or 0.1%, to $45.4 million for the three months ended June 30, 2011, from $45.5 million for the same period of the prior year. On a same station basis, net broadcast revenue increased $0.3 million, or 0.7%, to $44.8 million for the three months ended June 30, 2011, from $44.5 million for the same period of the prior year. Revenue from advertising as a percentage of our net broadcast revenue remained consistent at 44.3% for the three months ended June 30, 2011 and 2010. Revenue from block program time as a percentage of our net broadcast revenue increased to 39.7% for the three months ended June 30, 2011, from 38.5% for the same period of the prior year.

The decline in net broadcast revenue of $0.1 million was due to a $0.5 million decline in political advertising, a $0.2 million decline in infomercial revenues due to our efforts to reduce this type of programming, a $0.5 million decline in local programs and a $0.3 million decline in event revenue that were offset by a $1.0 million increase in national program revenue primarily on our Christian Teaching and Talk and Business format stations and a $0.3 million increase in local advertising, driven largely by ratings on our music format stations. National program revenue benefited from a rate increase effective in January 2011 as well as from a new sales strategy in which bundles of available air time were sold to programmers at discounted rates that allowed us to monetize what might have otherwise been unsold air time.

INTERNET REVENUE. Internet revenue increased $2.9 million, or 60.9%, to $7.6 million for the three months ended June 30, 2011, from $4.7 million for the same period of the prior year. Contributing to this increase is $0.7 million of revenue generated from Samaritan Fundraising, which we acquired in September of 2010, an increase of $1.0 million in downloadable content from WorshipHouse Media, which we acquired in March of 2011, a $0.7 million increase in banner advertising revenue primarily due to an increased number of buys and from GodTube which we acquired in June of 2010, a $0.1 million increase in website hosting and streaming revenues from new customers, and a $0.4 million increase in revenue generated from our radio station websites that include new vendor discount programs and similar half-price deals fulfilled by a third-party agency.

PUBLISHING REVENUE. Publishing revenue increased $0.2 million, or 6.9%, to $3.1 million for the three months ended June 30, 2011, from $2.9 million for the same period of the prior year. Contributing to this increase is a $0.3 million increase in submission fees and book sales primarily due to increased volume from Xulon Press, our print-on-demand publisher.

BROADCAST OPERATING EXPENSES. Broadcast operating expenses increased $0.1 million, or 0.2%, to $29.1 million for the three months ended June 30, 2011, from $29.0 million for the same period of the prior year. On a same station basis, broadcast operating expense increased $0.3 million, or 1.1%, to $28.4 million for the three months ended June 30, 2011, compared to $28.1 million for the same period of the prior year. Contributing to this increase is a $0.2 million increase in bad debt expense due to the favorable impact of recovering a past-due account during the same period of the prior year and a $0.2 million increase in production and programming expenses, offset by a $0.2 million decrease in advertising costs and a $0.1 million decrease in professional services.

INTERNET OPERATING EXPENSES. Internet operating expenses increased $2.3 million, or 56.1%, to $6.2 million for the three months ended June 30, 2011, compared to $3.9 million for the same period of the prior year. Included in this increase is a $0.5 million increase in personnel-related costs that includes sales commissions, a $0.3 million increase in advertising expenses incurred to further promote our Internet businesses, a $0.2 million increase in streaming and hosting expenses associated with higher site traffic and GodTube which we acquired in June of 2010, a $0.8 million increase in operating expenses for Samaritan Fundraising, which we acquired in September of 2010 and a $0.7 increase in operating expense for WorshipHouse Media which we acquired in March of 2011 offset by a $0.1 million decline in royalty expenses exclusive of Samaritan Fundraising and WorshipHouse Media.

PUBLISHING OPERATING EXPENSES. Publishing operating expenses remained consistent at $2.8 million for the three months ended June 30, 2011 and 2010.

CORPORATE EXPENSES. Corporate expenses increased $0.5 million, or 13.1%, to $4.2 million for the three months ended June 30, 2011, compared to $3.7 million for the same period of the prior year. Included in this increase are a $0.6 million increase in personnel-related costs and a $0.1 million increase in travel expenses, partially offset by a $0.1 million decrease in non-cash stock based compensation expense as a result of reduced option awards as compared to the same period of the prior year.

DEPRECIATION. Depreciation expense remained consistent at $3.1 million for the three months ended June 30, 2011 and 2010.

AMORTIZATION. Amortization expense increased $0.2 million, or 49.9%, to $0.7 million for the three months ended June 30, 2011, compared to $0.5 million for the same period of the prior year. The increase is due to amortization of intangible assets acquired during 2010, including HotAir.com, GodTube and Samaritan Fundraising as well as early 2011, including WorshipHouse Media with useful lives between one and three years.

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(GAIN) LOSS ON DISPOSAL OF ASSETS. The net loss on disposal of assets of $0.2 million for the three months ended June 30, 2011, and the net gain on disposal of assets of $18,000 for the same period of the prior year represent gains and losses from various fixed asset and equipment disposals.

OTHER INCOME (EXPENSE). Interest income represents earnings on excess cash that remained constant at $0.1 million for the three months ended June 30, 2011 compared to the same period of the prior year. Interest expense decreased $0.7 million, or 9.2%, to $7.1 million for the three months ended June 30, 2011, compared to $7.8 million for the same period of the prior year due to the lower principal outstanding on the $9^5/_8$% Notes, partially offset with increased interest on our Revolver. Loss on early retirement of debt of $1.1 million for the three months ended June 30, 2011 and for the same period of the prior year represents the redemption in each period of $17.5 million of the $9^5/_8$% Notes for $18.0 million, or at a price equal to 103% of the face value. Other expense, net, of $12,000 for the three months ended June 30, 2011 relates to bank commitment fees associated with our credit facility offset with royalty income from real estate properties

PROVISION FOR INCOME TAXES. In accordance with FASB ASC Topic 740 Income Taxes, our provision for income taxes was $0.7 million for the three months ended June 30, 2011 compared to $0.6 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 40.0% for the three months ended June 30, 2011 compared to 46.6% 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.

NET INCOME. We recognized net income of $1.1 million for the three months ended June 30, 2011 and 2010. This reflects a $0.7 million decrease in interest expense, offset by a $0.2 million decrease in net operating income and a $0.1 million increase in our tax provision.

Six months ended June 30, 2011 compared to the six months ended June 30, 2010

NET BROADCAST REVENUE. Net broadcast revenue increased $1.3 million, or 1.4%, to $88.1 million for the six months ended June 30, 2011, from $86.9 million for the same period of the prior year. On a same station basis, net broadcast revenue increased $1.7 million, or 2.1%, to $86.5 million for the six months ended June 30, 2011, from $84.8 million for the same period of the prior year. Revenue from advertising as a percentage of our net broadcast revenue increased to 43.3% for the six months ended June 30, 2011, from 42.9% 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 six months ended June 30, 2011, from 39.7% for the same period of the prior year.

Included in the increase in net broadcast revenue is a $2.3 million increase in national program revenue primarily on our Christian Teaching and Talk, News Talk and Business format stations. We benefited from rate increases as well as from a new sales strategy in which we sold bundles of available air time to programmers at discounted rates that allowed us to monetize what might have otherwise been unsold air time. Also included in the increase in net broadcast revenue is a $1.2 million increase in local advertising revenue from all station formats. The increase is attributable to a combination of higher rates, particularly on our ratings driven stations and an increase in the number of advertisers. We also saw a $0.4 million increase in broadcast revenues from non-traditional sources, including donor development campaigns, half-price deals and discount shopping shows. These increases were partially offset by a decline of $0.9 million in network revenues primarily due to decreases in political sources, a $0.7 million decrease in local programs, a $0.3 million decline in national advertising revenues due to higher competition to keep rates low, and a $0.4 million decline in infomercial revenues as a result of our efforts to reduce this type of programming.

INTERNET REVENUE. Internet revenue increased by $4.6 million, or 49.9%, to $13.8 million for the six months ended June 30, 2011, from $9.2 million for the same period of the prior year. Included in this increase is $1.3 million of revenue generated from Samaritan Fundraising, which we acquired in September of 2010, an increase of $1.0 million in downloadable content from our acquisition of WorshipHouse Media in the first quarter of 2011, a $1.0 million in banner advertising revenue primarily due to an increased number of buys, a $0.1 million increase in website hosting and streaming revenues from new customers, and a $1.0 million increase in revenue generated from our radio station websites that include new vendor discount programs and similar half-price deals fulfilled by a third-party agency.

PUBLISHING REVENUE. Publishing revenue increased $0.6 million, or 11.5%, to $6.0 million for the six months ended June 30, 2011, from $5.4 million for the same period of the prior year. Included in this increase is a $0.8 million increase in submission fees and book sales primarily due to increased volume from Xulon Press, our print-on-demand publisher.

BROADCAST OPERATING EXPENSES. Broadcast operating expenses increased $1.9 million, or 3.4%, to $56.9 million for the six months ended June 30, 2011, from $55.0 million for the same period of the prior year. On a same station basis, broadcast

operating expense increased $2.4 million, or 4.4%, to $55.6 million for the six months ended June 30, 2011, compared to $53.2 million for the same period of the prior year. Included in this increase is a $1.0 million increase in bad debt expense due to the favorable impact of the recovery of a past-due account during the prior year, a $0.9 million increase in personnel-related costs, a $0.1 million increase in facility-related costs, a $0.1 million increase in music license fees, and a $0.4 million increase in production and programming expenses, offset by a $0.7 million decline in advertising expenses, a $0.1 million decline in FCC license fees, and a $0.1 million decline in production and programming expenses.

INTERNET OPERATING EXPENSES. Internet operating expenses increased $3.7 million, or 47.4%, to $11.5 million for the six months ended June 30, 2011, compared to $7.8 million for the same period of the prior year. Included in this increase is a $0.7 million increase in personnel-related costs that includes sales commissions, a $0.4 million increase in advertising expenses that were incurred to further promote our Internet businesses, a $0.6 million increase in streaming and hosting expenses associated with higher site traffic and GodTube, which was acquired in June 2010, $1.4 million of operating expenses of Samaritan Fundraising, which was acquired in September of 2010 and $0.7 million of operating expense for WorshipHouse Media, which was acquired in March 2011, partially offset by lower administrative and legal fees.

PUBLISHING OPERATING EXPENSES. Publishing operating expenses increased $0.4 million, or 6.5%, to $5.7 million for the six months ended June 30, 2011, compared to $5.3 million for the same period of the prior year. Included in the increase are a $0.1 million increase in personnel-related costs, including sales commissions, a $0.3 million increase in production and paper costs resulting from higher sales volumes and a $0.1 million increase in advertising expenses incurred to promote our publishing operations.

CORPORATE EXPENSES. Corporate expenses increased $0.8 million, or 9.6%, to $8.8 million for the six months ended June 30, 2011, compared to $8.0 million for the same period of the prior year. Included in this increase are a $0.8 million increase in personnel-related costs and a $0.2 million increase in travel expenses, partially offset by a $0.2 million decrease in non-cash stock based compensation expense as a result of reduced option awards as compared to the same period of the prior year.

DEPRECIATION. Depreciation expense remained consistent at $6.3 million for the six months ended June 30, 2011 and 2010.

AMORTIZATION. Amortization expense increased $0.4 million, or 46.6%, to $1.3 million for the six months ended June 30, 2011, compared to $0.9 million for the same period of the prior year. The increase is due to amortization of intangible assets acquired during 2010, including HotAir.com, GodTube and Samaritan Fundraising as well as early 2011, including WorshipHouse Media with useful lives between one and three years.

(GAIN) LOSS ON DISPOSAL OF ASSETS. The net gain on disposal of assets of $4.4 million for the six months ended June 30, 2011, includes a $2.4 million pre-tax gain on the sale of KKMO-AM in Seattle, Washington and a $2.1 million pre-tax gain on the sale of KXMX-AM in Los Angeles, California, offset by various fixed asset and equipment disposals. The net loss on disposal of assets of $5,000 for the same period of the prior year represents losses from various fixed asset and equipment disposals.

OTHER INCOME (EXPENSE). Interest income represents earnings on excess cash that remained constant at $0.1 million for the six months ended June 30, 2011 compared to the same period of the prior year. Interest expense decreased $1.2 million, or 7.6%, to $14.3 million for the six months ended June 30, 2011, compared to $15.5 million for the same period of the prior year due to the lower principal outstanding on the $9^{5}/_{8}$% Notes, partially offset by higher interest on our Revolver. Loss on early retirement of debt of $1.1 million for the six months ended June 30, 2011 and for the same period of the prior year represents the redemption in each period of $17.5 million of the $9^{5}/_{8}$% Notes for $18.0 million, or at a price equal to 103% of the face value. Other expense, net, of $23,000 for the six months ended June 30, 2011 relates to bank commitment fees associated with our credit facility offset with royalty income from real estate properties. Other expense, net of $31,000 for the six months ended June 30, 2010 includes a $0.2 million loss related to debt forgiveness on a promissory note not associated with our operating activities offset by the APA termination fee of $0.2 million received from escrow upon the termination of the sale agreement for WRFD-AM, Columbus, Ohio.

PROVISION FOR INCOME TAXES. In accordance with FASB ASC Topic 740 Income Taxes, our provision for income taxes was $2.9 million for the six months ended June 30, 2011 compared to $0.8 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 44.1% for the six months ended June 30, 2011 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.

NET INCOME. We recognized net income of $3.7 million for the six months ended June 30, 2011 compared to $0.9 million for the same period of the prior year. The increase of $2.8 million reflects a $3.7 million increase in net operating income and a $1.2 million decrease in interest expense, offset by a $2.1 million increase in our tax provision.

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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 June 30, 2011 compared to the three months ended June 30, 2010

STATION OPERATING INCOME. SOI decreased $0.1 million, or 0.8%, to $16.4 million for the three months ended June 30, 2011, compared to $16.5 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI decreased to 36.0% for the three months ended June 30, 2011 from 36.3% for the same period of the prior year. On a same station basis, SOI remained consistent at $16.3 million for the three months ended June 30, 2011 and 2010. As a percentage of same station net broadcast revenue, same station SOI decreased to 36.4% for the three months ended June 30, 2011 from 36.7% for the same period of the prior year. The decline in SOI is primarily due to the political revenue generated on our networks during the same period of the prior year.

Six months ended June 30, 2011 compared to the six months ended June 30, 2010

STATION OPERATING INCOME. SOI decreased $0.6 million, or 1.9%, to $31.3 million for the six months ended June 30, 2011, compared to $31.9 million for the same period of the prior year. As a percentage of net broadcast revenue, SOI decreased to 35.5% for the six months ended June 30, 2011 from 36.7% for the same period of the prior year. On a same station basis, SOI decreased $0.6 million, or 1.9%, to $30.9 million for the six months ended June 30, 2011 from $31.5 million for the same period of the prior year. As a percentage of same station net broadcast revenue, same station SOI decreased to 35.7% for the six months ended June 30, 2011 from 37.2% for the same period of the prior year. The decline in SOI is primarily due to the political revenue generated on our networks during 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 condensed consolidated financial statements) for the three and six months ended June 30, 2010 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2011**	2010	**2011**
	(Dollars in thousands)			
Station operating income	$ 16,487	**$ 16,352**	$ 31,898	**$ 31,280**
Plus Internet revenue	4,712	**7,582**	9,202	**13,794**
Plus Publishing revenue	2,940	**3,144**	5,366	**5,985**
Less Internet operating expenses	(3,946)	**(6,158)**	(7,814)	**(11,519)**
Less Publishing operating expenses	(2,785)	**(2,771)**	(5,308)	**(5,651)**
Less corporate expenses	(3,717)	**(4,204)**	(7,986)	**(8,755)**
Less deprecation and amortization	(3,621)	**(3,851)**	(7,177)	**(7,603)**
Less gain (loss) on disposal of assets	18	**(150)**	5	**4,375**
Operating income	$ 10,088	**$ 9,944**	$ 18,186	**$ 21,906**

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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 other business 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 other 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

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

Revenues from radio programs and commercial advertising are recognized when the program or advertisement is broadcast. Revenue is reported net of agency commissions, which are calculated based on a stated percentage applied to gross billing. Our customers principally include not-for-profit charitable organizations and commercial advertisers. Revenue from the sale of products and services from our Internet businesses are recognized when the advertisement is delivered, when products are shipped or when the related 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. Revenue from book sales are recorded 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.

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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.

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 entities, including stations operating in non-strategic formats, to determine if a sale might be a better way to monetize the assets. When we commit to plan to sell an entity, 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. Within our broadcast operating segment, 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. The cluster level is the lowest level for which discrete financial information is available and the level reviewed by management to analyze operating results. 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 a broadcast entity qualifies as 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. Our Internet and publishing businesses are considered at the business unit level, which we define by publication or website.

Goodwill and indefinite-lived intangible assets

Approximately 69% of our total assets as of June 30, 2011, 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 managed by a single general manager. The cluster level is the lowest level for which discrete financial information is available and the level reviewed by management to analyze operating results. Goodwill and mastheads, primarily attributable to our Internet and publishing operating segments, 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. There were no indications of impairment present for the period ended June 30, 2011.

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 13 to our Condensed Consolidated Financial Statements.

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Income taxes and uncertain tax positions

We account for income taxes in accordance with FASB ASC Topic 740 Income Taxes. We recorded an increase in our unrecognized tax benefits of $0.2 million as of June 30, 2011. At December 31, 2010, we had $3.7 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 $0.05 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations.

Valuation allowance (deferred taxes)

For financial reporting purposes, we recorded a valuation allowance of $2.7 million as of June 30, 2011 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.

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. 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 June 30, 2011, 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 awards 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 1,114,675 are outstanding and 688,928 are exercisable as of June 30, 2011.

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 at the fair value of the award as of the grant date. The exercise price for options is equal to the closing 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 awards, deferred tax assets for options and restricted stock awards 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 six months ended June 30, 2011 was $0.2 million and $0.5 million compared to $0.4 million and $0.7 million for the three and six months ended June 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and selected asset dispositions. We expect to fund future acquisitions from cash on hand, proceeds from debt and equity offerings, 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

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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 increased $0.6 million to $1.4 million as of June 30, 2011 compared to $0.8 million as of the December 31, 2010. Working capital increased $0.1 million to $17.5 million as of June 30, 2011, compared to $17.4 million as of December 31, 2010.

The following events impacted our liquidity and capital resources during the six months ended June 30, 2011:

- We redeemed $17.5 million of the 9 5/8% Notes for $18.0 million;
- We collected $12.7 million from the sale of radio station assets;
- Cash paid for acquisitions increased $1.9 million to $6.6 million from $4.7 million for the same period of the prior year;
- Capital expenditures increased $0.6 million to $4.4 million from $3.8 million for the same period of the prior year;
- Consolidated net receivables increased $0.9 million to $30.2 million from $29.4 million as of December 31, 2010; and
- Our net income from continuing operations increased $2.4 million to $3.3 million from $0.9 million for the same period of the prior year.

Credit Facilities

The Revolver and the 9 5/8% Notes have been entered into by Salem Communications Corporation, our parent company. Salem Communications Corporation has no independent assets or operations. All of the subsidiaries of Salem Communications Corporation are currently guarantors of the Revolver and the 9 5/8% Notes. The guarantees are full and unconditional and joint and several, and any subsidiaries of the parent company other than the subsidiary guarantors are minor.

Senior Credit Facility

On December 1, 2009, our parent company, Salem Communications Corporation entered into a senior credit facility which is a revolver (Revolver). We amended the Revolver on November 1, 2010 to increase the borrowing capacity from $30 million to $40 million. The amendment allows 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% Notes. The calculation of the Available Amount also pertains to the payment of dividends when the leverage ratio is above 5.0 to 1. The Revolver is a three-year credit facility, which includes a $5 million subfacility for standby letters of credit and a subfacility for swingline loans of up to $5 million, subject to the terms and conditions of the Credit Agreement relating to the Revolver. 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, 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 June 30, 2011, the blended interest rate on amounts outstanding under the Revolver was 3.68%. We believe that the Revolver will allow us to meet our ongoing operating requirements, fund capital expenditures, and satisfy our debt service requirements.

During the six months ended June 30, 2011, the amounts outstanding under our Revolver ranged from $13.0 million to $37.6 million. During the first quarter of 2011 cash flows from operations were used to pay down the Revolver to $13.0 million which was offset by a $6.0 million increase to fund the acquisition of WorshipHouse Media. During the second quarter we increased the Revolver by up to $18.6 million, of which $1.6 million was repaid as of the quarter end. The net increase in the Revolver during the second quarter of 2011 of $17.0 million was used to redeem $17.5 million of principal on the 9 5/8% Notes.

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 June 30, 2011, our leverage ratio was 5.53 to 1 and our interest coverage ratio was 1.81 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.

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Senior Secured Second Lien Notes

On December 1, 2009, we issued $300.0 million principal amount of $9^5/_8$% 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. Upon issuance, we were required to pay $28.9 million per year in interest on the then outstanding $9^5/_8$% Notes. As of December 31, 2010 and June 30, 2011, accrued interest on the $9^5/_8$% Notes was $1.2 million and $1.1 million, respectively. The discount is being amortized to interest expense over the term of the $9^5/_8$% Notes based on the effective interest method. For each of the three and six months ended June 30, 2010 and 2011, approximately $48,000 and $0.1 million, respectively, of the discount has been recognized as interest expense.

On June 1, 2011, we redeemed an additional $17.5 million of the $9^5/_8$% Notes for $18.0 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 $0.5 million of bond issues costs associated with the $9^5/_8$% Notes.

Information regarding redemptions of the $9^5/_8$% Notes are as follows:

Date	Principal Redeemed	Premium Paid	Unamortized Discount	Bond Issue Costs
		(Dollars in thousands)		
June 1, 2010	$ 17,500	$ 525	$ 105	$ 417
December 1, 2010	12,500	375	70	334
June 1, 2011	17,500	525	93	472

The carrying value of the 9 ^{5}/8% Notes was $268.5 million and $251.2 million at December 31, 2010 and June 30, 2011, respectively.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2010	**As of June 30, 2011**
	(Dollars in thousands)	
Revolver under senior credit facility	$ 35,000	**$ 36,000**
9 ^{5}/8% senior secured second lien notes due 2016	268,479	**251,166**
Capital leases and other loans	1,048	**1,013**
	304,527	**288,179**
Less current portion	(111)	**(121)**
	$ 304,416	**$ 288,058**

In addition to the amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2011:

Outstanding borrowings of $36.0 million under the Revolver, with interest payments due at LIBOR plus 3.50% or at prime rate plus 2.50%;

$252.5 million 9 5/8% Notes with semi-annual interest payments at an annual rate of 9 5/8%; and

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

Impairment Losses on Goodwill and Indefinite-Lived Intangible Assets

In prior years, we incurred significant impairment losses with regard to our broadcast indefinite-lived intangible assets. These losses are attributable to estimated increases in the weighted-average cost of capital, a decline in the estimated terminal or exit values assigned to broadcast licenses because 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.

In prior years, we also incurred significant impairment losses with regard to indefinite-lived intangible assets within our publishing businesses. These losses are attributable to an increase in the weighted average cost of capital, a decline in the estimated terminal or exit values assigned to the assets because 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 Internet and publishing operating entities are also dependent upon advertising revenue. The economic downturn that began during 2007 negatively impacted our ability to generate revenues. Included in the broadcast valuation estimates prepared by Bond & Pecaro on a market participant basis for the testing period ended December 31, 2010, are increases in revenue of 2.5% to 3.1% for 2011 as compared to 2010 followed by increases of 0.25% to 1.6% in 2012 as compared to 2011. Included in the publishing valuation estimates prepared by Bond & Pecaro on a market participant basis are projected profit margins of 2.0% for 2011. Failure to achieve these 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 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 revenues to show improvements of between 2.5% to 3.1% 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 June 30, 2011, 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.

ITEM 4. 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 June 30, 2011.

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, at various times are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. 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 KTEK-AM from Business Radio 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.

On March 7, 2011, Salem entered into a tentative settlement of the matter, which still requires court approval. If approved, the settlement will result in no liability to the Salem defendants.

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, 2010, 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.

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SIGNATURES

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

	SALEM COMMUNICATIONS CORPORATION
August 8, 2011	By: /s/ EDWARD G. ATSINGER III Edward G. Atsinger III Chief Executive Officer (Principal Executive Officer)
August 8, 2011	By: /s/ EVAN D. MASYR Evan D. Masyr Senior Vice President and Chief Financial Officer (Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.02.05	Employment Agreement, dated July 1, 2011 between Salem Communications Holding Corporation and Stuart W. Epperson	8-K	000-26497	06/22/2011	99.1	
10.05.03	Employment Agreement, effective as of September 15, 2011 between Salem Communications Holding Corporation and David A.R. Evans	8-K	000-26497	06/22/2011	99.2	
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
101	The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets (ii) Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to the Condensed Consolidated Financial Statements.					X