SALEM COMMUNICATIONS CORP /DE/
Form 10-Q
May 09, 2008

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 MARCH 31, 2008

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

Large accelerated filer [ ]

Accelerated filer [X]

Non-accelerated filer [ ]

Smaller Reporting Company [ ]

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

Yes [ ]

No [X]

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

Class A	Outstanding at May 5, 2008
Common Stock, $0.01 par value per share	18,115,092 shares

Class B	Outstanding at May 5, 2008
Common Stock, $0.01 par value per share	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, expects, estimates, intends, will, may or plans and similar expressions are intende forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the company s current expectations and are based upon data available to the company at the time the statements are made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in Salem s reports on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission. Forward-looking statements made in this report speak as of the date hereof. Except as required by law, the company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections or forward-looking statements fall under the safe harbors of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

PART I FINANCIAL INFORMATION

SALEM COMMUNICATIONS CORPORATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	December 31, 2007 (Note 1)	**March 31, 2008 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 447	**$ 1,349**
Trade accounts receivable (less allowance for doubtful accounts of $8,131 in 2007 and $8,763 in 2008)	30,030	**29,138**
Other receivables	635	**2,144**
Prepaid expenses	2,621	**1,411**
Deferred income taxes	5,567	**5,642**
Assets held for sale	8,599	**7,011**
Total current assets	47,899	**46,695**
Property, plant and equipment (net of accumulated depreciation of $82,796 in 2007 and $85,460 in 2008)	131,087	**130,180**
Broadcast licenses	464,549	**463,277**
Goodwill	18,636	**18,626**
Other indefinite-lived intangible assets	2,892	**2,892**
Amortizable intangible assets (net of accumulated amortization of $13,882 in 2007 and $14,550 in 2008)	6,079	**5,458**
Bond issue costs	444	**407**
Bank loan fees	1,994	**1,741**
Long-term notes receivable	1,168	**2,534**
Other assets	5,050	**5,083**
Total assets	$ 679,798	**$ 676,893**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,325	**$ 1,417**
Accrued expenses	6,134	**5,320**
Accrued compensation and related expenses	7,297	**7,061**
Accrued interest	553	**2,667**
Deferred revenue	4,205	**4,637**
Current portion of long-term debt and capital lease obligations	6,667	**5,126**
Income tax payable	109	**507**
Total current liabilities	26,290	**26,735**
Long-term debt and capital lease obligations, less current portion	347,617	**334,637**
Fair value of interest rate swap agreements	2,489	**6,063**
Deferred income taxes	61,381	**63,786**
Deferred revenue	7,500	**7,596**

Other liabilities		1,343		**1,275**
Total liabilities		446,620		**440,092**
Commitments and contingencies				
Stockholders equity:				
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 20,432,742 issued and 18,115,092 outstanding at December 31, 2007 and at March 31, 2008		204		**204**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding shares at December 31, 2006 and March 31, 2008		56		**56**
Additional paid-in capital		224,878		**225,622**
Retained earnings		43,538		**48,561**
Treasury stock, at cost (2,317,650 shares at December 31, 2007 and March 31, 2008)		(34,006)		**(34,006)**
Accumulated other comprehensive loss		(1,492)		**(3,636)**
Total stockholders equity		233,178		**236,801**
Total liabilities and stockholders equity	$	679,798	**$**	**676,893**

See accompanying notes

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

(Unaudited)

	Three Months Ended March 31,	
	2007	**2008**
Net broadcasting revenue	$ 49,942	**$ 48,359**
Non-broadcast revenue	5,288	**6,135**
Total revenue	55,230	**54,494**
Operating expenses:		
Broadcasting operating expenses, exclusive of depreciation and amortization shown below (including $310 and $316 for the quarter ended March 31, 2007 and 2008, respectively, paid to related parties)	32,086	**32,128**
Non-broadcast operating expenses, exclusive of depreciation and amortization shown below	4,958	**6,239**
Corporate expenses, exclusive of depreciation and amortization shown below (including $70 and $37 for the quarter ended March 31, 2007 and 2008, respectively, paid to related parties)	5,814	**5,277**
Depreciation (including $139 and $323 for the quarter ended March 31, 2007 and 2008, respectively, for non-broadcast businesses)	3,058	**3,263**
Amortization (including $738 and $647 for the quarter ended March 31, 2007 and 2008, respectively, for non-broadcast businesses)	810	**668**
Gain on disposal of assets	(3,269)	**(6,014)**
Total operating expenses	43,457	**41,561**
Operating income from continuing operations	11,773	**12,933**
Other income (expense):		
Interest income	60	**21**
Interest expense	(6,454)	**(6,074)**
Other expense, net	(35)	**(51)**
Income from continuing operations before income taxes	5,344	**6,829**
Provision for income taxes	2,445	**3,174**
Income from continuing operations	2,899	**3,655**
Income from discontinued operations, net of tax	66	**1,368**
Net income	$ 2,965	**$ 5,023**
Other comprehensive loss, net of tax	(288)	**(2,144)**
Comprehensive income	$ 2,677	**$ 2,879**

Basic earnings per share data:		
Earnings per share from continuing operations	$ 0.12	**$ 0.15**
Income per share from discontinued operations		**0.06**
Basic earnings per share	0.12	**0.21**
Diluted earnings per share data:		
Earnings per share from continuing operations	$ 0.12	**$ 0.15**
Income per share from discontinued operations		**0.06**
Diluted earnings per share	0.12	**0.21**
Basic weighted average shares outstanding	23,848,603	**23,668,788**
Diluted weighted average shares outstanding	23,853,068	**23,668,788**

See accompanying notes

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SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2007	**2008**
OPERATING ACTIVITIES		
	$	**$**
Income from continuing operations	2,899	**3,655**
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Non-cash stock-based compensation	754	**746**
Depreciation and amortization	3,868	**3,931**
Amortization of bond issue costs and bank loan fees	292	**290**
Amortization and accretion of financing items	31	**17**
Provision for bad debts	464	**1,079**
Deferred income taxes	2,388	**3,760**
Gain on disposal of assets	(3,269)	**(6,014)**
Changes in operating assets and liabilities:		
Accounts receivable	1,320	**176**
Prepaid expenses and other current assets	(76)	**1,210**
Accounts payable and accrued expenses	816	**1,927**
Deferred revenue	620	**528**
Other liabilities	(29)	**(68)**
Income tax payable	(22)	**397**
Net cash provided by continuing operating activities	10,056	**11,634**
INVESTING ACTIVITIES		
Capital expenditures	(4,081)	**(2,931)**
Purchase of non-broadcast properties	(300)	**(47)**
Proceeds from disposals of assets	7,060	**4,503**
Other	13	**(88)**
Net cash provided by investing activities	2,692	**1,437**
FINANCING ACTIVITIES		
Proceeds from borrowings under credit facilities	2,500	
Payments of long-term debt and notes payable	(13,924)	**(12,983)**
Net borrowings and repayments of Swingline credit facility	(1,241)	**(1,558)**
Proceeds from exercise of stock options	30	
Tax benefit related to stock options exercised	1	
Payments on loans and capital lease obligations	(13)	**(28)**
Other	(312)	**(555)**

Net cash used in financing activities	(12,959)	**(15,124)**
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Operating cash flows	99	**(845)**
Investing cash flows		**3,800**
Net cash provided by discontinued operations	99	**2,955**
Net increase (decrease) in cash and cash equivalents	(112)	**902**
Cash and cash equivalents at beginning of year	710	**447**
Cash and cash equivalents at end of period	$ 598	**$ 1,349**
Supplemental disclosures of cash flow information:		
Interest	$ 4,863	**$ 2,114**
Income taxes	$ 168	**$ 10**
Noncash investing and financing activities:		
Assets acquired through capital lease obligations	$ 800	**$**
Notes receivable acquired in exchange for radio station		**3,250**

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 or the Company) include the Company and its wholly-owned subsidiaries. The Company, excluding its subsidiaries, is herein referred to as Parent. All significant intercompany balances and transactions have been eliminated.

Information with respect to the three months ended March 31, 2008 and 2007 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 10 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 the Company s annual report on Form 10-K for the year ended December 31, 2007.

The balance sheet at December 31, 2007 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.

NOTE 2. RECLASSIFICATIONS

Certain items shown in the 2007 consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications include the accounting for WRRD-AM, Milwaukee, Wisconsin, WFZH-FM, Milwaukee, Wisconsin and *CCM Magazine*, as discontinued operations as discussed in Note 3. The accompanying Condensed Consolidated Balance Sheets and Statements of Operations reflect the operating results and net assets of these entities as discontinued operations for the three months ended March 31, 2008 and 2007.

NOTE 3. SIGNIFICANT TRANSACTIONS

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

On March 28, 2008, the Company sold radio station WRRD-AM in Milwaukee, Wisconsin for $3.8 million resulting in a pre-tax gain of $2.2 million. The accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations for the three months ended March 31, 2008 reflect WRRD-AM as a discontinued operation. All prior periods have been revised to reflect the operating results of the station as a discontinued operation to conform to the current period presentation.

Other Pending Transactions:

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

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

On April 11, 2008 the Company completed the purchase of WMCU-AM in Miami, Florida, for $12.25 million. The Company began operating the station under an LMA effective on October 18, 2007.

On November 11, 2007 the Company entered into an agreement to purchase selected assets of radio station WAMD-AM in Baltimore, Maryland for approximately $3.0 million. The transaction is subject to approval of the FCC and is expected to close in the fourth quarter of 2008.

On February 22, 2008 the Company entered into an agreement to sell radio station KKMO-AM in Seattle, Washington for approximately $3.7 million. The transaction is subject to approval of the FCC and is expected to close in the third quarter of 2008.

Discontinued Operations:

During 2007, the Company had a plan in place to sell its radio stations in the Milwaukee market. As noted above, the Company sold radio station WRRD-AM in Milwaukee, Wisconsin for $3.8 million on March 28, 2008. On January 16, 2008, the Company entered into an agreement to sell radio station WFZH-FM in Milwaukee, Wisconsin for approximately $8.1 million. The Company entered into an LMA agreement with the buyer effective as of February 15, 2008, under which the buyer will begin programming the station and pay a majority of operational costs of the station. The transaction is subject to approval of the FCC and is expected to close in the second quarter of 2008. The accompanying Condensed Consolidated Balance Sheets and Statements of Operations reflect the operating results and net assets of the entity as a discontinued operation for the three months ended March 31, 2008. All prior periods have been revised to reflect the operating results and net assets of the station as a discontinued operation to conform to the current period presentation.

The Company discontinued publishing the *CCM Magazine* as of March 2008. The operating results for *CCM Magazine* have been reported as a discontinued operation as of the date operations ceased. The accompanying Condensed Consolidated Statements of Operations reflect the operating results of this entity as a discontinued operation for the three months ended March 31, 2008. All prior periods have been revised to reflect the operating results of this entity as a discontinued operation to conform to the current period presentation.

The following table sets forth the components of income from discontinued operations, net of tax, for the three months ended March 31, 2007 and 2008.

	Three Months Ended March 31,	
	2007	**2008**
	(Dollars in thousands)	
Net Revenue	$ 863	**$ 584**
Operating expenses	743	**519**
Operating income	120	**65**
Gain on sale of radio station assets		**2,222**
Income from discontinued operations	$ 120	**$ 2,287**
Provision for income taxes	54	**919**
Income from discontinued operations, net of tax	$ 66	**$ 1,368**

NOTE 4. STOCK INCENTIVE PLAN

The Company has one stock incentive plan. The Amended and Restated 1999 Stock Incentive Plan (the Plan) allows the Company to grant stock options and shares of restricted stock to employees, directors, officers and advisors of the Company. A maximum of 3,100,000 shares are authorized under the Plan. Options generally vest over a four year period and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated in certain corporate transactions of the Company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options. In accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), the Company recognizes compensation expense related to the estimated fair value of stock options granted.

The Company adopted SFAS No. 123(R) on January 1, 2006, using the modified-prospective-transition method. Under this transition method, compensation expense recognized subsequent to adoption includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested, as of December 31, 2005 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005, based on the grant-date fair values estimated in accordance with the provisions of SFAS No. 123(R).

The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2007	**2008**
	(Dollars in thousands)	
Stock option compensation expense included in corporate expenses	$ 507	**$ 536**
Restricted stock units compensation expense included in corporate expenses	16	**14**
Stock option compensation expense included in broadcast operating expenses	207	**146**
Stock option compensation expense included in non-broadcast operating expenses	24	**50**
Total stock-based compensation expense, pre-tax	$ 754	**$ 746**
Tax benefit from stock-based compensation expense	(345)	**(347)**
Total stock-based compensation expense, net of tax	$ 409	**$ 399**

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 individuals may receive stock options annually with the number of shares and type of instrument generally determined by the employee s salary grade and performance level. In addition, certain management and professional level employees typically receive a stock option grant upon commencement of employment. Non-employee directors of the Company have received restricted stock grants that vest one year from the date of issuance as well as stock options that vest immediately. The Company does not allow key employees (restricted persons) from exercising an option during a pre-defined black out period. Certain employees may have a 10b5-1 Plan available to exercise according to predefined criteria.

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of stock options. The expected volatility reflects the consideration of the historical volatility of the Company stock as determined by the closing price over a six to nine year term that is generally commensurate with the expected term of the option. The expected term of the option is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted. Upon adoption of SFAS 123(R), the Company began using historical data to estimate forfeiture rates applied to the gross amount of expense determined using the option valuation model. Prior to adoption of SFAS 123(R), the Company recognized forfeitures as they occurred. There was no material impact upon adoption of SFAS 123(R) between these methods of accounting for forfeitures. The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model were as follows for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
Expected volatility	67.0%	**44.47% - 45.08%**
Expected dividends	0.0%	**3.68% - 4.91%**
Expected term (in years)	5 8	**6 - 12**
Risk-free interest rate	4.53%	**2.76% - 3.86%**

Stock option information with respect to the Company s stock-based compensation plan for the three months ended March 31, 2008 is as follows (dollars in thousands, except per share amounts):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	2,422,024	$ 20.73	$ 13.98	4.3 years	$
Granted	55,000	5.48	1.86		
Exercised					
Forfeited or expired	(61,895)	16.39	11.77		
Outstanding at March 31, 2008	**2,415,129**	**$ 20.49**	**$ 12.95**	**4.1 years**	$
Exercisable at March 31, 2008	**1,571,516**	**$ 23.42**	**$ 14.47**	**2.6 years**	$

The fair values of shares of restricted stock are determined based on the closing price of the Company common stock on the grant dates. Information regarding the Company s restricted stock grants for the three months ended March 31, 2008 is as follows:

Restricted Stock	Shares	Weighted Average Exercise Price
Non-Vested at January 1, 2008	5,000	$ 10.15
Granted		
Vested		
Forfeited		
Non-Vested at March 31, 2008	5,000	$ 10.15

As of March 31, 2008, there was $3.5 million of total unrecognized compensation expense related to non-vested awards of stock options and restricted shares. This cost is to be recognized over a weighted average period of 2.2 years.

NOTE 5. OTHER COMPREHENSIVE LOSS

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

	Three Months Ended March 31,	
	2007	**2008**
	(Dollars in thousands)	
Mark-to-market loss	$ 480	**$ 3,573**
Less tax benefit	(192)	**(1,429)**
Other comprehensive loss	$ 288	**$ 2,144**

NOTE 6. RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 161

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosure about Derivative Instruments and Hedging Activities (SFAS No. 161), an amendment of FASB Statement No. 133. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS No. 161 will not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 160

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

Statement of Financial Accounting Standards No. 159

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

Statement of Financial Accounting Standards No. 157

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

Statement of Financial Accounting Standards No. 141(R)

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

NOTE 7. EQUITY TRANSACTIONS

The Company s Board of Directors authorized a $25.0 million share repurchase program in May 2005. In February 2006, the Board of Directors increased Salem s existing share repurchase program to permit the repurchase of up to an additional $25.0 million of shares of Salem s Class A common stock. This repurchase program terminated December 31, 2007.

As discussed in Note 4, the Company accounts for stock-based compensation expense in accordance with SFAS No. 123(R). As a result, $0.7 million of stock-based compensation expense has been recorded to additional paid-in capital for the three months ended March 31, 2008, in comparison to $0.8 million for the three months ended March 31, 2007.

NOTE 8. NOTES PAYABLE AND LONG-TERM DEBT

On October 24, 2007, the Company amended its credit facilities to ease certain financial covenants. The amendment became effective upon the closing of the acquisition of WMCU-AM, which occurred on April 11, 2008. Specifically, the total leverage ratio covenant increased to 6.75 to 1 through March 30, 2009. Additionally, the senior leverage ratio covenant increased to 5.0 to 1 and the interest coverage ratio remained at 2.0 to 1 through March 30, 2009.

Long-term debt consisted of the following:

	December 31, 2007	**March 31, 2008**
	(Dollars in thousands)	
Term loans under credit facility	$ 234,900	**$ 234,900**
Revolving line of credit under credit facility	13,000	**-**

Swingline credit facility		2,952		**1,394**
7¾% Senior Subordinated Notes due 2010		100,000		**100,000**
Seller financed note to acquire Townhall.com		2,546		**2,563**
Capital leases and other loans		886		**906**
		354,284		**339,763**
Less current portion		6,667		**5,126**
	$	347,617	**$**	**334,637**

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at March 31, 2008 for each of the next five years and thereafter are as follows:

Twelve Months Ended March 31,		Amount
		(Dollars in thousands)
2009	$	5,126
2010		74,610
2011		259,266
2012		42
2013		40
Thereafter		679
	$	339,763

NOTE 9. AMORTIZABLE INTANGIBLE ASSETS

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

		As of March 31, 2008				
		Cost		Accumulated Amortization		Net
				(Dollars in thousands)		
Customer lists and contracts	$	10,437	$	(8,079)	$	2,358
Domain and brand names		4,956		(2,648)		2,308
Favorable and assigned leases		1,582		(1,244)		338
Other amortizable intangible assets		3,033		(2,579)		454
	$	20,008	$	(14,550)	$	5,458

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

Based on the amortizable intangible assets as of March 31, 2008, the Company estimates amortization expense for the next five years to be as follows:

Year Ending December 31,		**Estimated future Amortization Expense**
		(Dollars in thousands)
2008 (April 1 December 31)	$	2,010
2009		1,429
2010		945
2011		379
2012		129
Thereafter		566
Total	$	5,458

NOTE 10. BASIC AND DILUTED EARNINGS PER SHARE

Basic 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 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 2,394,764 and 2,415,129 shares of Class A common stock and unvested restricted stock shares of 6,000, and 5,000 were outstanding at March 31, 2007 and 2008, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the Company s stock price. These options are excluded from the respective computation of diluted net income per share because their effect would be anti-dilutive. The number of anti-dilutive shares was 4,465 as of March 31, 2007. There were no dilutive shares on March 31, 2008.

NOTE 11. DERIVATIVE INSTRUMENTS

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

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

On April 8, 2005, the Company entered into an interest rate swap arrangement for the notional principal amount of $30.0 million whereby the Company will pay a fixed interest rate of 4.99% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the three months ended March 31, 2008, was increased by approximately $20,000 as a result of the difference between the interest rates. As of March 31, 2008, the Company recorded a liability for the fair value of the interest swap of approximately $2.4 million. This amount, net of income taxes of approximately $0.9 million, is reflected in other comprehensive loss, as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On April 26, 2005, the Company entered into a second interest rate swap arrangement for the notional principal amount of $30.0 million whereby the Company will pay a fixed interest rate of 4.70% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the three months ended March 31, 2008, was reduced by approximately $2,000 as a result of the difference between the interest rates. As of March 31, 2008, the Company recorded a liability for the fair value of the interest swap of approximately $2.0 million. This amount, net of income taxes of approximately $0.8 million, is reflected in other comprehensive loss, as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

On May 5, 2005, the Company entered into a third interest rate swap arrangement for the notional principal amount of $30.0 million whereby the Company will pay a fixed interest rate of 4.53% as compared to LIBOR on a bank credit facility borrowing. Interest expense for the three months ended March 31, 2008, was reduced by approximately $15,000 as a result of the difference between the interest rates. As of March 31, 2008, the Company recorded a liability for the fair value of the interest swap of approximately $1.7 million. This amount, net of income taxes of approximately $0.7 million, is reflected in other comprehensive loss, as the Company has designated the interest rate swap as a cash flow hedge. The effective date of this interest rate swap was July 1, 2006 and the expiration date is July 1, 2012.

Interest Rate Caps

On October 18, 2006, the Company purchased two interest rate caps for $0.1 million to mitigate exposure to rising interest rates. The first interest rate cap covers $50.0 million of borrowings under the credit facilities for a three year period. The second interest rate cap covers $50.0 million of borrowings under the credit facilities for a four year period. Both interest rate caps are at 7.25%. The caps do not qualify for hedge accounting and accordingly, all changes in fair value have been included as a component of interest expense. Interest expense of approximately $24,000 and $7,000 was recognized during the three months ended March 31, 2007 and 2008, respectively, related to the interest rate caps.

NOTE 12. INCOME TAXES

The Company adopted FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48) on January 1, 2007 and accrued liabilities for unrecognized tax benefits in accordance with the provisions. On the date of adoption the Company had $3.0 million in liabilities related to uncertain tax positions, including $0.9 million recognized under Statement of Financial Accounting Standards No. 5 (SFAS No. 5) Accounting for Contingencies and carried forward from prior years and $2.1 million recognized upon adoption of FIN 48 as a reduction to retained earnings. Included in the $2.1 million accrual was $0.1 million related interest, net of federal income tax benefits. During 2007, the Company recognized a net increase of $0.9 million in liabilities and at December 31, 2007, had $3.9 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.1 million accrued for the related interest, net of federal income tax benefits, and $0.1 million for the related penalty recorded in income tax expense on the Consolidated Statements of Operations. The Company recorded an increase in its unrecognized tax benefits of $0.2 million as of March 31, 2008.

NOTE 13. COMMITMENTS AND CONTINGENCIES

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

NOTE 14. SEGMENT DATA

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

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

	Radio Broadcasting	Non-broadcast	Corporate	Consolidated
		(Dollars in thousands)		
Three Months Ended March 31, 2007				
Net revenue	$ 49,942	$ 5,288	$	$ 55,230
Operating expenses	32,086	4,958	5,814	42,858
Operating income (loss) before depreciation, amortization and gain on disposal of assets	17,856	330	(5,814)	12,372
Depreciation	2,632	139	287	3,058

Amortization	67	738	5	810
Operating income (loss) before income taxes	$ 15,157	$ (547)	$ (6,106)	$ 8,504
Three Months Ended March 31, 2008				
Net revenue	$ 48,359	$ 6,135	$	**$ 54,494**
Operating expenses	32,128	6,239	5,277	**43,644**
Operating income (loss) before depreciation, amortization and gain on disposal of assets	16,231	(104)	(5,277)	**10,850**
Depreciation	2,615	323	325	**3,263**
Amortization	18	647	3	**668**
Operating income (loss) before income taxes	$ 13,598	$ (1,074)	$ (5,605)	**$ 6,919**
December 31, 2007				
Total property, plant and equipment, net	$ 115,025	$ 5,524	$ 10,538	$ 131,087
Goodwill	4,858	13,770	8	18,636
March 31, 2008				
Total property, plant and equipment, net	$ 114,062	$ 5,820	$ 10,298	**$ 130,180**
Goodwill	4,848	13,770	8	**18,626**

Reconciliation of operating income from continuing operations before depreciation, amortization and gain on disposal of assets to income from continuing operations before income taxes

	Three Months Ended March 31,	
	2007	**2008**
	(Dollars in thousands)	
Operating income from continuing operations before depreciation, amortization and gain on disposal of assets	$ 12,372	**$ 10,850**
Depreciation expense	(3,058)	**(3,263)**
Amortization expense	(810)	**(668)**
Interest income	60	**21**
Gain on disposal of assets	3,269	**6,014**
Interest expense	(6,454)	**(6,074)**
Other expense, net	(35)	**(51)**
Income from continuing operations before income taxes	$ 5,344	**$ 6,829**

NOTE 15. CONSOLIDATING FINANCIAL INFORMATION

The following is the consolidating information of Salem Communications Corporation for purposes of presenting the financial position and operating results of Salem Communications Holding Corporation (Salem Holding) as the issuer of the 7¾% senior subordinated notes due 2010 (the 7 ¾ % Notes) and its guarantor subsidiaries on a consolidated basis and the financial position and operating results of the other guarantors, which are consolidated within the Company. Separate financial information of Salem Holding on an unconsolidated basis is not presented because Salem Holding has substantially no assets, operations or cash other than its investments in subsidiaries. Each guarantor has given its full and unconditional guarantee, on a joint and several basis, of indebtedness under the 7¾% Notes. Salem Holding and Salem Communications Acquisition Corporation (AcquisitionCo) are 100% owned by Salem and Salem Holding owns 100% of all of its subsidiaries. All subsidiaries of Salem Holding are guarantors. OnePlace LLC and CCM Communications, Inc. are aggregated and collectively referred to as Non-broadcast . The net assets of Salem Holding are subject to certain restrictions which, among other things, require Salem Holding to maintain certain financial covenant ratios, and restrict Salem Holding and its subsidiaries from transferring funds in the form of dividends, loans or advances without the consent of the holders of the 7¾% Notes. The restricted net assets of Salem Holding as of March 31, 2008, amounted to $231.2 million. Included in intercompany receivables of Salem Holding presented in the condensed consolidating balance sheet below is $80.7 million of amounts due from Salem and AcquisitionCo as of March 31, 2008.

NOTE 15. CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

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

	As of March 31, 2008					
		Guarantors		Issuer and Guarantor Subsidiaries		
	Parent	AcquisitionCo	Other Media	HoldCo	Adjustments	Salem Consolidated
Current assets:						
Cash and cash equivalents	$	$ 69	$ 404	$ 876	$	$ 1,349
Trade accounts receivable, net		3,115	273	25,750		29,138
Other receivables		3	––	2,141		2,144
Prepaid expenses		73	286	1,052		1,411
Assets of discontinued operations		52		6,959		7,011
Deferred income taxes		452	181	5,009		5,642
Total current assets		3,764	1,144	41,787		46,695
Investment in subsidiaries	230,844				(230,844)	
Property, plant and equipment, net		9,101	566	120,513		130,180
Broadcast licenses		93,108		370,169		463,277
Goodwill		10,281	712	7,633		18,626
Other indefinite-lived intangible assets			2,892			2,892
Amortizable intangible assets, net		3,484	827	1,147		5,458
Bond issue costs				407		407
Bank loan fees				1,741		1,741
Intercompany receivables	103,416	15,612		147,190	(266,218)	
Long-term notes receivables				2,534		2,534
Other assets		75	23	4,985		5,083
Total assets	$ 334,260	$ 135,425	$ 6,164	$ 698,106	$ (497,062)	$ 676,893
Current liabilities:						

Accounts payable	$	$ (24)	$ 267	$ 1,174	$	$ 1,417
Accrued expenses		745	401	4,174		5,320
Accrued compensation and related expenses		815	185	6,061		7,061
Accrued interest				2,667		2,667
Deferred revenue		405	2,222	2,010		4,637
Income taxes payable		(9)	9	507		507
Current maturities of long-term debt		1,242		3,884		5,126
Total current liabilities		3,174	3,084	20,477		26,735
Intercompany payables	96,282	114,047	17,199	38,690	(266,218)	
Long-term debt		1,356		333,281		334,637
Fair value of interest rate swap agreements				6,063		6,063
Deferred income taxes	1,177	12,170	(9,272)	59,711		63,786
Deferred revenue		166	–	7,430		7,596
Other liabilities		19		1,256		1,275
Total stockholders equity	236,801	4,493	(4,847)	231,198	(230,844)	236,801
Total liabilities and stockholders equity	$ 334,260	$ 135,425	$ 6,614	$ 698,106	$ (497,062)	$ 676,893

NOTE 15. CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SALEM COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(UNAUDITED)
(Dollars in thousands)

	Three Months Ended March 31, 2008					
				Issuer and Guarantor Subsidiaries		
		Guarantors				
	Parent	AcquisitionCo	Other Media	HoldCo	Adjustments	Salem Consolidated
Net broadcasting revenue	$	$ 2,534	$	$ 46,534	$ (709)	$ 48,359
Non-broadcast revenue		3,349	1,318	1,891	(423)	6,135
Total revenue		5,883	1,318	48,425	(1,132)	54,494
Operating expenses:						
Broadcasting operating expenses		1,762		30,445	(79)	32,128
Non-broadcast operating expenses		3,685	1,833	1,548	(827)	6,239
Corporate expenses		299		5,204	(226)	5,277
Depreciation		379	63	2,821		3,263
Amortization		418	136	114		668
Gain on disposal of assets				(6,014)		(6,014)
Total operating expenses		6,543	2,032	34,118	(1,132)	41,561
Operating income (loss)		(660)	(714)	14,307		12,933
Other income (expense):						
Equity in earnings of consolidated subsidiaries, net	5,424				(5,424)	
Interest income	1,618	1		3,226	(4,824)	21
Interest expense	(2,310)	(2,116)	(325)	(6,147)	4,824	(6,074)
Other income (expense)				(51)		(51)
	4,732	(2,775)	(1,039)	11,335	(5,424)	6,829

Income (loss) before income taxes						
Provision (benefit) for income taxes	(291)	(1,126)	(441)	5,032		3,174
Income from discontinued operations, net of tax		1,316	61	(9)		1,368
Net income (loss)	$– 5,023	$ (333)	$ (537)	$ 6,294	$ (5,424)	$ 5,023
Other comprehensive income (loss)	(2,144)			(2,144)	2,144	(2,144)
Comprehensive income (loss)	$ 2,879	$ (333)	$ (537)	$ 4,150	$ (3,280)	$ 2,879

NOTE 16. SUBSEQUENT EVENTS (UNAUDITED)

On April 8, 2008, the Company purchased three tower and antenna sites (the Transmitter Site Purchases) from the Principal Stockholders for $5.0 million, detailed as follows:

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

At the same time, the Company entered into new leases with the Principal Stockholders that replace and extend the duration of existing leases. Additionally, the Company entered into one new lease agreement with the Principal Stockholders.

On April 11, 2008 the Company completed the purchase of selected assets of radio station WMCU-AM in Miami, Florida, for $12.25 million. The Company began operating the station under an LMA effective on October 18, 2007.

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

GENERAL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report. Our condensed consolidated financial statements are not directly comparable from period to period due to acquisitions and dispositions of selected assets of radio stations and acquisitions of non-broadcast businesses. See Note 3 of our condensed consolidated financial statements for additional information.

We believe that we are the largest commercial U.S. radio broadcasting company, measured by number of stations and audience coverage, providing programming targeted at audiences interested in Christian and family-themed radio programming. Our core business is the ownership and operation of radio stations in large metropolitan markets. Upon completion of all announced transactions, we will own a national portfolio of 95 radio stations in 38 markets, including 58 stations in 23 of the top 25 markets, which consists of 29 FM stations and 66 AM stations. We are one of only four commercial radio broadcasters with radio stations in all of the top 10 markets. We are the seventh largest operator measured by number of stations overall and the third largest operator measured by number of stations in the top 25 markets.

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

We also own Salem Web Network™ (“SWN”), a provider of online Christian content and streaming, including Townhall.com, a provider of conservative content on-line, and Salem Publishing™, a leading publisher of Christian magazines and Xulon Press, a digital publisher of books targeting the Christian audience.

Our principal business strategy is to improve our national radio platform and to invest in and build non-broadcast businesses to deliver compelling content to audiences interested in Christian and family-themed programming and conservative news talk. Our national presence in broadcasting, Internet and publishing gives advertisers a platform that is a unique and powerful way to reach Christian audiences. We program 43 of our stations with our Christian Teaching and Talk format, which is talk programming with Christian and family themes. A key programming strategy on our Christian Teaching and Talk radio stations is to sell blocks of time to a variety of charitable organizations that create compelling radio programs. We also program 26 News Talk and 12 Contemporary Christian Music stations and four of our stations in Spanish-language Christian Teaching and Talk format. 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.

We maintain a website at www.salem.cc. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission (SEC). *Any information found on our website is not a part of, or incorporated by reference into, this or any other report of the Company filed with, or furnished to, the SEC.*

OVERVIEW

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

Historically, our principal sources of revenue have been:

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

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

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the sale of advertising time on our national radio network.

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

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audience share,

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how well our stations perform for our clients,

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the size of the market,

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the general economic conditions in each market, and

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supply and demand on both a local and national level.

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

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

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

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

In the broadcasting industry, radio stations often utilize trade or barter agreements to exchange advertising time for goods or services in lieu of cash. In order to preserve the sale of our advertising time for cash, we generally enter into trade agreements only if the goods or services bartered to us will be used in our business. We have minimized our use of trade agreements and have generally sold most of our advertising time for cash. During 2007, we sold 97% of our advertising time for cash. It is our general policy not to preempt advertising paid for in cash with advertising paid for in trade. In addition, we generally do not pay commissions to sales people for advertising paid in trade.

The primary operating expenses incurred in the ownership and operation of our radio stations include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses and (iv) music license fees. In addition to these expenses, our network incurs programming costs and lease expenses for satellite communication facilities. We also incur and will continue to incur significant depreciation, amortization and interest expense as a result of completed and future acquisitions of radio stations and existing and future borrowings.

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

SAME STATION DEFINITION

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

RESULTS OF OPERATIONS

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

	Three Months Ended March 31, 2007	**2008**	**% Change**
	(Dollars in thousands)		
Net broadcasting revenue	$ 49,942	**$ 48,359**	(3.2)%
Non-broadcast revenue	5,288	**6,135**	16.0%
Total revenue	55,230	**54,494**	(1.3)%
Operating expenses:			
Broadcasting operating expenses	32,086	**32,128**	0.1%
Non-broadcast operating expenses	4,958	**6,239**	25.8%
Corporate expenses	5,814	**5,277**	(9.2)%
Depreciation	3,058	**3,263**	6.7%
Amortization	810	**668**	(17.5)%
Gain on disposal of assets	(3,269)	**(6,014)**	84.0%
Total operating expenses	43,457	**41,561**	(4.4)%
Operating income from continuing operations	11,773	**12,933**	9.9%
Other income (expense):			
Interest income	60	**21**	(65.0)%
Interest expense	(6,454)	**(6,074)**	(5.9)%
Other expense, net	(35)	**(51)**	45.7%
Income from continuing operations before income taxes	5,344	**6,829**	27.8%
Provision for income taxes	2,445	**3,174**	29.8%
Income from continuing operations	2,899	**3,655**	26.1%
Income from discontinued operations, net of tax	66	**1,368**	1,983.8%
Net income	$ 2,965	**$ 5,023**	69.4%

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

	Three Months Ended March 31,	
	2007	**2008**
Net broadcasting revenue	90 %	**89 %**
Non-broadcast revenue	10 %	**11 %**
Total revenue	100 %	**100 %**
Operating expenses:		