# Salem Communications Announces a 3.4\% Increase in Second Quarter 2007 Total Revenue 

CAMARILLO, Calif.--(BUSINESS WIRE)--

Salem Communications Corporation (Nasdaq:SALM), a leading U.S. radio broadcaster, Internet content provider, magazine and book publisher targeting audiences interested in content related to faith, family and conservative values, today announced results for the three month period ended June 30, 2007.

Commenting on the company's results, Edward G. Atsinger III, Chief Executive Officer of Salem, said, "Our results for the quarter underscore the stability and resiliency of our business model. While local spot advertising experienced some challenges this quarter and declined $5.1 \%$ on a same station basis, we achieved total revenue growth of $3.4 \%$ in the second quarter of 2007. Our programming revenue increased $4.8 \%$ and our Internet and publishing businesses grew revenue $36.4 \%$ to $\$ 6.4$ million. We continue to see solid growth in our non-broadcast media as we invest in new media businesses that take advantage of the content and promotional abilities of our radio stations."

Second Quarter 2007 Results

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For the quarter ended June 30, 2007 compared to the quarter ended
June 30, 2006:
    -- Total revenue increased 3.4% to $60.0 million from $58.1 million;
    -- Operating income decreased 58.2% to $10.9 million from $26.1
        million;
    -- Net income decreased 74.7% to $2.9 million, or $0.12 per diluted
        share, from $11.6 million, or $0.47 per diluted share;
    -- EBITDA decreased 50.3% to $14.8 million from $29.8 million;
    -- Adjusted EBITDA increased 4.5% to $16.3 million from $15.6
        million;
Broadcasting
    -- Net broadcasting revenue increased 0.5% to $53.7 from $53.4
        million;
    -- Station operating income ("SOI") increased 0.7% to $20.0 million
        from $19.9 million;
    -- Same station net broadcasting revenue increased 1.5% to $52.9
        million from $52.1 million;
    -- Same station SOI increased 0.8% to $20.2 million from $20.0
        million;
    -- Same station SOI margin decreased to 38.1% from 38.4%;
Non-broadcast Media
    -- Non-broadcast revenue increased 36.4% to $6.4 million from $4.7
        million; and
    -- Non-broadcast operating income decreased to $0.7 million from
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$\$ 0.9$ million.

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Included in the results for the quarter ended June 30, 2007 are:
    -- A $0.6 million gain ($0.4 million gain, net of tax, or $0.02 per
        diluted share) on the disposal of assets;
    -- A $0.9 million non-cash compensation charge ($0.5 million, net of
        tax, or $0.02 per share) related to the expensing of stock
        options consisting primarily of:
            -- $0.6 million non-cash compensation included in corporate
                expenses; and
            -- $0.2 million non-cash compensation included in broadcasting
                operating expenses.
Included in the results for the quarter ended June 30, 2006 are:
    -- A $15.5 million gain ($9.4 million gain, net of tax, or $0.38 per
    diluted share) on the disposal of assets; and
    -- A $1.3 million non-cash compensation charge ($0.8 million, net of
        tax, or $0.03 per share) related to the expensing of stock
        options consisting primarily of:
            -- $1.1 million non-cash compensation included in corporate
                expenses; and
            -- $0.2 million non-cash compensation included in broadcasting
                operating expenses.
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On February 7, 2007, we sold WKNR (850 AM) in Cleveland, Ohio. We discontinued operating this radio station under a local marketing agreement effective December 1, 2006. For the quarter ended June 30, 2007, this station did not generate any revenue or profit. For the comparable 2006 period, the station generated net broadcasting revenue of $\$ 0.6$ million and generated no profit.

Other comprehensive income of $\$ 1.1$ million, net of tax, for the quarter ended June 30, 2007 and $\$ 0.9$ million, net of tax, for the quarter ended June 30, 2006 is due to the change in fair market value of the company's interest rate swaps.

Per share numbers are calculated based on $23,855,967$ diluted weighted average shares for the quarter ended June 30, 2007 and $24,356,275$ diluted weighted average shares for the comparable 2006 period.

## Year to Date 2007 Results

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For the six month period ended June 30, 2007 compared to the six month
period ended June 30, 2006:
    -- Total revenue increased 5.5% to $116.1 million from $110.1
        million;
    -- Operating income decreased 38.0% to $22.8 million from $36.8
        million;
    -- Net income decreased 58.8% to $5.9 million, or $0.25 net income
        per diluted share, from net income of $14.3 million or $0.58 net
        income per diluted share;
    -- EBITDA decreased 30.4% to $30.6 million from $43.9 million;
    -- Adjusted EBITDA increased 8.6% to $29.6 million from $27.2
        million
Broadcasting
    -- Net broadcasting revenue increased 1.9% to $104.1 million from
        $102.2 million;
    -- SOI increased 2.7% to $38.0 million from $37.0 million;
    -- Same station net broadcasting revenue increased 2.5% to $102.3
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    million from $99.8 million;
    -- Same station SOI increased 1.8% to $38.1 million from $37.4
        million;
    -- Same station SOI margin decreased to 37.2% from 37.5%;
Non-broadcast Media
    -- Non-broadcast revenue increased 51.7% to $12.0 million from $7.9
        million; and
    -- Non-broadcast operating income increased 65.3% to $1.1 million
        from $0.7 million
Included in the results for the six month period ended June 30, 2007
are:
    -- A $2.6 million gain ($1.5 million gain, net of tax or $0.06 gain
        per diluted share) from the disposal of assets; and
    -- A $1.6 million non-cash compensation charge ($0.9 million, net of
        tax, or $0.4 per share) related to the expensing of stock options
        consisting of:
            -- $1.1 million non-cash compensation included in corporate
                expenses;
            -- $0.4 million non-cash compensation included in broadcasting
                operating expenses; and
            -- $0.1 million non-cash compensation included in non-broadcast
                operating expenses.
Included in the results for the six month period ended June 30, 2006
are
    -- A $19.0 million gain ($11.5 million gain, net of tax, or $0.47
    per diluted share) on the disposal of assets;
    -- A $0.3 million loss from discontinued operations, net of tax or
    $0.01 per diluted share; and
    -- A $2.6 million non-cash compensation charge ($1.6 million, net of
    tax, or $0.06 per share) related to the expensing of stock
        options consisting of:
            -- $2.2 million non-cash compensation included in corporate
                expenses; and
            -- $0.4 million non-cash compensation included in broadcasting
                operating expenses.
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For the six months ended June 30, 2007, WKNR (850 AM) in Cleveland, Ohio, which was sold on February 7, 2007, did not generate any revenue or profit. For the comparable 2006 period, the station generated net broadcasting revenue of $\$ 1.2$ million and lost $\$ 0.1$ million.

Other comprehensive income of $\$ 0.8$ million, net of tax, for the six months ended June 30, 2007 and $\$ 1.9$ million, net of tax, for the six months ended June 30, 2006 is due to the change in fair market value of the company's interest rate swaps.

Per share numbers are calculated based on $23,854,518$ diluted weighted average shares for the six months ended June 30, 2007 and 24,525,718 diluted weighted average shares for the comparable 2006 period.

## SOI Margin Composition Analysis

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

|  |  | 2006 |  |  |  | 2007 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| SOI |  |  |  |  |  |  |  |  |
| Margin \% | Stations | Revenue | SOI | Average SOI \% | Stations | Revenue | SOI | Average SOI \% |
| $50 \% \text { or }$ |  |  |  |  |  |  |  |  |
| 30\% to |  |  |  |  |  |  |  |  |
| 49\% | 22 | 11.8 | 4.7 | 40.1\% | 25 | 13.6 | 5.4 | 39.6\% |
| 0\% to |  |  |  |  |  |  |  |  |
| 29\% | 31 | 10.8 | 1.8 | 16.9\% | 30 | 10.4 | 2.1 | 19.5\% |
| Less |  |  |  |  |  |  |  |  |
| than 0\% | 19 | 3.0 | (1.0) | (33.8\%) | 22 | 3.7 | (0.9) | (23.9\%) |
| Subtotal | 99 | 49.2 | 20.2 | 41.0\% | 98 | 49.4 | 19.9 | 40.2\% |
| Other | - | 4.2 | (0.3) | (7.0\%) | - | 4.3 | 0.1 | 3.5\% |
| Total | 99 | \$53.4 | \$19.9 | 37.2\% | 98 | 53.7 | 20.0 | 37.3\% |

## Balance Sheet

As of June 30, 2007, the company had net debt of $\$ 347.9$ million and was in compliance with the covenants of its credit facilities and bond indentures. The company's bank leverage ratio was 5.6 versus a compliance covenant of 6.75 and its bond leverage ratio was 4.9 versus a compliance covenant of 7.0.

## Stock Repurchases

During the quarter ended June 30 2007, the company did not repurchase shares of its Class A common stock and had $23,850,020$ shares of its Class A and Class B common stock outstanding.

## Acquisitions and Divestitures

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During the quarter ended June 30, 2007, Salem completed the following
transaction:
    -- WVRY (105.1 FM) in Waverly, Tennessee was sold on May 29, 2007
        for $0.9 million.
The following transaction was pending as of June 30, 2007:
    -- KKSN (910 AM) in Portland, Oregon will be acquired for
        approximately $4.5 million (this station is operated by Salem
        under a local marketing agreement beginning February 1, 2007 with
        call letters KTRO).
Third Quarter 2007 Outlook
For the third quarter of 2007, Salem is projecting:
    -- Total revenue to be between $58.0 million and $58.5 million
        compared to third quarter 2006 total revenue of $57.9 million;
    -- Adjusted EBITDA to be between $13.8 million and $14.3 million
        compared to third quarter 2006 Adjusted EBITDA of $15.9 million;
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    and
    -- Net income per diluted share to be between $0.08 and $0.09.
Third quarter 2007 outlook reflects the following:
    -- Same station net broadcasting revenue to be between $51.3 million
        to $51.8 million compared to $51.3 million in third quarter 2006;
    -- Non-broadcast revenue increasing to approximately $5.9 million
    from $5.4 million in third quarter 2006;
    -- Same station SOI declining to between $18.7 million and $19.2
    million from $20.7 million in third quarter 2006;
    -- Non-cash compensation expense of $0.6 million compared to third
        quarter 2006 non-cash compensation expense of $0.9 million;
    -- Increased marketing and programming costs of $0.9 million
        primarily on News Talk stations in Chicago, Denver, Louisville
        and Phoenix, and on Contemporary Christian Music stations in
        Dallas, Atlanta and Sacramento;
    -- Continued growth from our core block programming business and our
        underdeveloped radio stations, particularly our News Talk
        stations;
    -- Ongoing softness in the radio advertising market; and
    -- The impact of recent acquisition and divestiture transactions.
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Conference Call Information
Salem will host a teleconference to discuss its results today, on August 7, 2007 at 5:00 p.m. Eastern Time. To access the teleconference, please dial 973-935-8511 ten minutes prior to the start time or listen via the investor relations portion of the company's website, located at www.salem.cc. A replay of the teleconference will be available through August 24, 2007 and can be heard by dialing 973-341-3080, pass code 9051778 or on the investor relations portion of the company's website, located at www.salem.cc.

Salem Communications Corporation (Nasdaq: SALM) is a leading U.S. radio broadcaster, Internet content provider, and magazine and book publisher targeting audiences interested in Christian and family-themed content and conservative values. In addition to its radio properties, Salem owns Salem Radio Network(R), which syndicates talk, news and music programming to approximately 2,000 affiliates; Salem Radio Representatives(TM), a national radio advertising sales force; Salem Web Network(TM), an Internet provider of Christian content and online streaming; and Salem Publishing(TM), a publisher of Christian-themed magazines. Upon the close of all announced transactions, the company will own 97 radio stations, including 61 stations in 23 of the top 25 markets. Additional information about Salem may be accessed at the company's website, www.salem.cc.

## Forward Looking Statements

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

## Regulation G

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

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

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Salem Communications Corporation
Condensed Consolidated Statements of Operations
(in thousands, except share, per share and margin data)
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(unaudited)
Net broadcasting
revenue
Non-broadcast
revenue

Total revenue
Operating
expenses: Broadcasting operating expenses Non-broadcast operating


| expenses |  | 3,827 |  | 5,652 |  | 7,259 |  | 10,923 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Corporate expenses |  | 6,256 |  | 5,496 |  | 12,696 |  | 11,310 |
| Depreciation and amortization (Gain) loss on disposal of assets |  | 3,866 $(15,510)$ |  | 3,699 634 |  | 7,161 $(19,039)$ |  | 7,600 $(2,635)$ |
| Total operating expenses |  | 31,937 |  | 49,110 |  | 73,269 |  | 93,310 |
| Operating income |  | 26,128 |  | 10,928 |  | 36,822 |  | 22,822 |
| Other income (expense): Interest income Interest expense Other income (expense), net |  | $\begin{array}{r} (6,779) \\ (174) \end{array}$ |  | $\begin{gathered} 48 \\ (6,308) \\ 182 \end{gathered}$ |  | $\begin{array}{r} 46 \\ (13,367) \\ (346) \end{array}$ |  | $\begin{array}{r} 108 \\ (12,762) \\ 147 \end{array}$ |
| ```Income from continuing operations before income taxes``` |  | 19,175 |  | 4,850 |  | 23,155 |  | 10,315 |
| Provision for income taxes |  | 7,584 |  | 1,926 |  | 9,178 |  | 4,426 |
| Income from continuing operations |  | 11,591 |  | 2,924 |  | 13,977 |  | 5,889 |
| Discontinued operations, net of tax |  | (25) |  | - |  | 304 |  | - |
| Net income | \$ | 11,566 | \$ | 2,924 | \$ | 14,281 | \$ | 5,889 |
| ```Other comprehensive income, net of tax``` |  | 894 |  | 1,112 |  | 1,930 |  | 824 |
| Comprehensive income | \$ | 12,460 | \$ | 4,036 | \$ | 16,211 | \$ | 6,713 |
| Basic income per share before discontinued operations | \$ | 0.48 | \$ | 0.12 | \$ | 0.57 | \$ | 0.25 |
| Discontinued operations, net of tax | \$ | - | \$ | - | \$ | 0.01 | \$ | - |
| ```Basic income per share after discontinued operations``` | \$ | 0.48 | \$ | 0.12 | \$ | 0.58 | \$ | 0.25 |
| Diluted income per share before discontinued operations Discontinued | \$ | 0.48 | \$ | 0.12 | \$ | 0.57 |  | 0.25 |



Salem Communications Corporation
Supplemental Information
(in thousands)

(unaudited)
Capital expenditures
Acquisition related / income
producing
Maintenance
Total capital expenditures
Tax information
Cash tax expense
Deferred tax expense
Provision for income taxes
Tax benefit of non-book
amortization

| \$ | 4,520 | \$ | 2,047 | \$ | 7,793 | \$ | 3,771 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 1,708 |  | 2,342 |  | 3,465 |  | 5,017 |
| \$ | 6,228 | \$ | 4,389 | \$ | 11,258 | \$ | 8,788 |


| \$ | 76 | \$ | 47 | \$ | 76 | \$ | 215 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 7,508 |  | 1,879 |  | 9,102 |  | 4,211 |
| \$ | 7,584 | \$ | 1,926 | \$ | 9,178 | \$ | 4,426 |
| \$ | 3,685 | \$ | 3,936 | \$ | 7,262 | \$ | 8,112 |



Reconciliation of Same Station Broadcasting Operating Expenses to Total Broadcasting Operating Expenses

Broadcasting operating expenses - same station \$ 32,103 \$32,745 \$ 62,377 \$ 64,216

Broadcasting operating expenses - acquisitions - 228 176 657

Broadcasting operating expenses - dispositions
$844 \quad 64 \quad 1,511 \quad 106$
Broadcasting operating expenses - format changes
$551 \quad 592$ 1,128 1,133

Total broadcasting operating expenses



(unaudited)

| Reconciliation of Station Opera Non-Broadcast Operating Income Income |  | Incon Opera | $\begin{aligned} & \text { e and } \\ & \text { ing } \end{aligned}$ |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Station operating income | \$ | 19,883 | \$20,021 | \$ | 36,963 | \$ | 37,978 |
| Non-broadcast operating income |  | 857 | 736 |  | 677 |  | 1,119 |
| Less: |  |  |  |  |  |  |  |
| Corporate expenses |  | $(6,256)$ | $(5,496)$ |  | $(12,696)$ |  | $(11,310)$ |
| Depreciation and amortization |  | $(3,866)$ | $(3,699)$ |  | $(7,161)$ |  | $(7,600)$ |
| Gain (loss) on disposal of assets |  | 15,510 | (634) |  | 19,039 |  | 2,635 |
| Operating income |  | 26,128 | \$10,928 | \$ | 36,822 | \$ | 22,822 |



| Net income | \$ 11,566 | \$ 2,924 \$ 14,281 | \$ 5,889 |
| :---: | :---: | :---: | :---: |
|  |  | Applicable |  |
|  | $\begin{gathered} \text { Outstanding } \\ \text { at } \\ 6 / 30 / 2007 \end{gathered}$ | Interest Rate |  |
| Selected Debt and Swap Data |  |  |  |
| 7 3/4\% senior subordinated notes | \$100,000 | 7.75\% |  |
| Senior bank term loan B debt (1) | 73,125 | 7.13\% |  |
| Senior bank term loan $C$ debt (swap matures 7/1/2012) (2) | 30,000 | 6.74\% |  |
| Senior bank term loan C debt (swap matures 7/1/2012) (2) | 30,000 | 6.45\% |  |
| Senior bank term loan $C$ debt (swap matures 7/1/2012) (2) | 30,000 | 6.28\% |  |
| Senior bank term C debt (at variable rates) | 73,350 | 7.13\% |  |
| Senior bank revolving debt (at variable rates) (1) | 8,500 | 7.13\% |  |
| Swingline credit facility (3) | 293 | 8.25\% |  |

(1) Subject to rolling LIBOR plus a spread currently at $1.75 \%$ and incorporated into the rate set forth above.
(2) Under its swap agreements, the Company pays a fixed rate plus a spread based on the Company's leverage, as defined in its credit agreement. As of June 30, 2007, that spread was $1.75 \%$ and is incorporated into the applicable interest rates set forth above.
(3) Subject to prime interest rate.

Salem Communications Corporation
Supplemental Information (in millions)

(unaudited)
Reconciliation of Station Operating Income to
Operating Income
Station operating income \$ 18.8 \$ 19.3
Plus:
Non-broadcast revenue $5.9 \quad 5.9$

Less:
Non-broadcast operating expenses (5.7) (5.7)

Corporate expenses
(5.2) (5.2)

Stock-based compensation (corporate expense portion)
(0.4) (0.4)

Depreciation and amortization
(3.8) (3.8)


Source: Salem Communications Corporation

