

OPTION AGREEMENT

THIS OPTION AGREEMENT (this "Agreement") is made and entered into as of July 29, 2002 by and between **NEW NORTHWEST BROADCASTERS, LLC**, a Washington limited liability company ("NNB"), **NNB HOLDINGS, LLC**, a Washington limited liability company ("NNB Holdings"), **SALEM COMMUNICATIONS HOLDING CORPORATION**, a Delaware corporation ("SALEM"), and **SALEM MEDIA OF OREGON, INC.**, a Delaware corporation ("LICENSEE"):

W I T N E S S E T H:

WHEREAS, NNB owns and operates radio station KAST-FM, FCC Facility I.D. 82062, licensed to Astoria, Oregon (the "Station"), pursuant to certain authorizations issued by the FCC;

WHEREAS, NNB desires to upgrade and relocate the Station to provide a first local service and serve an increased population (the "KAST Upgrade"), as detailed in Exhibit A;

WHEREAS, LICENSEE is the licensee of radio station KPDQ-FM, FCC Facility I.D. 58629, licensed to Portland, Oregon ("KPDQ"), pursuant to certain authorizations issued by the FCC;

WHEREAS, LICENSEE desires, under the terms and conditions set forth herein, to accommodate the KAST Upgrade by consenting to make certain changes to KPDQ, necessary to allow the FCC to approve the KAST Upgrade;

WHEREAS, NNB Holdings is willing to serve as a guarantor of NNB relating to NNB's obligations contained herein;

WHEREAS, NNB desires to grant to SALEM an irrevocable option to acquire the Station Assets, as defined below, in the event that the Counterproposal is granted, provided that the acquisition of the Station Assets is permissible under the FCC's rules, regulations and policies as of the time of exercise of such option, such option to be exercised in accordance with the terms and provisions of this Agreement; and

WHEREAS, SALEM desires to acquire the option provided for in this Agreement;

NOW, THEREFORE, in consideration of these premises and the mutual promises, undertakings, covenants, and agreements of the parties contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by SALEM, LICENSEE, and NNB, the parties hereto, intending to be legally bound, do hereby agree as follows:

ARTICLE I

OPTION

1.1 Grant of Option.

(a) Consideration for Grant of Option. In consideration of the LICENSEE's willingness to accommodate the KAST Upgrade by consenting to make certain changes in KPDQ, and the payment by SALEM to NNB of the sum of One Dollar (the "Option Price"), NNB hereby grants to SALEM an irrevocable option to acquire the Station Assets on the terms specified in this Agreement (the "Option"). The Option Price shall be paid by SALEM in cash within two business days after the execution and delivery of this Agreement.

(b) Counterproposal. NNB has prepared a counterproposal for filing in MB Docket No. 02-136 specifying changes in the FM Table of Allotments as detailed in Exhibit A to implement the KAST Upgrade, as well as changes to other stations (including the KPDQ Change, as defined below) as necessary, for submission to the FCC (the "Counterproposal"). SALEM and LICENSEE shall cooperate fully with NNB in the submission, prosecution, and implementation of the Counterproposal. In connection with the Counterproposal:

(i) LICENSEE agrees to remove the conflict with the KAST Upgrade by changing KPDQ's channel from 229C to 230C2 as specified in Exhibit B hereto ("KPDQ Change"). Upon execution of this Agreement, LICENSEE shall execute a statement of consent to the KPDQ Change in the form attached hereto as Exhibit C. LICENSEE understands and agrees that the statement of consent will be filed by NNB with the FCC in connection with the Counterproposal.

(ii) Following the filing with the FCC of the Counterproposal, NNB will be responsible for the filing of all pleadings deemed necessary or appropriate to prosecute the Counterproposal. SALEM shall be responsible for the preparation of such pleadings and any associated or included engineering statements, and shall select the preparers of such materials. SALEM shall confer with NNB about the progress of the Counterproposal and the necessity or appropriateness of the additional filings; the decision as to the necessity or appropriateness of preparing a filing shall be made jointly. SALEM shall provide NNB with a reasonable opportunity in advance of filing to review and approve, approval not to be unreasonably delayed or withheld, materials prepared by SALEM for filing in connection with the Counterproposal.

(iii) SALEM, LICENSEE, and NNB agree to (A) jointly proceed to prosecute the Counterproposal as set forth in Section 1.1(b)(ii); (B) meet with FCC officials in connection with the prosecution of the Counterproposal, if such meetings are deemed necessary or appropriate by SALEM and NNB jointly; (C) execute and deliver such further documentation as jointly deemed necessary by SALEM and NNB to obtain the FCC's consent to the Counterproposal;

(iv) SALEM and LICENSEE shall (A) within five days after the filing of the Counterproposal, pay to NNB \$100,000, of which \$25,000 shall be timely paid by NNB to McKenzie River Broadcasting Co., Inc. as a payment pursuant to the Ancillary Agreement and

the balance of which (\$75,000) may be applied by NNB to costs and expenses incurred by NNB prior to the date of this Agreement in connection with the Counterproposal such as legal and engineering professional fees; (B) pay directly or reimburse NNB, promptly on demand, for all costs and expenses incurred by NNB pursuant to the terms of Section 1.1(b)(ii) hereof, or otherwise incurred in the course of pursuing this Counterproposal; and (C) pay directly or reimburse NNB, promptly on demand, for payments required to be made under the Ancillary Agreement pursuant to Section 1.1(c), after giving credit for the \$25,000 payment to McKenzie River under clause (A) of this section. SALEM and LICENSEE, however, will only be obligated to reimburse NNB under clause (B) of this section for those engineering and legal expenses incurred after having been approved in advance by SALEM and LICENSEE, which approval will not be unreasonably withheld or delayed.

(v) SALEM and LICENSEE acknowledge that NNB may not be able to receive FCC consent to the Counterproposal if NNB does not obtain the consent or approval of third parties, and NNB's failure to obtain any such consents or approvals will not constitute a breach of this Agreement. However, NNB shall reimburse SALEM and LICENSEE any funds previously advanced to NNB by SALEM or LICENSEE in that event.

(vi) If the FCC issues a Report and Order which consents to and grants the Counterproposal, SALEM shall pay an additional \$25,000 to NNB within five business days thereafter.

(c) Ancillary Agreement. In order for the Upgrade Order, as defined below, to be issued by the FCC, SALEM, LICENSEE, and NNB acknowledge that it will be necessary for NNB to seek the consent of one FM broadcast station from within the list in Exhibit A, in addition to KPDQ and KAQX(FM), to modify its facilities. An agreement to effectuate these modifications (the "Ancillary Agreement") shall be assignable to NNB's successor as licensee of the Station without requiring prior consent of the other party thereto. SALEM shall pay directly or reimburse NNB, promptly on demand, for any payments required to be made under the Ancillary Agreement. NNB agrees that no Ancillary Agreement, or any obligation to pay reimbursements for facility changes, will relate to the modifications to Station KAQX(FM), Long Beach, Oregon (FCC Facility I.D. 38910), as specified in Exhibit A. NNB has furnished a draft of the Ancillary Agreement to SALEM prior to the execution of this Agreement. If the financial terms of the Ancillary Agreement are more onerous to NNB than those contained in the draft agreement furnished to SALEM, NNB will provide SALEM with a reasonable opportunity to review and approve the proposed Ancillary Agreement prior to its execution.

(d) Term. The Option granted in this Agreement may be exercised by SALEM, or its assignee, at any time during the period (the "Option Period") beginning on the day after comments are due in response to public notices issued by the FCC seeking comments and reply comments on any counterproposals filed in connection with MB Docket No. 02-136 and ending 30 days after the date on which the FCC's order consenting to the Counterproposal and ordering the filing of applications to effectuate the KAST Upgrade (the "Upgrade Order") has become a Final Order, as defined below. In the event the Option is not exercised by SALEM, or its assignee, prior to the end of the Option Period, the Option shall expire. The Closing may take place after the Option Period so long as SALEM has validly exercised the Option in accordance with Section 1.1(f) during the Option Period.

(e) Conditions for Exercise of Option. The Option may be exercised at any time during the Option Period in accordance with the provisions of this Agreement, provided that (i) SALEM is legally qualified under the rules, regulations and policies of the FCC to become the licensee of the Station, or (ii) SALEM has furnished evidence reasonably satisfactory to NNB that a waiver of the FCC's rules and regulations would likely be granted in a manner that would permit SALEM to own the Station Assets.

(f) Exercise of Option. The Option shall be exercised by delivering to NNB a written notice of its intent to purchase the Station Assets at any time during the Option Period. Upon exercise of the Option and upon and subject to the terms and conditions stated in this Agreement, at the Closing, NNB shall sell, transfer, convey, assign and deliver to SALEM, and SALEM shall acquire, all of NNB's right, title and interest in the Station Assets, free and clear of any claims, liabilities, security interests, mortgages, liens, pledges, or encumbrances of any nature whatsoever.

(g) Consideration for Purchase of Station Assets. The consideration to be paid by SALEM to NNB for the purchase of the Station Assets pursuant to the Option, not including the Option Price, shall be Eight Million Dollars. The consideration for the purchase of the Station Assets shall be payable in cash or other immediately available funds at the Closing.

(h) Assignability of Option.

(i) This Option and the rights and obligations hereunder may be freely assigned or transferred by SALEM to any third party at any time prior to exercise, with prior notice to NNB; provided that such third-party executes and delivers to NNB an instrument pursuant to which it agrees to be bound by the terms of this Agreement to the same extent as SALEM is so bound. SALEM may assign its right to purchase the Station Assets after exercising the Option and prior to the Closing only if (A) SALEM was legally qualified under the rules, regulations and policies of the FCC to become the licensee of the Station at the time it exercised the Option and (B) after SALEM exercised the Option, a change in applicable law or FCC regulations rendered SALEM unqualified under the rules, regulations and policies of the FCC to become the licensee of the Station. In that event, NNB will not oppose an amendment of the application for FCC Assignment Consent (as defined below) to substitute as the Station's assignee the assignee of SALEM's right to purchase the Station Assets, and shall support that amendment to the extent necessary for it to gain acceptance by the FCC. If such an amendment to the application for FCC Assignment Consent is filed, the twenty-four month period specified in Section 6.3(b) shall not be extended.

(ii) This Agreement shall not terminate upon the sale and/or other transfer of control of the Station by NNB to any succeeding entity, whether or not such entity purchases the assets or the stock of NNB, or whether the entity is related to NNB. If NNB undertakes to assign the Station, or transfer control of the Station, following approval by the FCC, NNB shall require, prior to filing the assignment or transfer of control application with the FCC, either: (a) the assignee of the Station to be bound, or (b) any transferee of control of NNB to affirmatively acknowledge that this Agreement continues to be the binding obligation of NNB, in either case pursuant to documentation reasonably satisfactory to SALEM.

(i) Assumption of Liabilities. At the Closing, SALEM shall assume and agree to perform all obligations associated with the FCC License, including any obligations imposed by the FCC on the licensee of the Station in connection with the Upgrade Order, and all liabilities and obligations of NNB under the Ancillary Agreement. SALEM shall not assume or in any manner be liable for any other duties, responsibilities, obligations or liabilities of NNB of any kind or nature, whether express or implied, known or unknown, contingent or absolute.

(j) Excluded Assets. SALEM acknowledges and agrees that the Station Assets exclude, and SALEM shall have no right to purchase, any assets used, useful, held for use in the operation of the Station, other than the FCC License and the items of tangible personal property specifically described in the definition of "Station Assets." SALEM acknowledges and agrees that the Station Assets exclude, and SALEM shall have no right to purchase, the following assets of the Station:

(i) all equipment, parts, supplies, furniture, fixtures and other tangible personal property (other than that specifically described in the definition of "Station Assets");

(ii) all interests of NNB in real property including, the transmitting facilities;

(iii) all governmental permits, licenses and authorizations (other than the FCC License), and the call letters "KAST";

(iv) all contracts and other agreements relating to the operation of the Station;

(v) all books, records, accounts, files, logs, ledgers, and reports of the Station; and

(vi) all cash, cash equivalents, cash deposits, accounts receivable, bank deposits, and securities of NNB.

ARTICLE II

OTHER PROVISIONS

2.1 FCC Consent to Assignment. NNB and SALEM shall file with the FCC, within ten business days after SALEM's exercise of the Option an application to obtain the consent of the FCC to the assignment of the FCC License from NNB to SALEM (the "FCC Assignment Consent"). NNB and SALEM shall take all commercially reasonable steps necessary to prosecute such application with diligence and shall diligently oppose any objections to the FCC Assignment Consent, to the end that the FCC Assignment Consent may be obtained as soon as practicable.

2.2 Control of Station. Between the date of this Agreement and the Closing, SALEM shall not control, manage or supervise the operation of the Station or conduct of its business, all of which shall remain the sole responsibility and under the control of NNB.

2.3 Prosecution of Counterproposal. NNB shall diligently prosecute the Counterproposal and shall not voluntarily dismiss the Counterproposal without SALEM's prior consent. Additionally, NNB shall diligently enforce the terms of the Ancillary Agreement.

2.4 KPDQ Change.

(a) Within thirty days after the FCC's issuance of the Upgrade Order, LICENSEE, in cooperation and consultation with NNB, shall file with the FCC an application for a construction permit (the "KPDQ Permit") authorizing the KPDQ Change (the "KPDQ Change Application").

(b) After the FCC's grant of the KPDQ Change Application and issuance of the KPDQ Permit, LICENSEE, in consultation with NNB, shall commence construction of the facilities authorized by the KPDQ Permit. LICENSEE shall not be required by this Section 2.4(b) to commence construction of the facilities authorized by the KPDQ Permit earlier than thirty days after NNB notifies LICENSEE that it has commenced construction of the KAST Upgrade pursuant to Section 2.5(c). LICENSEE shall use commercially reasonable efforts to complete construction as promptly as possible and in no event later than four months after the date construction commences.

(c) On or before a date to be specified by NNB, which will not be earlier than sixty days after NNB completes construction of the KAST Upgrade pursuant to Section 2.5(c), LICENSEE shall commence broadcast operations on Channel 230C2 pursuant to program test authority and notify the FCC regarding commencement of such operations. Within ten days after LICENSEE's commencement of broadcast operations on Channel 230C2 pursuant to program test authority, LICENSEE shall file with the FCC an application for license to cover the KPDQ Permit (the "KPDQ License Application"). For purposes of this Agreement, the KPDQ Change Application and the KPDQ License Application shall be collectively referred to as the "Implementation Applications."

(d) LICENSEE shall use diligent efforts to obtain the FCC's grant of the Implementation Applications, including the filing of any amendments, letters, or pleadings responding to FCC objections or requests, opposing any third-party counterproposals or objections, and seeking the consent or approval (if any) of any third party.

(e) The parties agree to cooperate in the prosecution of the Implementation Applications and will execute and deliver to the other party any documents reasonably necessary to obtain the FCC's grant of the Implementation Applications.

(f) LICENSEE shall retain ultimate responsibility for the preparation and prosecution of the Implementation Applications and the completion of the KPDQ Change.

(g) Nothing in this Agreement shall obligate LICENSEE to (i) pursue judicial review of the FCC's denial of either of the Implementation Applications; (ii) accept, agree, or accede to any material adverse conditions imposed in connection with the FCC's approval of either of the Implementation Applications; or (iii) accept, agree, or accede to a construction permit or license for KPDQ that does not authorize facilities and service as set forth in Exhibit B hereto.

(h) The provisions of this Section 2.4 shall survive the Closing and the termination of this Agreement by NNB pursuant to Section 6.3(a), Section 6.3(b), or Section 6.3(c).

2.5 KAST Upgrade.

(a) Within thirty days after the FCC's issuance of the Upgrade Order, NNB shall file with the FCC an application for a construction permit (the "KAST Permit") to effectuate the KAST Upgrade (the "KAST Upgrade Application"). The transmitter site specification and technical proposal in the KAST Upgrade Application must be approved by SALEM and LICENSEE prior to NNB's filing of the KAST Upgrade Application, which approval will not be unreasonably withheld or delayed.

(b) NNB shall use diligent efforts to obtain the FCC's grant of the KAST Upgrade Application, including the filing of any amendments, letters, or pleadings responding to FCC objections or requests, opposing any third-party counterproposals or objections, and seeking the consent or approval (if any) of any third party. Nothing in this Agreement shall obligate NNB to (i) pursue judicial review of the FCC's denial of the KAST Upgrade Application; (ii) accept, agree, or accede to any material adverse conditions imposed in connection with the FCC's approval of the KAST Upgrade Application; or (iii) accept, agree, or accede to a construction permit or license for KAST that does not authorize facilities and service as set forth in Exhibit E hereto.

(c) If the Closing has not occurred on or before the date that is one year prior to the expiration of the KAST Permit (taking into account the tolling provisions of Section 73.3598 of the FCC's rules), NNB at its option may commence construction of the facilities authorized by the KAST Permit. After completing construction of the KAST Upgrade, but not before LICENSEE's commencement of broadcast operations on Channel 230C2 pursuant to Section 2.4(c), NNB shall commence broadcast operations in accordance with the KAST Permit pursuant to program test authority and notify the FCC regarding commencement of such operations. Within ten days after NNB's commencement of such broadcast operations, NNB shall file with the FCC an application for license to cover the KAST Permit. Prior to becoming bound to any contract or other agreement proposed to be entered into by NNB to facilitate the construction authorized by the KAST Permit, including any lease or any agreement requiring capital expenditures, NNB will provide SALEM with a reasonable opportunity to review and approve the proposed agreement. SALEM's approval of any such proposed agreement shall not be unreasonably withheld or delayed. All such agreements shall be assignable by NNB to SALEM and LICENSEE upon the sale of the Station Assets.

(d) If the Option has not expired prior to being exercised, SALEM and LICENSEE shall reimburse NNB, promptly on demand, for all reasonable and prudent costs and expenses incurred by NNB in connection with the actions described in this Section 2.5.

2.6 Enforcement of Ancillary Agreement. NNB acknowledges that, prior to the assignment of the Ancillary Agreement to SALEM at Closing, it has the sole responsibility to enforce the terms and conditions of the Ancillary Agreement.

2.7 DISCLAIMER. SALEM ACKNOWLEDGES AND AGREES THAT, EXCEPT FOR THE FCC LICENSES, ALL OF THE STATION ASSETS ARE BEING SOLD ON AN “AS IS, WHERE IS” BASIS, AND NNB DISCLAIMS AND SALEM WAIVES ALL WARRANTIES, GUARANTIES, INDEMNITIES OR REPRESENTATIONS OF ANY KIND OR NATURE, EITHER EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO THE STATION ASSETS (INCLUDING ANY REPRESENTATION WITH RESPECT TO THE CONDITION OF ANY OF THE STATION ASSETS, ANY OBLIGATION OR LIABILITY IN TORT, NEGLIGENCE, OR WITH RESPECT TO FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY, LOSS OF USE OR PROFITS, OR CONSEQUENTIAL DAMAGES, AND ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING, OR USAGE OF TRADE).

2.8 Construction of Modified Facilities. NNB and SALEM agree that, in the event that the Upgrade Order is granted and SALEM exercises the Option and purchases the Station Assets, SALEM will be solely responsible for the construction of the KAST Upgrade (other than construction undertaken by NNB pursuant to Section 2.5(c)).

2.9 Repayment. If SALEM and LICENSEE have paid or reimbursed NNB for either or both of (a) payments due under the terms of the Ancillary Agreement, or (b) costs and expenses incurred by NNB in connection with the actions described in this Section 2.5, and the Option terminates without SALEM or its assignee having acquired the Station Assets (including the FCC License), then NNB and SALEM shall in good faith negotiate and enter into an agreement containing commercially reasonable terms for the repayment by NNB to SALEM of all such payments and reimbursements, excluding the initial payment of \$25,000.00 to be made under the terms of the Ancillary Agreement. This Section 2.9 shall not apply, and NNB shall have no obligation to repay any such payments and reimbursements, if (a) the Option terminates without SALEM or its assignee having acquired the Station Assets as a result of either (a) a default by SALEM or LICENSEE of its obligations under this Agreement or (b) the Upgrade Order having been reversed, set aside, annulled, or otherwise invalidated after the payment or reimbursement was made by SALEM or LICENSEE.

ARTICLE III

REPRESENTATIONS, WARRANTIES, AND COVENANTS

3.1 NNB’s Representations and Warranties. NNB represents and warrants to SALEM and LICENSEE as follows:

(a) Capacity. NNB is a limited liability company duly organized and in good standing under the laws of the State of Washington and has full power and authority to own its property, licenses, and permits and to carry out all of the transactions contemplated by this Agreement.

(b) Compliance with Law. NNB has complied in all material respects with all laws, rules, and regulations governing the business, ownership, and operation of the Station that are material in any way to this Agreement. The execution, delivery and performance of this

Agreement by NNB will not result in any violation of, or be in conflict with, any judgment, decree, order, statute, law, rule, or regulation of any governmental authority applicable to NNB. Neither the execution and delivery by NNB of, nor the performance by NNB of its obligations under, this Agreement, upon the giving of notice or the lapse of time or both, violates or would violate, conflicts with or would conflict with, or constitutes or would constitute, grounds for declaring a breach of or default under, or for accelerating any performance required under, any contract, agreement, lease, license, permit, franchise, indenture, or other instrument to which NNB is subject or by which NNB or any substantial part of its property (including, without limitation, the Station) is bound.

(c) Authorization; Binding Obligation. All requisite corporate resolutions and other authorizations necessary for the execution, delivery, performance, and satisfaction of this Agreement by NNB have been duly obtained, adopted, and complied with. This Agreement constitutes a legal, valid and binding obligation as to NNB, and is enforceable against NNB in accordance with its terms, except as the enforceability of this Agreement may be affected by bankruptcy, insolvency or similar laws affecting creditors' rights generally or by the application of general equitable principles.

(d) Misrepresentation of Material Fact. No representation or warranty made by NNB to SALEM or LICENSEE in this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein not misleading.

(e) FCC License. NNB is the holder of the FCC License, and the FCC License is valid, in good standing, and in full force and effect. NNB has no knowledge of (i) any matters that could reasonably be expected to result in the suspension or revocation of or the refusal to renew the FCC License or the imposition of any fines or forfeitures by the FCC, or (ii) any proceedings against NNB that could reasonably be expected to result in the FCC's refusal to grant approval of the assignment to SALEM of the FCC License or the imposition of any material adverse condition in connection with approval of such assignment.

3.2 SALEM's Representations and Warranties. SALEM and LICENSEE jointly and severally represent and warrant to NNB as follows:

(a) Organization. SALEM is a corporation duly organized and in good standing under the laws of the State of Delaware and has full corporate power and authority to own its property and to carry out all of the transactions contemplated by this Agreement. LICENSEE is a corporation duly organized and in good standing under the laws of the State of Delaware, and has full corporate power and authority to own its property and to carry out all of the transactions contemplated by this Agreement.

(b) Compliance with Law. Each of SALEM and LICENSEE has complied in all material respects with all laws, rules, and regulations that are material in any way to this Agreement. The execution, delivery and performance of this Agreement by each of SALEM and LICENSEE will not result in any violation of, or be in conflict with, any judgment, decree, order, statute, law, rule, or regulation of any governmental authority applicable to either SALEM or LICENSEE. Neither the execution and delivery by SALEM and LICENSEE of, nor the

performance by SALEM and LICENSEE of their obligations under, this Agreement, upon the giving of notice or the lapse of time or both, violates or would violate, conflicts with or would conflict with, or constitutes or would constitute, grounds for declaring a breach of or default under, or for accelerating any performance required under, any contract, agreement, lease, license, permit, franchise, indenture, or other instrument to which either SALEM or LICENSEE is subject or by which either SALEM or LICENSEE or any substantial part of their respective properties (including, without limitation, KPDQ) is bound.

(c) Authorization; Binding Obligation. All requisite corporate resolutions and other authorizations necessary for the execution, delivery, performance, and satisfaction of this Agreement by each of SALEM and LICENSEE have been duly obtained, adopted, and complied with. This Agreement constitutes a legal, valid and binding obligation as to each of SALEM and LICENSEE, and is enforceable against each of SALEM and LICENSEE in accordance with its terms, except as the enforceability of this Agreement may be affected by bankruptcy, insolvency or similar laws affecting creditors' rights generally or by the application of general equitable principles.

(d) Misrepresentation of Material Fact. No representation or warranty made by SALEM or LICENSEE to NNB in this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein not misleading.

3.3 NNB's Affirmative Covenant. NNB covenants and agrees that it will comply in all material respects with all applicable federal, state, and local laws, rules, and regulations (including, without limitation, all FCC rules, policies, and regulations) in the performance by NNB of any of its obligations under this Agreement.

3.4 Affirmative Covenant of SALEM and LICENSEE. Each of SALEM and LICENSEE covenants and agrees that it will comply in all material respects with all applicable federal, state, and local laws, rules, and regulations (including, without limitation, all FCC rules, policies, and regulations) in the performance by it of any of its obligations under this Agreement.

ARTICLE IV

CLOSING

4.1 Time and Place. Unless otherwise agreed to in advance by the parties, the Closing shall take place in person or via facsimile at the offices of NNB's counsel in Washington, D.C., at 10:00 o'clock A.M. Eastern Time on the first business day that is at least ten days after issuance of the FCC Assignment Consent has become a Final Order, as defined below, unless SALEM and LICENSEE, at their sole discretion, waive the requirement that the FCC Assignment Consent have become a Final Order.

4.2 Documents to Be Delivered to SALEM by NNB. At the Closing, NNB shall deliver or cause to be delivered to SALEM the following:

(a) An instrument assigning to SALEM all right, title and interest of NNB in the FCC License.

(b) A bill of sale transferring to SALEM all right, title and interest of NNB in all other Station Assets.

(c) An instrument assigning the Ancillary Agreement to SALEM.

(d) A certificate, dated as of the date of the Closing, executed by NNB, certifying that all representations and warranties of NNB contained in this Agreement are true in all material respects on and as of the date of the Closing as if made on that date.

(e) Such additional information and materials relating to the Closing and the performance of this Agreement as SALEM shall have reasonably requested.

4.3 Documents to Be Delivered to NNB by SALEM. At the Closing, SALEM shall deliver or cause to be delivered to NNB the following:

(a) The balance of the consideration for the purchase of the Station Assets as set forth in Section 1.1(g).

(b) An agreement of SALEM assuming all obligations associated with the FCC License, including any obligations imposed by the FCC on the licensee of the Station in connection with the Upgrade Order, and all liabilities and obligations of NNB under the Ancillary Agreement.

(c) A certificate, dated as of the date of the Closing, executed by SALEM and LICENSEE, certifying that all representations and warranties of SALEM and LICENSEE contained in this Agreement are true in all material respects on and as of the date of the Closing as if made on that date.

(d) Such additional information and materials relating to the Closing and the performance of this Agreement as NNB shall have reasonably requested.

ARTICLE V

DEFINITIONS

The following terms, as used in this Agreement, have the meanings set forth in this Section:

“Closing” means the consummation of the purchase and sale of the FCC License and the other Station Assets in accordance with this Agreement.

“FCC” means the Federal Communications Commission.

“FCC License” means the main station authorization issued by the FCC for the operation of the Station.

“Final Order” means a decision or action by the FCC that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which no timely petition for

reconsideration or administrative or judicial appeal or sua sponte review by the FCC is pending and as to which the time for filing any such petition or appeal (administrative or judicial) or for the taking of any such sua sponte action by the FCC has expired.

“Station Assets” means the FCC License and the items of tangible personal property listed on Exhibit D, excluding any listed item that is disposed of by NNB in the ordinary course of business after the date of this Agreement and prior to the Closing, and plus any item of tangible personal property acquired by NNB to replace any item listed on Exhibit D that is disposed of by NNB.

ARTICLE VI

MISCELLANEOUS

6.1 Force Majeure. Notwithstanding anything contained in this Agreement to the contrary, no party shall be liable to any other party for a failure to perform any obligation under this Agreement (nor shall any charges or payments be made in respect thereof), if such party shall be prevented from doing so by reason of fires, strikes, labor unrest, embargoes, civil commotion, rationing, or other orders or requirements, acts of civil or military authorities, acts of God, or other contingencies beyond the reasonable control of the parties, including equipment failures; and all provisions herein requiring performance within a specified period shall be deemed to have been modified in order to toll or to extend the period in which such performance shall be required, in order to accommodate the period of the pendency of such contingency which shall prevent such performance.

6.2 Specific Performance. Each of the parties acknowledges that the subject matter of this Agreement is unique and that there is no adequate remedy at law if any party hereto fails to perform any of its obligations hereunder, and the parties hereto therefore confirm and agree that their respective rights to specific performance are essential to protect its rights and interests. Accordingly, in addition to any other remedies which any party may have hereunder or at law or in equity or otherwise, the parties agree that any party hereto shall have the right to have all obligations, undertakings, agreements and other provisions of this Agreement specifically performed by each other party and that such first party shall have the right to obtain an order or decree of such specific performance in any of the courts of the United States or of any state or other political subdivision thereof.

6.3 Termination of Agreement by NNB.

(a) Following the exercise of the Option, this Agreement may be terminated by NNB and the sale and transfer of the Station Assets abandoned, upon written notice to SALEM, if NNB is not then in material default hereunder and SALEM fails to make the deliveries required by Section 4.3 on the date on which the Closing is scheduled to occur.

(b) Following the exercise of the Option, this Agreement may be terminated by NNB (and the sale and transfer of the Station Assets abandoned), upon written notice to SALEM, if NNB is not then in material default hereunder and the Closing has not occurred within twenty-four months after SALEM's exercise of the Option.

(c) This Agreement may be terminated by NNB (and, if the Option has been exercised, the sale and transfer of the Station Assets abandoned), upon written notice to SALEM, if NNB is not then in material default hereunder and SALEM or LICENSEE shall have defaulted in any material respect in the performance of any of their obligations under this Agreement, and such default was not cured within thirty days after NNB delivers written notice thereof to SALEM.

(d) This Agreement may be terminated by NNB, upon written notice to SALEM, if the FCC fails to issue the Upgrade Order without material adverse conditions to NNB prior to the fifth anniversary of the date of this Agreement.

(e) This Agreement may be terminated by NNB, upon written notice to SALEM, if the FCC issues an order denying the Counterproposal.

6.4 Notices. All notices, demands or other communications given hereunder shall be in writing and shall be sufficiently given if delivered by courier or sent by registered or certified mail, first class, postage prepaid, or by facsimile machine or similar written means of communication, addressed as follows:

If to NNB or NNB Holdings:

New Northwest Broadcasters LLC
15405 S.E. 37th Street
Suite 130
Bellevue, WA 98006
Attention: Trila Bumstead, Chief Financial Officer
Fax No. (425) 653-2454

with a copy to (which copy alone shall not constitute notice for the purposes of this Agreement):

Dow, Lohnes & Albertson, PLLC
1200 New Hampshire Avenue, N.W.
Suite 800
Washington, D.C. 20036-6802
Attention: M. Anne Swanson
Fax No. (202) 776-2222

If to SALEM or LICENSEE

c/o Salem Communications Holding Corporation
4880 Santa Rosa Road, Suite 300
Camarillo, California 93012
Attention: Jonathan L. Block, General Counsel
Fax No. (805) 384-4505

with a copy to (which copy alone shall not constitute notice for the purposes of this Agreement):

Fletcher, Heald & Hildreth, PLC
1300 N. 17th St., 11th Floor
Arlington, VA 22209
Attention: James P. Riley
Fax No. (703) 812-0486

or to such other address as any party shall have designated by notice to the other party

conforming to the requirements of this Section 6.4. Any such notice, request, demand or communication shall be deemed to have been given on the date received.

6.5 Press Releases. Except as may be required by law or by any governmental agency, no announcement to the press or to any third party of the transactions contemplated herein shall be made by any party to this Agreement, unless such announcement shall have been approved in advance in writing by both NNB and SALEM. LICENSEE understands and agrees that this Agreement will be filed by NNB with the FCC.

6.6 Severability. If any provision of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remainder of this Agreement shall not be affected thereby, and the parties shall use their best efforts to negotiate a replacement for any such provision that shall be neither invalid, illegal, or unenforceable.

6.7 Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to its subject matter and supersedes all prior representations, negotiations, agreements, and understandings of the parties, oral and written, with respect to the subject matter hereof, all of which are deemed to have been merged herein. This Agreement may be modified only by an agreement in writing executed by all of the parties hereto.

6.8 Survival. All representations, warranties, covenants, and agreements made herein by the parties hereto or in any certificate delivered or to be delivered hereunder or made or to be made in writing in connection with the transactions contemplated herein shall survive the execution and delivery of this Agreement.

6.9 Payment of Expenses. Except as otherwise specifically provided herein, each party shall pay its own expenses incident to the preparation and carrying out of this Agreement, including all fees and expenses of its counsel. All provisions of this Agreement regarding the payment or reimbursement of expenses shall survive the termination of this Agreement for any reason; provided, however, that any request for reimbursement shall be submitted to SALEM or LICENSEE within 60 days after the Closing.

6.10 Additional Actions and Documents. Each of the parties hereto agrees to take or cause to be taken such further actions and to execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments, and to obtain such consents, as may be necessary or as may be reasonably requested in order to fully effectuate the purposes, terms and conditions of this Agreement.

6.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

6.12 Headings. The headings in this Agreement are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Agreement.

6.13 Dealings with Third Parties. No party is, nor shall hold itself out to others to be, vested with any power, authority, or right to bind contractually or to act on behalf of any other

party as its broker, agent, or otherwise for the purpose of committing, selling, conveying, or transferring any of the other party's assets or property, contracting for or in the name of the other party, or making any representations binding upon such other party.

6.14 Governing Law. This Agreement shall be governed by, and enforced and construed under and in accordance with, the internal laws of the State of Oregon, without giving effect to the choice-of-law principles of said State.

6.15 Guarantee. By executing this Agreement, NNB Holdings guarantees the full, complete, and timely performance by NNB of each of its obligations under this Agreement. NNB Holdings is a party to this Agreement solely for purposes of this Section 6.15.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

NEW NORTHWEST BROADCASTERS, LLC

By: MM
Name: Michael Nibran
Title: Authorized Officer

SALEM COMMUNICATIONS HOLDING CORPORATION

By: _____
Name:
Title:

SALEM MEDIA OF OREGON, INC.

By: _____
Name:
Title:

As guarantor of the obligations of NNB pursuant to Section 6.15 only:

NNB HOLDINGS, LLC

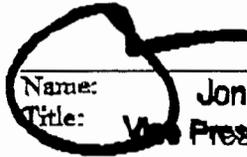
By: MM
Name: Michael Nibran
Title: Authorized Officer

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

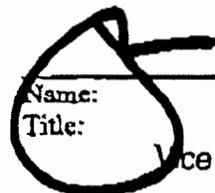
NEW NORTHWEST BROADCASTERS, LLC

By: _____
Name:
Title:

SALEM COMMUNICATIONS HOLDING CORPORATION

By:  _____
Name: Jonathan L. Block
Title: Vice President and Secretary

SALEM MEDIA OF OREGON, INC.

By:  _____
Name: Jonathan L. Block
Title: Vice President and Secretary

As guarantor of the obligations of NNB pursuant to Section 6.15 only:

NNB HOLDINGS, LLC

By: _____
Name:
Title:

EXHIBIT A

Counterproposal

<u>CALL SIGN</u>	<u>DELETE</u>	<u>CITY, STATE</u>	<u>ADD</u>	<u>REFERENCE COORDINATES (NAD 27)</u>
KAST-FM	225 C1	Astoria, OR		46-10-56, 123-48-09
KAST-FM		Gladstone, OR	226C3	45-32-27, 122-33-51
KPDQ-FM	229C	Portland, OR		49-29-20, 122-41-40
KPDQ-FM		Portland, OR	230C2	45-30-58, 122-43-59
KTIL-FM	231C3	Tillamook, OR	232C3	45-27-59, 123-55-11
KAQX	232A	Long Beach, WA	224A	46-18-51, 124-03-07
KKNU	226C	Springfield-Eugene, OR	227C	44-00-04, 123-06-45
KDCQ	228A	Coos Bay, OR	225A	43-21-15, 124-14-34
		Manzanita, OR	228C3	45-41-05, 123-54-38
		Ilwaco, WA	259A	46-18-33, 124-02-31
		Trout Lake, WA	236A	46-03-10, 121-33-47

EXHIBIT B

KPDQ Change

Community of License:
Channel and Class:
Reference Coordinates:

Portland, Oregon
230C2
45°30'58"N, 122°43'59"W (NAD 27)

Station KPDQ-FM
Portland, Oregon

Salem Media of Oregon, Inc. ("Licensee"), licensee of FM Radio Station KPDQ-FM, Channel 229C, Portland, Oregon ("KPDQ") hereby consents in the context of MB Docket No. 02-136 to the modification of KPDQ's license to change its channel to Channel 230C2 at reference coordinates 45°30'58"N and 122°43'59"W (NAD 27). Licensee will file such applications as are necessary to implement this change in the event the Federal Communications Commission approves the change. Licensee hereby affirms that it has entered into a binding agreement with New Northwest Broadcasters LLC whereby it will receive consideration sufficient to reimburse Licensee for its costs in implementing these changes.

Licensee understands that this statement may be used in a filing with the Federal Communications Commission, and it hereby authorizes its use for this purpose. I verify that this statement is true and accurate to the best of my knowledge, information and belief and that this statement is made in good faith.

SALEM MEDIA OF OREGON, INC.

By: _____

Name: Jonathan L. Block

Title: Vice President and Secretary

Date: July 29, 2002

EXHIBIT D

Station Assets

Studio automation system
Music library

EXHIBIT E

KAST Upgrade

Community of License:	Gladstone, Oregon
Channel and Class:	226C3
Reference Coordinates:	45° 32' 57"N, 122° 33' 51"W (NAD 27)