

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER 000-26497

SALEM MEDIA GROUP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)



DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

77-0121400
(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

4880 SANTA ROSA ROAD
CAMARILLO, CALIFORNIA
(ADDRESS OF PRINCIPAL
EXECUTIVE OFFICES)

93012
(ZIP CODE)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of the Exchange on which registered
Class A Common Stock, \$0.01 par value per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if 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

As of June 30, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$76,710,413 based on the closing sale price as reported on the NASDAQ Global Market.

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 February 24, 2017
Common Stock, \$0.01 par value per share	20,455,572 shares
Class B	Outstanding at February 24, 2017
Common Stock, \$0.01 par value per share	5,553,696 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders	Part III, Items 10, 11, 12, 13 and 14

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CERTAIN DEFINITIONS

Unless the context requires otherwise, all references in this report to “Salem” or the “company,” including references to Salem by “we” “us” “our” and “its” refer to Salem Media Group, Inc. and our subsidiaries.

All metropolitan statistical area (“MSA”) rank information used in this report, excluding information concerning The Commonwealth of Puerto Rico, is from the Fall 2016 Radio Market Survey Schedule & Population Rankings published by Nielsen Audio (“Nielsen”). According to the Radio Market Survey, the population estimates are based upon the 2010 U.S. Bureau Census estimates updated and projected to January 1, 2017 by Nielsen.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Salem Media Group, Inc. (“Salem” or the “company,” including references to Salem by “we,” “us” and “our”) makes “forward-looking statements” from time to time in both written reports (including this report) and oral statements, within the meaning of federal and state securities laws. Disclosures that use words such as the company “believes,” “anticipates,” “estimates,” “expects,” “intends,” “will,” “may,” “intends,” “could,” “would,” “should” “seeks” “predicts,” or “plans” and similar expressions are intended to identify forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995.

You should not place undue reliance on these forward-looking statements, which reflect our expectations based upon data available to the company as of the date of this report. 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. 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 and other 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

ITEM 1. BUSINESS.

CORPORATE INFORMATION

Salem Media Group, Inc. (“Salem”) is a domestic multimedia company specializing in Christian and conservative content, with media properties comprising radio broadcasting, digital media, and publishing. Effective February 19, 2015, we changed our name from Salem Communications Corporation to Salem Media Group, Inc. Salem was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Our content is intended for audiences interested in Christian and family-themed programming and conservative news talk. Our filings with the Securities and Exchange Commission (“SEC”) are available under the Investor Relations section of our website at www.salemmmedia.com. Any information found our website is not a part of, or incorporated by reference into, this or any report of Salem filed with, or furnished to the SEC.

SEGMENT INFORMATION

We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which also qualify as reportable segments. Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assess the performance of each operating segment and determine the appropriate allocations of resources to each segment. We continually review our operating segment classifications to align with operational changes in our business and may make changes as necessary.

We measure and evaluate our operating segments based on operating income and operating expenses that do not include allocations of costs related to corporate functions, such as accounting and finance, human resources, legal, tax and treasury, which are reported as unallocated corporate expenses in our consolidated statements of operations included in this annual report on Form 10-K. We also exclude costs such as amortization, depreciation, taxes and interest expense.

During the third quarter of 2016, we reclassified Salem Consumer Products, our e-commerce business that sells books, DVD’s and editorial content developed by our on-air personalities, from our Digital Media segment to our Broadcast segment. This reclassification was to consolidate all revenue and expenses generated by on-air hosts, which includes broadcast programs and e-commerce product sales, to better assess the financial performance of each network program. This reclassification did not impact the reporting units used to test non-amortizable assets for impairment. All prior periods presented are updated to reflect this new composition of our operating segments. Refer to Note 20 – Segment Data in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for additional information.

BUSINESS STRATEGY

We are fundamentally committed to programming and content emphasizing Christian values, conservative family themes and news. Our commitment to these values means that we may choose not to switch to other formats or pursue potentially more profitable business opportunities in response to changes in audience preferences.

Our goal is to produce and deliver compelling content to audiences interested in Christian and family-themed programming and conservative news talk to be considered the market leader for all audiences, programmers and advertisers. Our integrated multimedia platform includes traditional forms of media, such as radio broadcasting, print magazines and book publishing as well as emerging forms of media, such as websites and digital publications. We continually pursue expansion of our media platform as the marketplace evolves while aggressively managing operating costs and cash flows. Expansion opportunities for our media platform include increasing the strength and reach of our broadcast signals, investing in and building Internet websites, promoting our authors and on-air talent, and increasing the distribution and page views for our print and digital content. Our national presence in each of these mediums provides advertisers and programmers with a powerful and integrated platform to reach audiences throughout the United States without compromising the sense of community involvement and branding that we generate locally with sponsored events and promotions.

Broadcasting

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. Our radio stations carry national and local programming content as well as advertising from national and local customers. We produce and sponsor a number of community events that we believe are important in building our brand identity. We also believe that our active community involvement, including remote broadcasts, client events, concerts and tie-ins to major events, builds station awareness and listener loyalty. We promote our station websites on-air and at community events to direct participants to our websites specifically designed for each of our radio stations. Our audiences can access our entire library of digital content and online publications from any of our station websites.

To operate our broadcast entities efficiently, we assemble market clusters, or multiple radio stations operating within the same geographic market. Several benefits are achievable when operating market clusters. First, we are able to offer advertisers and programmers access to multiple audiences by providing airtime on each radio station in that market when advantageous. Second, we realize cost and operating efficiencies by consolidating sales, technical and administrative support, promotional functions and other shared overhead costs such as rent, when possible. Third, the addition of new radio stations into existing markets allows us to leverage our hands-on knowledge of that market to increase our appeal to new audiences and advertisers.

Salem Radio Network® and Salem Media Representatives™

Our broadcasting operation includes our national network of affiliated radio stations. Salem Radio Network® (“SRN”), based in Dallas, Texas, develops, produces and syndicates a broad range of programming specifically targeted to Christian and family-themed talk stations, music stations and News Talk stations. SRN delivers programming via satellite to approximately 2,900 affiliated radio stations throughout the United States, including several of our Salem-owned stations. We also own and operate SRN News Network (“SNN”), Today’s Christian Music (“TCM”) and Singing News Network (formerly Solid Gospel Network), which are radio networks that produce and distribute talk, news and music programming to radio stations throughout the United States, including several of our Salem-owned stations.

Salem Media Representatives™ (“SMR”) is our national advertising sales firm with offices in nine U.S. cities. SMR specializes in placing national advertising on religious and other format commercial radio stations. SMR sells commercial airtime to national advertisers on our radio stations and through our networks, as well as for independent radio station affiliates.

National companies often prefer to advertise across the United States as an efficient and cost effective way to reach their target audiences. Advertisers can benefit from our national platform under which we offer radio airtime, digital advertisements, and print magazine advertisements that reach audiences throughout the United States. SRN and our radio stations each have relationships with SMR for the sale of available SRN spot advertising. SMR also contracts with individual radio stations to sell airtime to national advertisers desiring to include selected Salem stations in national buys covering multiple markets.

Digital Media

Our digital strategy is to continue to build a robust web-based platform designed for audiences interested in Christian and family-themed content and conservative news. The Internet continues to change the way in which media is delivered to audiences. Continual advancements with online search engines and social media sites provide consumers with numerous methods to locate specific information and content online. These advancements have also enabled a large number of individuals to create and publish content that may or may not be tailored to a specific consumer. Our editorial staff, including our on-air personalities, provides web-based commentaries, programs, text, audio and video content that we believe to be knowledge-based, credible and reliable. Our highly specific web-based content provides advertisers a unique and powerful way to reach their targeted audiences.

Publishing

Our publishing strategy mirrors that of our other operating segments— to build and maintain a distribution network targeting audiences interested in Christian and family-themed content as well as conservative news. Our publishing operating segment is comprised of three businesses: (1) Regnery Publishing is a traditional book publisher that has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, David Limbaugh, Ed Klein, Mark Steyn and Dinesh D'Souza; (2) Salem Author Services, our self-publishing services for authors through Xulon Press and Hillcrest Media; and (3) Salem Publishing™ which produces and distributes five print magazines and one digital magazine.

Audience Growth

The continued success of our business is dependent upon our ability to reach a growing audience. We seek growth opportunities through increases in the strength and number of our broadcast signals, increases in the number of page-views on our digital platform, increases in book sales and increases in our subscriber base for digital content and print magazines. To accomplish this, we produce content that we believe is both compelling and of high commercial value based on our market testing and understanding of our audience. We rely on a combination of research, marketing, targeted promotions and live events to create visibility and brand awareness in each of our markets. By maximizing our audience share, we can achieve growth in ratings and page turns that we convert into advertising revenues. To maximize results, we cross-promote our content on each of our media platforms to enhance our brand names and reach our targeted audiences. We believe that the growth of our media platform and audience provides advertisers with effective methods to reach a growing audience.

Technical Improvements

We continually seek ways to expand our media reach from a technological perspective. For broadcasting, we seek growth opportunities by increasing the strength and number of our broadcast signals that allows us to reach listeners from our day and night signals. During the year ended December 31, 2016, we acquired or entered into agreements to acquire several FM translators and FM translator construction permits. Construction permits provide authority to construct new FM translators or make changes in our existing facilities. We believe that securing these FM translators and construction permits allows us to increase our audience by providing enhanced coverage and reach in existing AM broadcast markets. FM translators allow our AM stations to be heard on FM and expand the listenership of our FM HD channels with the potential to create new stations using the HD-2, HD-3 and HD-4 channel capacity. We continue to build or purchase websites that allow our audiences to view our content online or through digital streaming. Our digital content is available on numerous iPhone® and Android applications. Each of our radio stations, as well as several of our websites, have iPhone® and Android applications that can be used to view our content or digital streaming on mobile devices.

Sales Professionals

We have assembled an effective, highly trained sales staff that is responsible for converting our audience share into revenue. We operate a focused, sales-oriented culture that rewards selling efforts through a commission and bonus compensation structure. We hire sales professionals that are capable of selling both integrated and stand-alone advertisements. We provide our sales professionals with the tools and resources necessary to compete effectively in the marketplace. We sell and market our platforms as stand-alone products or in combination with other offerings. Based on our experience, we tailor our platform to meet each advertiser's needs, including the geographic coverage area, event sponsorships and special features, digital promotions, e-mail sponsorships, and/or print advertisements.

Significant Community Involvement

We expect our public image to reflect the lifestyle and viewpoints of the target demographic groups that we serve. We regularly collaborate with organizations that serve Christian and family-themed audiences as well as sponsor and support events that are important to this group. We believe that our ongoing active involvement and our strong relationships within the Christian community provide us with a unique competitive advantage that significantly improves the marketability of our media platform to advertisers and programmers targeting such communities. Our sponsored events include listener rallies, speaking tours, pastor appreciation events and concerts such as our *Celebrate Freedom*® Music Festivals and *Fishfest*®. Local events such as these connect us with our audience and enable us to create an enhanced awareness and name recognition in each of our markets. With this involvement, we can increase the effectiveness of developing and improving our programming, which can contribute to a greater audience share and higher ratings over time.

Corporate Structure

Management of our operations is largely decentralized with operational vice presidents and general managers located throughout the United States. We believe that this decentralization encourages each general manager and vice president to apply innovative techniques for improving and growing their operations locally in ways that may be transferable to benefit other markets and operations.

Our broadcast operations vice presidents, some of whom are also station general managers, are experienced radio broadcasters with expertise in sales, programming, marketing and production. Each of our broadcast operations vice presidents oversees several markets on a regional basis. Our digital and publishing operations vice presidents and general managers are also located throughout the United States in locations in which each of our entities operates.

All of our operations receive executive leadership and oversight from our corporate staff. Corporate staff members have experience and expertise in, among other things, accounting and finance, treasury, risk management, insurance, information technology, human resources, legal, engineering, real estate, strategic direction and other support functions designed to provide resources to local management. Corporate staff also oversee the placement and rate negotiations for national block programming on our stations. Centralized oversight of national programming is necessary because several of our key programming partners purchase times in multiple radio markets.

Recent Events

During the year ended December 31, 2016, we completed or entered into the following transactions:

Debt

On December 30, 2016, we paid \$5.0 million in principal on our term loan of \$300.0 million ("Term Loan B"), and paid interest due as of that date. We recorded a \$12,000 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$33,000 in bank loan fees associated with this principal prepayment.

On November 30, 2016, we paid \$1.0 million in principal on our Term Loan B, and paid interest due as of that date. We recorded a \$2,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$6,900 in bank loan fees associated with this principal prepayment.

On September 30, 2016, we paid \$2.3 million in principal on our Term Loan B, of which \$1.5 million was an early prepayment of principal, and paid interest due as of that date. We recorded a \$3,900 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$14,000 in bank loan fees associated with this principal prepayment.

On June 30, 2016, we paid \$1.2 million in principal on our Term Loan B, of which \$0.4 million was an early prepayment of principal, and paid interest due as of that date. We recorded a \$1,300 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$3,400 in bank loan fees associated with this principal prepayment.

On March 31, 2016, we paid the quarterly installment due of \$0.8 million in principal on our Term Loan B and paid interest due as of that date.

On March 17, 2016, we paid \$0.8 million in principal on our Term Loan B and paid interest due as of that date. We recorded a \$2,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$6,700 in bank loan fees associated with this principal repayment.

Equity

During the year ended December 31, 2016, our Board of Directors declared quarterly equity distributions to all stockholders of record of our Class A and Class B common stock as follows:

Announcement Date	Record Date	Payment Date	Amount Per Share	Total Cash Distributed (in thousands)
December 7, 2016	December 19, 2016	December 31, 2016	\$ 0.0650	\$ 1,678
September 9, 2016	September 19, 2016	September 30, 2016	\$ 0.0650	\$ 1,679
June 2, 2016	June 16, 2016	June 30, 2016	\$ 0.0650	\$ 1,664
March 10, 2016	March 22, 2016	April 5, 2016	\$ 0.0650	\$ 1,657

The actual declaration of any future equity distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. The current policy of our Board of Directors is to review all relevant factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 6, Selected Financial Data included in this annual report on Form 10-K.

Broadcast Acquisitions

We acquired or entered agreements to acquire several FM Translators or FM Translator construction permits during the year. The FCC permits AM and FM radio stations to operate FM Translators. The FCC began an AM Revitalization program, or "AMR," that included several initiatives intended to benefit AM broadcasters. One of these benefits, intended to promote the use of FM Translators by AM broadcasters, allows an AM station to relocate one FM translator up to 250 miles from its authorized site and operate the translator on any non-reserved band FM channel in the AM station's market, subject to coverage and interference rules ("250 Mile Window"). On February 23, 2017, the FCC amended its rules to allow an AM station using a rebroadcasting FM translator to locate the FM translator anywhere within the AM station's daytime service contour or anywhere within a 25-mile radius of the transmitter, even if the contour extends farther than 25 miles from the transmitter. This rule change, when it becomes effective, will be particularly useful for finding a location for these translators.

On January 29, 2016, the FCC opened a one-time only 250 Mile Window during which only Class C and Class D AM broadcast stations could participate. This window closed on July 28, 2016. A second window opened on July 29, 2016, allowing Class A and Class B AM broadcast stations to participate in addition to any Class C and Class D AM broadcast station that did not participate in the first 250 Mile Window. The second 250 Mile Window closed on October 31, 2016. During these filing windows, qualifying AM stations were able to apply for one new FM translator station, in the non-reserved FM band to be used solely to re-broadcast the AM station's AM signal to provide fill-in and/or nighttime service. The FM translator must rebroadcast the related AM station for at least four years, not counting any periods of silence.

Construction permits provide authority to construct new FM Translators or make changes in existing facilities. We believe that securing these FM Translators allows us to increase our listening audience by providing enhanced coverage and reach of our existing AM broadcasts that can be heard on FM or expand the listenership of FM HD channels with the potential to create new stations using the HD-2, HD-3 and HD-4 channel capacity.

Our broadcast acquisitions during the year ended December 31, 2016 include the following:

On December 31, 2016, we closed on the acquisition of an FM translator in Aurora, Florida for \$50,000 in cash. The FM translator will be used by our WHIM-AM radio station in Miami, Florida.

On December 31, 2016, we closed on the acquisition of an FM translator in Port St. Lucie, Florida for \$50,000 in cash. The FM translator will be used by our WLCC-AM radio station in Tampa, Florida.

On December 14, 2016, we closed on the acquisition of an FM translator in Rhinelander, Wisconsin for \$50,000 in cash. The FM translator will be used by our WWTC-AM radio station in Minneapolis, Minnesota.

On December 8, 2016, we closed on the acquisition of an FM translator in Little Fish Lake Valley, California for \$44,000 in cash. The FM translator will be used by our KFIA-AM radio station in Sacramento, California.

On December 1, 2016, we closed on the acquisition of an FM translator in Lake Placid, Florida for \$35,000 in cash. The FM translator will be used by our WTLN-AM radio station in Orlando, Florida.

On November 22, 2016, we closed on the acquisition of two FM translator construction permits in Lahaina, Hawaii and Kihei, Hawaii for \$110,000 in cash. The FM translators will be used by our KHNR-AM and KGU-AM radio stations in Honolulu, Hawaii.

On November 22, 2016, we closed on the acquisition of an FM translator in Crested Butte, Colorado for \$38,500 in cash. The FM translator will be used by our KZNT-AM radio station in Colorado Springs, Colorado.

On November 21, 2016, we closed on the acquisition of an FM translator in Dansville, New York for \$75,000 in cash. The FM translator will be used by our WMCA-AM radio station in New York, New York.

On November 21, 2016, we closed on the acquisition of an FM translator in Carbondale, Pennsylvania for \$75,000 in cash. The FM translator will be used by our WPGP-AM radio station in Pittsburgh, Pennsylvania.

On November 11, 2016, we closed on the acquisition of an FM translator construction permit in Kingsville, Texas for \$50,000 in cash. The FM translator will be used by our KNTH-AM radio station in Houston, Texas.

On November 7, 2016, we closed on the acquisition of an FM translator in Sebring, Florida for \$77,000 in cash. The FM translator will be used by our WKAT-AM radio station in Miami, Florida.

On October 20, 2016, we closed on the acquisition of radio station KXFN-AM in St. Louis, Missouri for \$190,000 in cash. The station was dark upon closing and launched in December 2016.

On October 20, 2016, we closed on the acquisition of three FM translator construction permits for \$155,000 in cash. The FM translator construction permits were based in Angola, Indiana, Cofax, Indiana and Battle Creek, Michigan and will be used by WHK-AM and WHKW-AM, our radio stations in Cleveland, Ohio and WSDZ-AM our radio station in St. Louis, Missouri.

On October 19, 2016, we closed on the acquisition of an FM translator construction permit in Palm Coast, Florida for \$65,000 in cash from a related party. The FM translator will be used by our WTWD-AM radio station in Tampa, Florida.

On October 12, 2016, we closed on the acquisition of an FM translator in Lake City, Florida for \$65,000 in cash from a related party. The FM translator will be used by our WBZW-AM radio station in Orlando, Florida.

On June 24, 2016, we entered into a Local Marketing Agreement ("LMA") to operate radio station KTRB-AM in San Francisco, California beginning on July 1, 2016. On December 15, 2016, we entered into a new LMA to operate this station with East Bay Broadcasting, LLC, a related party.

On June 20, 2016, we closed on the acquisition of an FM translator in the Columbus, Ohio market for \$0.3 million in cash. The FM translator is used in our Columbus, Ohio market.

On June 10, 2016, we closed on the acquisition of an FM translator in Amherst, New York for \$60,000 in cash. The FM translator is used in our Pittsburgh, Pennsylvania market.

On June 8, 2016, we closed on the acquisition of a construction permit for an FM translator construction permit in Charlotte, Michigan for \$50,000 in cash. The FM translator will be used in our Detroit, Michigan market.

On June 3, 2016, we closed on the acquisition of a construction permit for an FM translator in Atwood, Kentucky for \$88,000 in cash. The FM translator will be used in our Columbus, Ohio market.

On May 13, 2016, we closed on the acquisition of a construction permit for an FM translator in Kerrville, Texas for \$50,000 in cash. The FM translator will be used in our Houston, Texas market.

On May 2, 2016, we closed on the acquisition of an FM translator in Lincoln, Maine for \$100,000 in cash. The FM translator is used in our Boston, Massachusetts market.

On April 29, 2016, we closed on the acquisition of a construction permit for an FM translator in Emporia, Kansas for \$25,000 in cash. The FM translator will be relocated to Omaha, Nebraska, for use by our KCRO-AM radio station.

Acquisitions — Digital Media

On December 1, 2016, we acquired ChristianConcertAlerts.com for \$0.2 million, of which \$0.1 million was paid in cash upon close and the remaining \$50,000 is due in two installments within the next year.

On October 17, 2016, we purchased Historyonthenet.com and Authentichistory.com for \$0.1 million in cash.

On September 13, 2016, we acquired Mike Turner's line of investment products, including TurnerTrends.com, other domain names and related assets for \$0.4 million in cash and the assumption of \$0.1 million in deferred subscription liabilities. As part of the purchase agreement, we may pay up to an additional \$0.1 million in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks.

On April 1, 2016, we acquired the Retirement Watch newsletter and websites for \$0.1 million in cash and the assumption of \$0.6 million in deferred subscription liabilities.

On March 8, 2016, we acquired King James Bible mobile applications for \$4.0 million, of which \$2.7 million was paid in cash upon close and \$1.3 million is due in deferred installments within one year from the closing date.

Throughout the year ended December 31, 2016, we acquired other domain names and assets associated within our digital media operating segment for approximately \$3,000 in cash.

Acquisitions — Publishing

On August 1, 2016, we acquired the assets of Hillcrest Media Group, Inc. for \$3.5 million and the assumption of \$1.0 million in deferred revenue liabilities. We paid \$3.3 million in cash upon close with the remaining \$0.2 million due within 90 days upon the finalization of deferred revenue obligations.

Throughout the year ended December 31, 2016, we acquired other domain names and assets associated within our publishing operating segment for approximately \$3,000 in cash.

A summary of our business acquisitions and asset purchases for the year ended December 31, 2016, none of which were individually or in the aggregate, material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Consideration
		<i>(Dollars in thousands)</i>
December 31, 2016	FM translator, Aurora, Florida (asset purchase)	\$ 50
December 31, 2016	FM translator, Port St. Lucie, Florida (asset purchase)	50
December 14, 2016	FM translator, Rhinelander, Wisconsin (asset purchase)	50
December 8, 2016	FM translator, Little Fish Lake Valley, California (asset purchase)	44
December 1, 2016	FM translator, Lake Placid, Florida (asset purchase)	35
December 1, 2016	Christian Concerts Alerts, LLC (asset purchase)	150
November 22, 2016	FM translator construction permit, Kihei, Hawaii (asset purchase)	55
November 22, 2016	FM translator construction permit, Lahaina, Hawaii (asset purchase)	55
November 22, 2016	FM translator, Crested Butte, Colorado (asset purchase)	39
November 21, 2016	FM translator, Dansville, New York (asset purchase)	75
November 21, 2016	FM translator, Carbondale, Pennsylvania (asset purchase)	75
November 11, 2016	FM translator construction permit, Kingsville, Texas (asset purchase)	50
November 7, 2016	FM translator, Sebring, Florida (asset purchase)	77
October 20, 2016	KXFN-AM, St. Louis, Missouri (business acquisition)	190
October 20, 2016	FM translator construction permit, Angola, Indiana (asset purchase)	50
October 20, 2016	FM translator construction permit, Cofax, Indiana (asset purchase)	55
October 20, 2016	FM translator construction permit, Battle Creek, Michigan (asset purchase)	50
October 19, 2016	FM translator construction permit Palm Coast, Florida purchased from a related party (asset purchase)	65
October 17, 2016	Historyonthenet.com and Authentichistory.com (asset purchase)	85
October 12, 2016	FM translator Lake City, Florida purchased from a related party (asset purchase)	65
September 13, 2016	Mike Turner's investment products and domain names (business acquisition)	416
August 1, 2016	Hillcrest Media Group, Inc. (business acquisition)	3,515
June 20, 2016	FM translator, Columbus, Ohio (asset purchase)	345
June 10, 2016	FM translator, Amherst, New York (asset purchase)	60
June 8, 2016	FM translator construction permit, Charlotte, Michigan (asset purchase)	50
June 3, 2016	FM translator construction permit, Atwood, Kentucky (asset purchase)	88
May 13, 2016	FM translator construction permit, Kerrville, Texas (asset purchase)	50
May 2, 2016	FM translator, Lincoln, Maine (asset purchase)	100
April 29, 2016	FM translator construction permit, Emporia, Kansas (asset purchase)	25
April 1, 2016	Retirement Watch (business acquisition)	100
March 8, 2016	King James Bible mobile applications (business acquisition)	4,000
Various	Purchases of other domain names and assets (asset purchases)	6
		\$ 10,120

Refer to Note 4 - Acquisitions and Recent Transactions in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for additional information and details related to our acquisition activity.

Divestitures

In November 2016, we entered an agreement with Word Broadcasting Network to transfer the operation of our Louisville radio stations (WFIA-AM; WFIA-FM; WGTK-AM) under a 24 month Time Brokerage Agreement (“TBA”) effective as of January 3, 2017. We received \$0.5 million of cash from Word Broadcasting Network associated with an option for them to purchase these stations.

On September 1, 2016, we received \$0.7 million in cash associated with a land easement granted in our South Carolina market.

On June 10, 2016, we received \$2.5 million in cash from the National Park Service in exchange for its claim under eminent domain for our tower site in Miami, Florida. We recognized a pre-tax gain of \$1.9 million from this claim and entered into a limited terms of use agreement with the National Park Service to broadcast from the tower site for the next twenty years for a nominal fee.

Pending Transaction(s)

We are programming radio station KHTE-FM, Little Rock, Arkansas, under a 36 month TBA that began on April 1, 2015. The TBA is extendable for up to 48 months. We have the option to acquire the station for \$1.2 million in cash during the TBA period.

FM translators or FM translator construction permits purchase agreements pending as of the year-end December 31, 2016 include the following:

Date APA Entered	Permit or ID	Authorized Site - Current	Purchase Price	Escrow Deposits	Date Closed	Market
<i>(Dollars in thousands)</i>						
7/25/2016	K283CA	Festus, Missouri *	40	8	-	St. Louis, Missouri
7/26/2016	K294CP	Roseburg, Oregon *	45	9	3/01/2017	Portland, Oregon
7/26/2016	K276FZ	Eaglemount, Washington *	40	8	-	Portland, Oregon
8/25/2016	K278BH	Astoria, Oregon	33	7	1/16/2017	Seattle, Washington
9/22/2016	K260CG	Mohave Valley, Arizona*	20	2	1/6/2017	Phoenix, Arizona
10/07/2016	K279CM	Quartz Site, Arizona *	20	2	-	To be determined

* Indicates that the purchase is for an FM translator construction permit.

Radio Stations

We own and/or operate 118 radio stations in 40 markets, including 73 stations in 23 of the top 25 markets, consisting of 34 FM radio stations and 84 AM radio stations. We are one of only three commercial radio broadcasters with radio stations in all of the top 10 markets. We are the sixth largest commercial radio broadcaster in the United States as measured by number of radio stations overall and the third largest operator as measured by number of stations in the top 25 markets. We also program the Family Talk™ Christian-themed talk format station on SiriusXM Channel 131.

Our five main formats are (1) Christian Teaching and Talk, (2) News Talk, (3) Contemporary Christian Music, (4) Spanish Language Christian Teaching and Talk and (5) Business.

Christian Teaching and Talk. We currently program 40 of our radio stations in our foundational format, Christian Teaching and Talk, which is talk programming emphasizing Christian and family themes. Through this format, a listener can hear Bible teachings and sermons, as well as gain insight to questions related to daily life, such as raising children or religious legal rights in education and in the workplace. This format uses block programming time to offer a learning resource and a source of personal support for listeners. Listeners often contact our programmers to ask questions, obtain materials on a subject matter or receive study guides based on what they have learned on the radio.

Block Programming. We sell blocks of airtime on our Christian Teaching and Talk format stations to a variety of national and local religious and charitable organizations that we believe create compelling radio programs. Historically, more than 95% of these religious and charitable organizations renew their annual programming relationships with us. Based on our historical renewal rates, we believe that block programming provides a steady and consistent source of revenue and cash flows. Our top ten programmers have remained relatively constant and average more than 30 years on-air. Over the last five years, block programming revenue has generated 40% to 43% of our total net broadcast revenue.

Satellite Radio. We program SiriusXM Channel 131, the exclusive Christian Teaching and Talk channel on SiriusXM, reaching the entire nation 24 hours a day, seven days a week.

News Talk. We currently program 32 of our radio stations in a News Talk format. Our research shows that our News Talk format is highly complementary to our core Christian Teaching and Talk format. As programmed by Salem, both of these formats express conservative views and family values. Our News Talk format also provides for the opportunity to leverage syndicated talk programming produced by SRN to radio stations throughout the United States. Syndication of our programs allows Salem to reach audiences in markets in which we do not own or operate radio stations.

Contemporary Christian Music. We currently program 13 radio stations in a Contemporary Christian Music (“CCM”) format, branded The FISH® in most markets. Through the CCM format, we are able to bring listeners the words of inspirational recording artists, set to upbeat contemporary music. Our music format, branded “Safe for the Whole Family®”, features sounds that listeners of all ages can enjoy and lyrics that can be appreciated. The CCM genre continues to be popular. We believe that the listener base for CCM is underserved in terms of radio coverage, particularly in larger markets, and that our stations fill an otherwise void area in listener choices.

Spanish Language Christian Teaching and Talk. We currently program eight of our radio stations in a Spanish Language Christian Teaching and Talk format. This format is similar to our core Christian Teaching and Talk format in that it broadcasts biblical and family-themed programming, but the programming is specifically tailored for Spanish-speaking audiences. Additionally, block programming on our Spanish Language Christian Teaching and Talk stations is primarily local while Christian Teaching and Talk stations are primarily national.

Business. We currently program 13 of our radio stations in a business format. Our business format features financial commentators, business talk, and nationally recognized Bloomberg programming. The business format operates similar to our Christian Teaching and Talk format in that it features long-form block programming.

The following table sets forth information about each of Salem’s stations, in order of market size:

Market(1)	MSA Rank(2)	Station Call Letters	Year Acquired	Format
New York, NY	1, 19(3)	WMCA-AM	1989	Christian Teaching and Talk
		WNYM-AM	1994	News Talk
Los Angeles, CA	2	KKLA-FM	1985	Christian Teaching and Talk
		KRLA-AM	1998	News Talk
Chicago, IL	3	KFSH-FM	2000	Contemporary Christian Music
		WYLL-AM	2001	Christian Teaching and Talk
San Francisco, CA	4, 35(4)	WIND-AM	2005	News Talk
		KFAX-AM	1984	Christian Teaching and Talk
Dallas-Fort Worth, TX	5	KDOW-AM	2001	Business
		KTRB-AM	LMA	News Talk
Houston-Galveston, TX	6	KLTY-FM	1996	Contemporary Christian Music
		KWRD-FM	2000	Christian Teaching and Talk
Washington, D.C.	7	KSKY-AM	2000	News Talk
		KTNO-AM	2012	Spanish Language Christian Teaching and Talk
Atlanta, GA	8	KEXB-AM	2015	Business
		KNTH-AM	1995	News Talk
Philadelphia, PA	9	KKHT-FM	2005	Christian Teaching and Talk
		KTEK-AM	2011	Business
Boston, MA	10	WAVA-FM	1992	Christian Teaching and Talk
		WVA-AM	2000	Christian Teaching and Talk
Miami, FL	11	WWRC-AM	2010	News Talk
		WNIV-AM	2000	Christian Teaching and Talk
Los Angeles, CA	2	WLTA-AM	2000	Christian Teaching and Talk
		WAFS-AM	2000	Business
Chicago, IL	3	WFSH-FM	2000	Contemporary Christian Music
		WGKA-AM	2004	News Talk
San Francisco, CA	4, 35(4)	WDWD-AM	2015	Christian Teaching and Talk
		WFIL-AM	1993	Christian Teaching and Talk
Dallas-Fort Worth, TX	5	WNTP-AM	1994	News Talk
		WEZE-AM	1997	Christian Teaching and Talk
Houston-Galveston, TX	6	WROL-AM	2001	Christian Teaching and Talk
		WWDJ-AM	2003	Spanish Language Christian Teaching and Talk
Washington, D.C.	7	WBIX-AM	2015	Business
		WZAB-AM	2009	Business
Atlanta, GA	8	WOCN-AM	2014	Operated by a third party under a TBA
		WZAB-AM	2009	Business

Detroit, MI	12	WDTK-AM	2004	News Talk
		WLQV-AM	2006	Christian Teaching and Talk
Seattle-Tacoma, WA	13	KGNW-AM	1986	Christian Teaching and Talk
		KLFE-AM (5)	1994	News Talk
		KNTS-AM (5)	1997	Spanish Language Christian Teaching and Talk
		KKOL-AM	1997	Business
Phoenix, AZ	14	KKNT-AM	1996	News Talk
		KPXQ-AM	1999	Christian Teaching and Talk
		KXXT-AM	2014	Christian Teaching and Talk
Minneapolis-St. Paul, MN	15	KKMS-AM	1996	Christian Teaching and Talk
		KDIZ-AM	1998	Other
		WWTC-AM	2001	News Talk
		KYCR-AM	2015	Business
San Diego, CA	16	KPRZ-AM	1987	Christian Teaching and Talk
		KCBQ-AM	2000	News Talk
Denver-Boulder, CO	17	KRKS-FM	1993	Christian Teaching and Talk
		KRKS-AM	1994	Christian Teaching and Talk
		KNUS-AM	1996	News Talk
		KBJD-AM (6)	1999	Spanish Language Christian Teaching and Talk
		KDMT-AM	2015	Business
Tampa, FL	18	WTWD-AM (7)	2000	Christian Teaching and Talk
		WTBN-AM (7)	2001	Christian Teaching and Talk
		WLCC-AM	2012	Spanish Language Christian Teaching and Talk
		WGUL-AM	2005	News Talk
		WWMI-AM	2015	Business
St. Louis, MO	21	WSDZ-AM	2015	News Talk
		KXFN-AM	2016	Other
Portland, OR	22	KPDQ-FM	1986	Christian Teaching and Talk
		KPDQ-AM	1986	Christian Teaching and Talk
		KFIS-FM	2002	Contemporary Christian Music
		KRYP-FM	2005	Regional Mexican
		KDZR-AM	2015	News Talk
Riverside-San Bernardino, CA	24	KTIE-AM	2001	News Talk
San Antonio, TX	25	KSLR-AM	1994	Christian Teaching and Talk
		KLUP-AM	2000	News Talk
		KRDY-AM	2014	Spanish Language Christian Teaching and Talk
Pittsburgh, PA	26	WORD-FM	1993	Christian Teaching and Talk
		WPIT-AM	1993	Christian Teaching and Talk
		WPGP-AM	2015	News Talk
Sacramento, CA	27	KFIA-AM	1995	Christian Teaching and Talk
		KTKZ-AM	1997	News Talk
		KSAC-FM	2002	Business
		KKFS-FM	2006	Contemporary Christian Music
Orlando, FL	31	WORL-AM	2006	News Talk
		WTLN-AM	2006	Christian Teaching and Talk
		WBZW-AM	2006	Business
		WDYZ-AM	2015	Spanish Christian Teaching and Talk
Cleveland, OH	32	WHKW-AM	2000	Christian Teaching and Talk
		WFHM-FM	2001	Contemporary Christian Music
		WHK-AM	2005	News Talk
Columbus, OH	36	WRFD-AM	1987	Christian Teaching and Talk
		WTOH-FM	2013	News Talk
Nashville, TN	42	WBOZ-FM (8)	2000	Contemporary Christian Music
		WFFH-FM (8)	2002	Contemporary Christian Music
		WFFI-FM (8)	2002	Contemporary Christian Music

Louisville, KY	54	WFIA-FM	1999	Operated by a third party under a TBA
		WGTK-AM	2000	Operated by a third party under a TBA
		WFIA-AM	2001	Operated by a third party under a TBA
Greenville, SC	58	WGTK-FM	2013	News Talk
		WRTH-FM	2014	Classic Hits
		WLTE-FM	2014	Classic Hits
Honolulu, HI	62	KAIM-FM	2000	Contemporary Christian Music
		KGU-AM	2000	Business
		KHCM-AM	2000	Operated by a third party under a TBA
		KHCM-FM	2004	Country Music
		KGU-FM	2004	Christian Teaching and Talk
		KKOL-FM	2005	Oldies
		KHNR-AM	2006	News Talk
Omaha, NE	72	KGBI-FM	2005	Contemporary Christian Music
		KOTK-AM	2005	News Talk
		KCRO-AM	2005	Christian Teaching and Talk
Sarasota-Bradenton, FL	73	WLSS-AM	2005	News Talk
Little Rock, AR	85	KDIS-FM	2014	Christian Teaching and Talk
		KKSP-FM	2015	Contemporary Christian Music
		KHTE-FM	LMA	News Talk
Colorado Springs, CO	89	KGFT-FM	1996	Christian Teaching and Talk
		KBIQ-FM	1996	Contemporary Christian Music
		KZNT-AM	2003	News Talk
Oxnard-Ventura, CA	119	KDAR-FM	1974	Christian Teaching and Talk
Youngstown-Warren, OH	129	WHKZ-AM	2001	Christian Teaching and Talk
Warrenton, VA		WRCW-AM	2012	News Talk

- (1) Actual city of license may differ from metropolitan market served.
- (2) All metropolitan statistical area ("MSA") rank information used in this annual report on Form 10-K, excluding information concerning The Commonwealth of Puerto Rico, is from the Fall 2016 Radio Market Survey Schedule & Population Rankings published by Nielsen. According to the Radio Market Survey, the population estimates are based upon the 2010 U.S. Bureau Census estimates updated and projected to January 1, 2016 by Nielsen Demographics.
- (3) This market includes the Nassau-Suffolk, NY Metro market, which independently has a MSA rank of 19.
- (4) This market includes the San Jose, CA market, which independently has an MSA rank of 35.
- (5) KNTS(AM) is an expanded band AM station paired with KLFE(AM). The licenses for these stations include a condition that the most recent license renewal was granted subject to the resolution of AM expanded band dual operating authority issues in MB Docket No. 07-294.
- (6) KBJD(AM) is an expanded band AM station paired with KRKS(AM). The licenses for these stations include a condition that the most recent license renewal was granted subject to the resolution of AM expanded band dual operating authority issues in MB Docket No. 07-294.
- (7) WTBN-AM is simulcast with WTWD-AM, Tampa, FL.
- (8) WBOZ-FM is trimulcast with WFFH-FM, Nashville, TN and WFFI-FM, Nashville, TN.

Revenues generated from each of our radio stations, networks, e-commerce sites for on-air host materials, advertising firms and radio station websites, including banner and digital advertisements are reported as broadcast revenue in our consolidated financial statements included in Item 8 of this annual report on Form 10-K. Our broadcasting revenue includes radio advertising or spot revenue, programming revenue, e-commerce sales of content created by our on-air hosts, event revenue, digital revenue from station websites and email blasts, and network advertising revenue. The principal source of our network revenue is from the sale of advertising time. Our e-commerce sites that generate broadcast revenues include the following:

- SRNSStore.com
- Salem Consumer Products

Advertising Revenue. We recognize advertising and commission revenue from radio stations as the spots air or are delivered. For the year ended December 31, 2016, we derived 31.7% of our net broadcast revenue, or \$64.0 million, from the sale of local spot advertising and 6.6% of our net broadcast revenue, or \$13.4 million, from the sale of national spot advertising.

Programming Revenue. We recognize programming revenue as the programs air. For the year ended December 31, 2016, we derived 24.4% and 18.3% of our net broadcast revenue, or \$49.3 million and \$37.0 million, respectively, from the sale of national and local block programming time, respectively. We derive national program revenue primarily from geographically diverse, well-established non-profit religious and educational organizations that purchase time on our stations in a large number of markets in the United States. National program producers typically purchase 12¹/₂, 25 or 50-minute blocks of time on a Monday through Friday basis and may offer supplemental programming for weekend release. We obtain local program revenue from community organizations and churches that typically purchase blocks for weekend releases and from local speakers who purchase daily releases. We believe that our management team is successful in identifying and assisting quality local programs expand into national syndication.

Network Revenue. SRN's net revenue, including commission revenue for SMR, for the year ended December 31, 2016 was \$17.7 million, or 8.8% of net broadcast revenue.

Digital Media

Our digital media-based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Revenue generated from our digital media operating segment includes advertising arrangements based on cost-per-click or performance-based advertising; display advertisements where revenue is dependent upon the number of page views; and lead generating advertisements where revenue is dependent upon users registering for, purchasing or demonstrating an interest in our advertisers' products or services. We also generate revenue from digital subscriptions, streaming, downloads and product sales through our church product sites. Revenue is recognized upon digital delivery or page views, downloads and upon shipment of products. Revenue from this operating segment is reported as Digital Media revenue on our consolidated statements of operations included in Item 8 of this annual report on Form 10-K.

We own and operate numerous websites including:

Salem Web Network™ Christian Content Websites:

OnePlace.com™ is a leading provider of on-demand, online audio streaming for nearly 200 radio programs from more than 185 popular Christian broadcast ministries. Oneplace.com serves as both a complement to and an extension of our block programming radio business.

Christianity.com offers engaging articles and video focused on exploring the deeper, theological issues and apologetics of the Christian faith. It is also a leading provider of online Bible trivia games.

Crosswalk.com® offers compelling, editorial-driven, biblically-based, lifestyle and devotional content to Christians who take seriously their relationship with Christ.

GodTube.com is a video viewing platform for Christian videos with faith-based, family-friendly content.

GodVine.com is an online platform designed to share inspirational, family-friendly video through Facebook and other social media outlets.

Jesus.org offers a comprehensive database of biblical answers to the most common questions about the life and work of Jesus Christ.

BibleStudyTools.com is a free Bible website for verse search and in-depth studies featuring commentaries, reading plans, and other helpful resources designed as aids to Bible study.

CrossCards.com™ provides faith-based, inspirational e-greeting cards for all occasions and holidays.

LightSource.com provides on-demand, video streaming for nearly 85 Christian television programs from more than 70 ministry partners.

iBelieve.com creates editorial-driven, lifestyle content, focused on helping Christian women use personal experience to examine the deeper issues of life and faith.

CCMmagazine.com provides information and insight on Christian music.

ChristianHeadlines.com reports the news of importance to the Christian audience with a headlines blog, Christian worldview commentary, and features on events from the worldwide Christian Church.

Townhall Media — Conservative Opinion Websites:

Townhall.com™ is an interactive community that brings users, conservative public policy organizations, congressional staff and political activists together under the broad umbrella of conservative thoughts, ideas and actions.

HotAir.com is a leading news and commentary site with conservative news and opinions.

Twitchy.com is a website featuring selected quotes and current events centered on U.S. politics, global news, sports, entertainment, media, and breaking news.

RedState.com is the leading conservative, political news blog for right of center activists.

[Human Events.com](http://HumanEvents.com) is a conservative opinion website that provides news and commentary on issues of interest to the conservative community.

BearingArms.com is a clearinghouse for news and resources on Second Amendment issues, gun control, self-defense and firearms.

Salem Church Products Websites:

WorshipHouseMedia.com is an online church media resource, providing creative videos to churches to enhance worship and sermons. In addition, WorshipHouseKids.com provides children's ministries with products to fulfill their visual needs.

SermonSpice.com is an online provider of church media for local churches and ministries.

ChurchStaffing.com™ is a source of job search information for churches and ministries offering a platform for personnel and staff relations. This site allows those seeking employment to submit resumes and view job listings.

ChristianJobs.com™ provides services catering to the hiring needs of Christian-based businesses, nonprofit organizations, and ministries. The site connects these organizations with thousands of job seekers through its online presence and partnerships with Salem's radio stations.

SermonSearch.com is a subscription-based resource for preachers and teachers with preparation materials like sermon outlines, illustrations, and preaching ideas from many of America's top Christian communicators.

Digital Financial Websites and Publications

Our digital platform includes the following investing websites and publications:

Eagle Financial Publications provides market analysis and investment strategies for individual subscribers to newsletters from investor commentators.

www.DividendInvestor.com offers stock screening tools and dividend information for individual subscribers to obtain dividend information and data.

Digital Mobile Applications

Our digital mobile applications, available in iOS and/or Android platforms, provide another means by which our content is available to our audiences. Our mobile applications include the following:

- Daily Bible
- Daily Bible Devotion
- Twitchy
- HotAir
- Townhall
- OnePlace
- Red State
- Bible Study Tools
- Bible Quotes
- Bible Trivia
- iBelieve
- Spanish Bible

E-Commerce Websites

Salem Church Products are websites that offer resources for churches and ministries in the areas of church media, worship, children's and youth ministry, preaching and teaching and employment.

Eagle Wellness – Newport Natural Health (“NNH”) is an e-commerce website that offers health advice and nutritional products. NNH provides insightful health advice and is a trusted source of high quality nutritional supplements from Leigh Erin Connealy, MD, who is the medical director of one of the largest medical practices in the country where she practices integrative medicine.

Publishing

Our publishing operating segment is comprised of three businesses: (1) book publishing, (2) self-publishing services and (3) print and digital magazines.

Regnery Publishing, with nearly a 70-year history, is one of the nation's leading publishers of conservative books. Having published many of the seminal works of the early conservative movement, Regnery today continues as a leading publisher in the conservative space, with leading authors including Ann Coulter, Dinesh D'Souza, Newt Gingrich, David Limbaugh, Ed Klein and Mark Steyn.

Salem's book publishing business also includes Salem Author Services, comprised of Xulon Press™ and Hillcrest Media, which offer print-on-demand self-publishing services for authors. Xulon Press™ publishes books for Christian authors while Hillcrest Media publishes books for all general market genres.

Salem Publishing™, our print magazine division, publishes magazines on a monthly or semi-monthly basis. Content from our print magazines is also available on branded websites designed for each publication.

Our publications include the following Christian publications:

- Singing News®
- Homecoming® The Magazine
- YouthWorker Journal™
- Preaching Magazine™
- FaithTalk Magazine™

COMPETITION

We operate in a highly competitive broadcast and media business. We compete for audiences, advertisers and programmers with other radio broadcasters, broadcast and cable television operators, newspapers and magazines, book publishers, national and local digital services, outdoor advertising, direct mail, online marketing and media companies, social media platforms, web-based blogs, and mobile devices.

BROADCASTING. Our broadcast audience ratings and market shares are subject to change, and any change in a particular market could have a material adverse effect on the revenue of our stations located in that market. While we already compete in some of our markets with stations that offer similar formats, if another radio station were to convert its programming to a format similar to one of ours, or if an existing competitor were to strengthen its operations, our stations could suffer reduced ratings and/or reduced revenues. In these circumstances, we could also incur significantly higher promotional and other related expenses. We cannot assure that our stations will maintain or increase their current audience ratings and revenues.

We compete for advertising revenue with other commercial religious format stations as well as general format radio stations. Our competition for advertising dollars includes other radio stations as well as broadcast television, cable television, newspapers, magazines, direct mail, online and billboard advertising, some of which may be controlled by horizontally integrated companies. Several factors can materially affect competitive advantage, including, but not limited to audience ratings, program content, management talent and expertise, sales talent and experience, audience characteristics, signal strength, and the number and characteristics of other radio stations in the same market.

Christian and Family-Themed Radio. The segment of this industry that focuses on Christian and family themes is also a highly competitive business. The financial success of each of our radio stations that focuses on Christian Teaching and Talk is dependent, to a significant degree, upon its ability to generate revenue from the sale of block program time to national and local religious and educational organizations. We compete for this program revenue with a number of different commercial and non-commercial radio station licensees. While we believe that no commercial group owner in the United States specializing in Christian and family-themed programming approaches Salem in size of potential listening audience and presence in major markets, other religious radio stations exist and enjoy varying degrees of prominence and success in each of our markets.

New Methods of Content Delivery. Competition also comes from new media technologies and services. These include delivery of audio programming by cable television and satellite systems, digital audio radio services, mobile devices including smart phone applications for iPhone® and Android®, personal communications services and the service of low powered, limited coverage FM radio stations authorized by the FCC. The delivery of live and stored audio programming through the Internet has also created new competition. In addition, satellite delivered digital audio radio, which delivers multiple audio programming formats to national audiences, has created competition. We have attempted to address these existing and potential competitive threats through a more active strategy to acquire and integrate new electronic communications formats including Internet acquisitions made by SWN and our exclusive arrangement to provide Christian and family-themed talk on SiriusXM, a satellite digital audio radio service.

NETWORK. SRN competes with other commercial radio networks that offer news and talk programming to religious and general format stations and noncommercial networks that offer Christian music formats. SRN also competes with other radio networks for the services of talk show personalities.

DIGITAL MEDIA. Salem Web Network™ and Townhall Media compete for visitors and advertisers with other companies that deliver online audio programming and Christian and conservative web-based content as well as providers of general market websites. The online media and distribution business changes quickly and is highly competitive. We compete to attract and maintain interactions with advertisers, consumers, content creators and web publishers. Salem Church Products competes for customers with other online sites that offer resources useful in ministries, preaching, teaching and for employment within the Christian community. Our wellness products compete in a large, highly fragmented industry that includes specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, mail-order companies, other online retailers and pharmaceuticals.

PUBLISHING. Regnery Publishing competes with other book publishers for readers and book sales as well as competes for product quality, customer service, suitability of format and subject matter, author reputation, price, timely availability of both new titles and revisions of existing books, digital availability of published products, and timely delivery of products to customers. Print magazines compete for readers and advertisers with other print publications, including those that also address themes of interest to church leadership and the Christian audience. Salem Author Services, comprised of Xulon Press™ and Hillcrest Media competes for authors with other on-demand publishers including those focused exclusively on Christian book publishers.

Federal Regulation of Radio Broadcasting

Introduction. The ownership, operation and sale of broadcast stations, including those licensed to Salem, are subject to the jurisdiction of the FCC, which acts under authority derived from The Communications Act of 1934, as amended, and the rules and regulations promulgated thereunder (the “Communications Act”). Among other things, the FCC assigns frequency bands for broadcasting; determines whether to approve certain changes in ownership or control of station licenses; regulates transmission facilities, including power employed, antenna and tower heights, and location of transmission facilities; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules under the Communications Act.

The following is a brief summary of certain provisions of the Communications Act and of specific FCC regulations and policies. Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of “short” (less than the maximum) license renewal terms or, for particularly egregious violations, the denial of a license renewal application, the revocation of a license or the denial of FCC consent to acquire additional broadcast properties. For further information concerning the nature and extent of federal regulation of broadcast stations you should refer to the Communications Act, FCC rules and the public notices and rulings of the FCC.

License Grant and Renewal. Radio broadcast licenses are granted for maximum terms of eight years. Licenses must be renewed through an application to the FCC. Under the Communications Act, the FCC will renew a broadcast license if it finds that the station has served the public interest, convenience and necessity, that there have been no serious violations by the licensee of the Communications Act or the rules and regulations of the FCC, and that there have been no other violations by the licensee of the Communications Act or the rules and regulations of the FCC that, when taken together, would constitute a pattern of abuse.

Petitions to deny license renewals can be filed by certain interested parties, including members of the public in a station’s market. Such petitions may raise various issues before the FCC. The FCC is required to hold hearings on renewal applications if the FCC is unable to determine that renewal of a license would serve the public interest, convenience and necessity, or if a petition to deny raises a “substantial and material question of fact” as to whether the grant of the renewal application would be *prima facie* inconsistent with the public interest, convenience and necessity. In addition, during certain periods when a renewal application is pending, the transferability of the applicant’s license is restricted.

The following table sets forth information with respect to each of our radio stations for which we hold the license. Stations that we operate under an LMA or TBA are not reflected on this table. A broadcast station’s market may be different from its community of license. The coverage of an AM radio station is chiefly a function of the power of the radio station’s transmitter, less dissipative power losses and any directional antenna adjustments. For FM radio stations, signal coverage area is chiefly a function of the Effective Radiated Power (“ERP”) of the radio station’s antenna and the Height Above Average Terrain (“HAAT”) of the radio station’s antenna.

Market(1)	Station Call Letters	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day / Night
New York, NY	WMCA-AM	570	June 2022	B	N/A	5 / 5
	WNYM-AM	970	June 2022	B	N/A	50 / 5
Los Angeles, CA	KKLA-FM	99.5	December 2021	B	2,959	10
	KRLA-AM	870	December 2021	B	N/A	50 / 3
Chicago, IL	KFSH-FM	95.9	December 2021	A	328	6
	WYLL-AM	1160	December 2020	B	N/A	50 / 50
	WIND-AM	560	December 2020	B	N/A	5 / 5
San Francisco, CA	KFAX-AM	1100	December 2021	B	N/A	50 / 50
	KDOW-AM	1220	December 2021	D	N/A	5 / 0.145
Dallas-Fort Worth, TX	KLTY-FM	94.9	August 2021	C	1,667	100
	KWRD-FM	100.7	August 2021	C	1,988	98
	KSKY-AM	660	August 2021	B	N/A	20 / 0.7
	KTNO-AM	1440	August 2021	B	N/A	50 / 0.35
	KEXB-AM	620	August 2021	B	N/A	5 / 4.5
Houston-Galveston, TX	KNTH-AM	1070	August 2021	B	N/A	10 / 5
	KKHT-FM	100.7	August 2021	C	1,952	100
	KTEK-AM	1110	August 2021	D	N/A	2.5
Washington, D.C.	WAVA-FM	105.1	October 2019	B	604	74
	WAVA-AM	780	October 2019	D	N/A	12
	WWRC-AM	1260	October 2019	B	N/A	35 / 5
Atlanta, GA	WNIV-AM	970	April 2020	D	N/A	5 / 0.039
	WLTA-AM	1400	April 2020	C	N/A	1 / 1
	WAFS-AM	1190	April 2020	D	N/A	25
	WFSH-FM	104.7	April 2020	C1	1,657	24
	WGKA-AM	920	April 2020	B	N/A	14 / 0.49
	WDWD-AM	590	April 2020	B	N/A	12 / 4.5
Philadelphia, PA	WFIL-AM	560	August 2022	B	N/A	5 / 5
	WNTP-AM	990	August 2022	B	N/A	50 / 10
Boston, MA	WEZE-AM	590	April 2022	B	N/A	5 / 5
	WROL-AM	950	April 2022	B	N/A	5 / 0.09
	WWDJ-AM	1150	April 2022	B	N/A	5 / 5
	WBIX-AM	1260	April 2022	B	N/A	5 / 5
Miami, FL	WKAT-AM	1360	February 2020	B	N/A	5 / 1
	WHIM-AM	1080	February 2020	B	N/A	50 / 10
	WZAB-AM	880	February 2020	B	N/A	4 / 5
Detroit, MI	WOCN-AM	1450	February 2020	B	N/A	1 / 1
	WDTK-AM	1400	October 2020	C	N/A	1 / 1
	WLQV-AM	1500	October 2020	B	N/A	50 / 10
Seattle-Tacoma, WA	KGNW-AM	820	February 2022	B	N/A	50 / 5
	KLFE-AM	1590	February 2022	B	N/A	20 / 5
	KNTS-AM	1680	February 2022	B	N/A	10 / 1
Phoenix, AZ	KKOL-AM	1300	February 2022	B	N/A	50 / 47
	KKNT-AM	960	October 2021	B	N/A	5 / 5
	KPXQ-AM	1360	October 2021	B	N/A	50 / 1
Minneapolis-St. Paul, MN	KXXT-AM	1010	October 2021	B	N/A	15 / 0.25
	KKMS-AM	980	April 2021	B	N/A	5 / 5
	KDIZ-AM	1570	April 2021	B	N/A	3.8 / 0.23
	WWTC-AM	1280	April 2021	B	N/A	5 / 5
San Diego, CA	KYCR-AM	1440	April 2021	B	N/A	5 / 0.5
	KPRZ-AM	1210	December 2021	B	N/A	20 / 10
	KCBQ-AM	1170	December 2021	B	N/A	50 / 2.9
Denver-Boulder, CO	KRKS-FM	94.7	April 2021	C	984	100
	KRKS-AM	900	April 2021	B	N/A	6.5 / 0.39
	KNUS-AM	710	April 2021	B	N/A	5 / 5
	KBJD-AM	1650	April 2021	B	N/A	10 / 1
	KDMT-AM	1690	April 2021	B	N/A	10 / 1
Tampa, FL	WTWD-AM	910	February 2020	B	N/A	5 / 5
	WTBN-AM	570	February 2020	B	N/A	5 / 5
	WLCC-AM	760	February 2020	B	N/A	10 / 1
	WGUL-AM	860	February 2020	B	N/A	5 / 1.5
	WWMI-AM	1380	February 2020	B	N/A	9.8 / 6.5
St. Louis, MO	WSDZ-AM	1260	December 2020	B	N/A	20 / 5
	KXFN-AM	1380	December 2021	B	N/A	5 / 1

Portland, OR	KPDQ-FM	93.9	February 2022	C1	1,270	52
	KPDQ-AM	800	February 2022	B	N/A	1 / 0.5
	KFIS-FM	104.1	February 2022	C2	1,266	6.9
	KRYP-FM	93.1	February 2022	C3	1,270	1.6
Riverside-San Bernardino, CA	KDZR-AM	1640	February 2022	B	N/A	10 / 1
	KTIE-AM	590	December 2021	B	N/A	2.5 / 0.96
San Antonio, TX	KSLR-AM	630	August 2021	B	N/A	5 / 4.3
	KLUP-AM	930	August 2021	B	N/A	5 / 1
	KRDY-AM	1160	August 2021	B	N/A	10 / 1
Pittsburgh, PA	WORD-FM	101.5	August 2022	B	528	43
	WPIT-AM	730	August 2022	D	N/A	5 / 0.024
	WPGP-AM	1250	August 2022	B	N/A	5 / 5
Sacramento, CA	KFIA-AM	710	December 2021	B	N/A	25 / 1
	KTKZ-AM	1380	December 2021	B	N/A	5 / 5
	KSAC-FM	105.5	December 2021	B1	1,010	2.55
	KKFS-FM	103.9	December 2021	A	328	6
Orlando, FL	WORL-AM	660	February 2020	B	N/A	3.5 / 1
	WTLN-AM	950	February 2020	B	N/A	12 / 5
	WBZW-AM	1520	February 2020	B	N/A	5 / 0.35
	WDYZ-AM	990	February 2020	B	N/A	50 / 14
Cleveland, OH	WHKW-AM	1220	October 2020	B	N/A	50 / 50
	WFHM-FM	95.5	October 2020	B	620	31
	WHK-AM	1420	October 2020	B	N/A	5 / 5
Columbus, OH	WRFD-AM	880	October 2020	D	N/A	23
	WTOH-FM	98.9	October 2020	A	505	2.6
Nashville, TN	WBOZ-FM	104.9	August 2020	A	328	6
	WFFH-FM	94.1	August 2020	A	453	3.2
	WFFI-FM	93.7	August 2020	A	755	1.15
Louisville, KY	WFIA-FM	94.7	August 2020	A	394	3.3
	WGTK-AM	970	August 2020	B	N/A	5 / 5
	WFIA-AM	900	August 2020	D	N/A	0.93 / 0.162
Greenville, SC	WGTK-FM	94.5	December 2019	0	1,489	100
	WRTH-FM	103.3	December 2019	0	495	2.7
	WLTE-FM	95.9	December 2019	A	233	6
Honolulu, HI	KHNR-AM	690	February 2022	B	N/A	10 / 10
	KAIM-FM	95.5	February 2022	C	1,854	100
	KGU-AM	760	February 2022	B	N/A	10 / 10
	KHCM-FM	97.5	February 2022	C1	46	80
	KHCM-AM	880	February 2022	B	N/A	2 / 2
	KGU-FM	99.5	February 2022	C	1,965	100
Omaha, NE	KKOL-FM	107.9	February 2022	C	1,965	100
	KGBI-FM	100.7	June 2021	C0	1,014	100
	KOTK-AM	1420	June 2021	B	N/A	1 / 0.33
Sarasota-Bradenton, FL	KCRO-AM	660	June 2021	D	N/A	1 / 0.054
	WLSS-AM	930	February 2020	B	N/A	5 / 3
Little Rock, AR	KDIS-FM	99.5	June 2020	0	312	6
	KKSP-FM	93.3	June 2020	0	698	22
Colorado Springs, CO	KGFT-FM	100.7	April 2021	C	2,218	78
	KBIQ-FM	102.7	April 2021	C	2,280	72
	KZNT-AM	1460	April 2021	B	N/A	5 / 0.54
Oxnard-Ventura, CA	KDAR-FM	98.3	December 2021	B1	1,289	1.5
Youngstown-Warren, OH	WHKZ-AM	1440	October 2020	B	N/A	5 / 5
Warrenton, Virginia	WRCW-AM	1250	October 2019	D	N/A	3 / 0.125

Radio station KNTS-AM is an expanded band station paired with station KLFE-AM in the Seattle, WA market, and station KBJD-AM is an expanded band station paired with KRKS-AM in the Denver, CO market. We are operating these four stations pursuant to FCC licenses or other FCC authority pending resolution by the FCC of the issue of AM expanded band dual operating authority. Depending upon how the FCC resolves that issue, it is possible that we will be required to surrender one station license in each station pair. Except for these stations, we are not currently aware of any facts that would prevent the timely renewal of our licenses to operate our radio stations, although there can be no assurance that our licenses will be renewed.

The following table sets forth information with respect to each of our radio stations FM translators for which we are the licensee and/or operate.

Market	Station Call Letters	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day	Power (in Kilowatts) Night
Boston	WROL / W262CV	100.3	February 2017	D	164	0.05	0.05
Cleveland	WHK / W260CY	99.9	April 2017	D	164	0.099	0.099
Cleveland	WHKW / W262CY	100.3	April 2017	D	731	0.25	0.25
Colorado Springs	KZNT / K266CK	101.1	March 2019	D	731	0.15	0.15
Colorado Springs	KZNT / K266CK	101.1	May 2017	D	-191	0.15	0.15
Columbus	WRFD / W283CL	104.5	October 2020	D	-191	0.099	0.099
Columbus	WTOH / W240CX	95.9	October 2020	D	545	0.099	0.099
Dallas-Ft. Worth	KTNO / K273BJ	102.5	August 2021	D	696	0.08	0.08
Detroit	WDTK / W268CN	101.5	October 2020	D	434	0.085	0.085
Detroit	WLQV / W224CC	92.7	October 2020	D	914	0.25	0.25
Greenville	WGTK / W245CH	96.9	December 2019	D	923	0.125	0.125
Greenville	WGTK / W275BJ	102.9	December 2019	D	1,364	0.099	0.099
Honolulu	KGU / K236CR	95.1	December 2016	D	1,390	0.25	0.25
Honolulu	KHNR / K239CD	94.3	March 2017	D	204	0.05	0.05
Houston	KNTH / K277DE	103.3	June 2017	D	204	0.099	0.099
Houston	KTEK / K241CM	96.1	January 2017	D	514	0.25	0.25
Louisville	WJIE / W297BV	100.7.3	August 2020	D	542	0.15	0.15
Miami	WHIM / W298AM	97.7	October 2019	D	286	0.15	0.15
Miami	WKAT / W272DS	102.3	August 2019	D	603	0.099	0.099
Miami	WOCN / W270CV	101.9	February 2019	D	603	0.099	0.099
Minneapolis	WWTC / K298CO	107.5	November 2019	D	N/A	0.08	0.08
Minneapolis	WWTC / K298CO	107.5	July 2017	D	176	0.085	0.085
New York	WMCA / W272DX	102.3	November 2019	D	176	0.25	0.25
Omaha	KCRO / K293CJ	106.5	June 2021	D	585	0.125	0.125
Omaha	KOTK / K233CO	94.5	June 2021	D	462	0.099	0.099
Orlando	WDYZ / W268CT	101.5	October 2019	D	315	0.25	0.25
Orlando	WORL / W288CJ	105.5	May 2019	D	323	0.05	0.05
Orlando	WTLN / W235CR	94.9	August 2019	D	439	0.099	0.099
Orlando	WORL / W288CJ	105.5	February 2020	D	434	0.25	0.25
Orlando	WTLN / W235CJ	94.9	February 2020	D	439	0.15	0.15
Orlando	WTLN / W235CR	94.9	February 2020	D	434	0.15	0.15
Pittsburgh	WPGP / W233CS	92.5	August 2019	D	434	0.099	0.099
Pittsburgh	WPIT / W243BW	96.5	March 2019	D	N/A	0.099	0.099
Pittsburgh	WPIT / W243BW	96.5	June 2022	D	528	0.08	0.08
Pittsburgh	WPIT / W243BW	96.5	May 2017	D	528	0.085	0.085
Portland	KDZR / K232FM	96.7	TBD	D	528	0.25	0.25
Portland	KPDQ / K294CP	106.3	TBD	D	1,307	0.125	0.125
Sacramento	KFIA / K245AR	105.7	TBD	D	1,307	0.099	0.099
San Diego	KCBQ / K260CG	96.1	August 2017	D	291	0.25	0.25
San Diego	KPRZ / K279CM	106.1	TBD	D	1,760	0.05	0.05
Seattle	KGNW / K281CQ	104.1	September 2019	D	846	0.099	0.099
Seattle	KGNW / K281CQ	104.1	February 2022	D	1,248	0.25	0.25
St. Louis	KXFN / K283CA	95.9	TBD	D	1,248	0.15	0.15
St. Louis	WSDZ / K236CS	96.7	June 2017	D	501	0.15	0.15
Tampa	WLCC / W282CI	104.3	August 2019	D	501	0.099	0.099
Tampa	WTWD / W271CY	102.1	April 2017	D	417	0.099	0.099
Tampa/Sarasota	WLSS / W229BR	93.7	February 2020	D	271	0.08	0.08
Tampa/Sarasota	WLSS / W276CR	103.1	February 2020	D	212	0.085	0.085

Ownership Matters. The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast license without the prior approval of the FCC. In determining whether to assign, transfer, grant or renew a broadcast license, the FCC considers a number of factors pertaining to the licensee, including compliance with various rules limiting common ownership of media properties, the “character” of the licensee and those persons holding “attributable” interests therein, and compliance with the Communications Act’s limitation on alien ownership, as well as compliance with other FCC policies, including equal employment opportunity requirements.

Under the Communications Act, a broadcast license may not be granted to or held by a corporation that has more than one-fifth of its capital stock owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. Under the Communications Act, there are limitations on the licensee of a broadcast license, that is held by any corporation that is controlled, directly or indirectly, by any other corporation more than one-fourth of whose capital stock is owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. These restrictions apply in modified form to other forms of business organizations, including partnerships. We therefore may be restricted from having more than one-fourth of our stock owned or voted by aliens, foreign governments or non-U.S. corporations, although the FCC has recently adopted streamlined waiver procedures for requests to exceed the statutory limits.

Multiple Ownership: The Communications Act and FCC rules also generally restrict the common ownership, operation or control of radio broadcast stations serving the same local market, of a radio broadcast station and a television broadcast station serving the same local market, and of a radio broadcast station and a daily newspaper serving the same local market. The FCC also restricts the number of television stations an entity may own both in local markets and nationwide.

Our current ownership of radio broadcast stations complies with the FCC's multiple ownership rules; however, these rules may limit the number of additional stations that we may acquire in the future in certain of our markets and could limit the potential buyers of any stations we may attempt to sell. The FCC is also required by the Communications Act to review its broadcast ownership rules every four years. During 2009, the FCC held a series of hearings designed to evaluate possible changes to its rules. In May 2010, the FCC formally initiated its 2010 quadrennial review of its media ownership rules with the issuance of a Notice of Inquiry ("NOI"). The NOI was intended to assist the Commission in establishing a framework within which to analyze whether its media ownership rules remain "necessary in the public interest as a result of competition," due to the dramatic changes occurring in the media marketplace. Numerous parties filed comments and reply comments in response to the NOI. In June and July 2011, the FCC released to the public eleven economic studies related to its media ownership rules. In December 2011, the FCC issued a Notice of Proposed Rulemaking ("NPRM") seeking comment on proposed rule changes in connection with the 2010 quadrennial review. In March 2014, the FCC issued a Further Notice of Proposed Rulemaking ("FNPRM") seeking comment on specific proposed changes to its ownership rules in connection with the 2010 and 2014 quadrennial reviews of the broadcast ownership rules and consolidated its 2010 quadrennial review with the 2014 quadrennial review of the ownership rules. On August 25, 2016, the FCC released a Second Report and Order to close the 2010 and 2014 Quadrennial Review proceedings. The FCC decided to retain its local radio ownership rules without modification. The FCC, however, recently filed a motion requesting that the Third Circuit Court of Appeals hold in abeyance the consolidated cases pending before it in connection with the broadcast ownership rules, because it intends to act on a Petition for Reconsideration of the Second Report and Order, which could result in changes to the local radio ownership rules. We can make no determination as to what effect, if any, any such rule changes will have on us.

Attribution: Because of these multiple and cross-ownership rules, a purchaser of voting stock of the company that acquires an "attributable" interest in the company may violate the FCC's rule if it also has an attributable interest in other television or radio stations, or in daily newspapers, depending on the number and location of those radio or television stations or daily newspapers. Such a purchaser also may be restricted in the other companies in which it may invest, to the extent that these investments give rise to an attributable interest. If an attributable stockholder of the company violates any of these ownership rules, the company may be unable to obtain from the FCC one or more authorizations needed to conduct its radio station business and may be unable to obtain FCC consents for certain future acquisitions.

The FCC generally applies its television/radio/newspaper cross-ownership rules and its broadcast multiple ownership rules by considering the "attributable," or cognizable, interests held by a person or entity. A person or entity can have an interest in a radio station, television station or daily newspaper by being an officer, director, partner, member, or stockholder of a company that owns that station or newspaper. Whether that interest is cognizable under the FCC's ownership rules is determined by the FCC's attribution rules. If an interest is attributable, the FCC treats the person or entity who holds that interest as an "owner" of the radio station, television station or daily newspaper in question, and therefore subject to the FCC's ownership rules. On December 22, 2011, the FCC issued an NPRM to seek comment on specific proposed changes to its ownership rules. In the NPRM, the FCC tentatively concluded to maintain its local radio ownership rules largely intact. Comments and Reply Comments have been received by the FCC in connection with the NPRM (2010 quadrennial review). In March 2014, the FCC issued an FNPRM seeking comment on specific proposed changes to its ownership rules in connection with the 2010 and 2014 quadrennial reviews of the broadcast ownership rules. On August 25, 2016, the FCC released a Second Report and Order to close the 2010 and 2014 Quadrennial Review proceedings. In the Second Report and Order, the FCC readopted its Television Joint Sales Agreement (JSA) Attribution Rule adopted in the Report and Order in this proceeding, which makes certain television JSAs attributable. No other changes were made to the attribution rules.

Proposed Changes. As noted above, in May 2010, the FCC formally initiated its 2010 quadrennial review of its media ownership rules with the issuance of a NOI. The NOI is intended to assist the Commission in establishing a framework within which to analyze whether its media ownership rules remain “necessary in the public interest as a result of competition,” due to the dramatic changes occurring in the media marketplace. Numerous parties have filed comments and reply comments in response to the NOI. In June and July 2011, the FCC released to the public eleven economic studies related to its media ownership rules. On December 22, 2011, the FCC issued an NPRM in the 2010 quadrennial review to seek comment on specific proposed changes to its ownership rules. In the 2010 quadrennial review NPRM, the FCC tentatively concluded to maintain its local radio ownership rules largely intact. Comments and Reply Comments were received by the FCC in connection with the NPRM. In March 2014, the FCC issued an FNPRM seeking comment on specific proposed changes to its ownership rules in connection with the 2010 and 2014 quadrennial reviews of the broadcast ownership rules and consolidated its 2010 quadrennial review with the 2014 quadrennial review of the ownership rules. On August 25, 2016, the FCC released a Second Report and Order to close the 2010 and 2014 Quadrennial Review proceedings. The FCC decided to retain its local radio ownership rules without modification. The FCC, however, recently filed a motion requesting that the Third Circuit Court of Appeals hold in abeyance the consolidated cases pending before it in connection with the broadcast ownership rules, because it intends to act on a Petition for Reconsideration of the Second Report and Order, which could result in changes to the local radio ownership rules. We can make no determination as to what effect, if any, such changes might have on us.

Federal Antitrust Considerations. The Federal Trade Commission (“FTC”) and the Department of Justice (“DOJ”), which evaluate transactions to determine whether those transactions should be challenged under the federal antitrust laws, are also active in their review of radio station acquisitions, particularly where an operator proposes to acquire additional stations in its existing markets.

For an acquisition meeting certain size thresholds, the Hart-Scott-Rodino Improvements Act (“HSR Act”) and the rules promulgated thereunder require the parties to file Notification and Report Forms with the FTC and the DOJ and to observe specified waiting period requirements before consummating the acquisition. At any time before or after the consummation of a proposed acquisition, the FTC or the DOJ could take such action under the antitrust laws, as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition or seeking divestiture of the business acquired or other assets of the company. The FTC or the DOJ may investigate acquisitions that are not required to be reported under the HSR Act under the antitrust laws before or after consummation. In addition, private parties may under certain circumstances bring legal action to challenge an acquisition under the antitrust laws. The DOJ also has stated publicly that it believes that LMAs and other similar agreements customarily entered into in connection with radio station transfers prior to the expiration of the waiting period under the HSR Act could violate the HSR Act.

We can provide no assurances that our acquisition strategy will not be adversely affected in any material respect by antitrust reviews.

GEOGRAPHIC FINANCIAL INFORMATION

Our advertisers and programmers are based in various locations throughout the United States. While no one customer or programmer accounts for 10% or more of our revenues, individually or in the aggregate, our broadcast operating segment is particularly dependent on advertising revenue generated from our Los Angeles and Dallas broadcast markets. Our Los Angeles radio stations generated 15.1% of our total net broadcasting advertising revenue for the year ended December 31, 2016, 14.7% of our total net broadcasting advertising revenue for the year ended December 31, 2015 and 14.3% for the year ended December 31, 2014. Our Dallas radio stations generated 20.8% of our total net broadcasting advertising revenue for the year ended December 31, 2016, 24.5% of our total net broadcasting advertising revenue for the year ended December 31, 2015 and 24.0% for the year ended December 31, 2014.

Because substantial portions of our broadcast advertising revenues are derived from our Los Angeles and Dallas markets, our ability to generate revenues in those markets could be adversely affected by local or regional economic downturns in these areas.

EMPLOYEES

As of February 2, 2017, we employed 1,590 employees of which 1,214 are full time and 376 are part time. These employees consist of 1,153 employees in radio broadcasting, 181 employees in digital media entities, 136 employees in publishing, and 120 corporate employees. We consider our relations with our employees to be good and none of our employees are covered by collective bargaining agreements.

We employ on-air personalities and we may enter into employment agreements with these on-air personalities in order to protect our interests in these relationships. However, on-air talent may be lost to competitors for a variety of reasons. While we do not believe that the loss of any one of our on-air personalities would have a material and adverse effect on our consolidated financial condition and results of operations, the loss of several key on-air personalities combined could have a material and adverse effect on our business.

AVAILABLE INFORMATION

Our Internet address is www.salemedia.com. We make available free of charge on our investor relations website under the heading “SEC Filings” 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 filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports are available as soon as reasonably practical after we electronically file them or furnish them to the 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.*

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below before investing in our securities. Our business is subject to risks associated with general economic conditions, geopolitical events, competition, technological obsolescence and employee relations. The risks described below, along with risks not currently known to us or that we currently believe are immaterial, may impair our business operations and liquidity in unfavorable ways. We operate in a continually changing business environment in which new risk factors emerge from time to time. We can neither predict new risk factors, nor can we assess the impact, if any, these new risk factors may have on our business. The extent to which any risk factor, or combination of risk factors, may affect our business, financial condition and results of operations could seriously and materially influence the trading price of our common stock.

CERTAIN FACTORS AFFECTING SALEM

We may choose not to pursue potentially more profitable business opportunities outside of our Christian, conservative news talk and family-themed formats, or not to broadcast programming that violates our programming standards, either of which may have a material and adverse effect on our business.

We are fundamentally committed to broadcasting, digital and publishing formats and programming emphasizing Christian values, conservative family themes and news. We may choose not to switch to other formats or pursue potentially more profitable business opportunities due to this commitment, which could result in lower operating revenues and profits than we might otherwise achieve. We also do not intend to pursue business opportunities or broadcast programming that would conflict with our core commitment to Christian and family-themed formats or that would violate our programming standards, even if such opportunities or programming would be more profitable. Our decision not to pursue other formats, business opportunities and/or broadcast programming that is inconsistent with our programming standards may have a material and adverse effect on our business.

We are controlled by a few controlling stockholders who exercise control over most matters submitted to a stockholder vote and may have interests that differ from other security holders. Therefore, they may take actions that are not in the interests of other security holders.

As of December 31, 2016, Edward G. Atsinger III (Chief Executive Officer), Stuart W. Epperson (Chairman), Nancy A. Epperson (wife of Chairman) and Edward C. Atsinger (son of Chief Executive Officer) controlled approximately 83.8% in aggregate of the voting power of our capital stock including all of the outstanding shares of our Class B Common Stock, each share of which is entitled to ten votes on matters subject to a stockholder vote. Thus, these four stockholders have the ability to control fundamental corporate transactions requiring stockholder approval, including but not limited to, the election of all of our directors, approval of merger transactions involving Salem and the sale of all or substantially all of Salem’s assets. The interests of any of these controlling stockholders may differ from the interests of our other security holders in a material manner.

RISKS ASSOCIATED WITH BUSINESS OPERATIONS

ECONOMIC CONDITIONS

We may be adversely and acutely affected by deteriorating economic conditions.

The risks associated with our businesses become more acute in periods of a slowing economy or recession, which are often accompanied by a decrease in advertising. A decline in the level of business activity of our advertisers could have an adverse effect on our revenues and profit margins. During economic slowdowns in the United States, many advertisers have reduced their advertising expenditures. While the precise impact of economic slowdowns on our business is difficult to predict, our exposure to several risks increases with a slowing economy or a recession, including but not limited to:

- Increasing pressure to sell advertising and block programming time at discounted rates;
- Increases in the length of time to collect receivables and higher risks that accounts become uncollectible as our customers face tight credit markets;
- Reductions in donations to ministries, which could negatively impact their ability to purchase and pay for block programming time;
- We may be unable to find suitable replacements for ministries which can no longer purchase and pay for block programming;

- Limitations on our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions and other corporate requirements;
- Limitations on our ability to pursue projects that could have been economically beneficial; and
- Impairment losses on the value of our indefinite-lived intangible assets including FCC broadcast licenses, goodwill, and mastheads and impairment losses on other long-lived assets.

Our results of operations could be negatively impacted by weak economic conditions of an individual business sector.

A recession or downturn in the economy of any individual business sector could have a significant effect on us. Even with the recovery seen from the 2008 economic recession, an individual business sector (such as the automotive industry) that tends to spend more on advertising than other sectors, might be forced to maintain a reduced level of advertising expenditures for several years after economic recovery has been in progress. If that sector experiences a slower recovery than the economy in general, that sector may reduce its advertising expenditures further if additional downturns occur. If that sector's spending represents a significant portion of our advertising revenues, any reduction in its advertising expenditures may negatively impact our results of operations.

General economic conditions, including a prolonged weakness in the economy, may affect consumer purchases, which could adversely affect our wellness product sales.

Our wellness product operating results are dependent on a number of factors impacting consumer spending, including general economic and business conditions; consumer confidence; wages and employment levels; the housing market; consumer debt levels; availability of consumer credit; credit and interest rates; fuel and energy costs; energy shortages; taxes; general political conditions, both domestic and abroad; and the level of customer traffic within department stores, malls and other shopping and selling environments. Consumer product purchases, including purchases of our wellness products, may decline during recessionary periods. A prolonged downturn or an uncertain outlook in the economy may materially and adversely affect our wellness product business, revenues and profits.

REPUTATION

Damage to our reputation could damage our businesses and our relationship with advertisers and block programmers.

Maintaining a positive reputation is critical to our ability to attract and maintain relationships with advertisers, block programmers and our audience. As a company that focuses on, among other things, Christian and family-themed content, in particular, damage to our reputation could therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory action, failure to deliver minimum standards of service and quality, compliance failures and unethical behavior. Negative publicity regarding us, whether or not true, may also result in harm to our business prospects.

Poor perception of our brand, business or industry could harm our reputation and materially and adversely affect our business, financial condition and results of operations.

Our business is dependent upon attracting a large audience to our radio stations, websites and publications. Our brand, business and reputation are vulnerable to poor perception. Any damage to our reputation could harm our ability to attract and retain advertisers, customers and content creators, which could materially and adversely affect our financial condition and results of operations.

Unfavorable publicity or consumer perception of our wellness products, the ingredients they contain and any similar products distributed by other companies could cause fluctuations in our operating results and could have a material adverse effect on our reputation, the demand for our wellness products and our ability to generate revenue.

We are highly dependent upon consumer perception of the safety and quality of our wellness products and the ingredients they contain. Consumer perception of our wellness products and the ingredients they contain, as well as consumer perception of similar wellness products, can be significantly influenced by scientific research or findings, national media attention and other publicity about wellness product use. A wellness product may be received favorably, resulting in high sales associated with that product that may not be sustainable as consumer preferences change. Future scientific research or publicity could be unfavorable to the wellness product industry or any of our particular wellness products or the ingredients they contain and may not be consistent with earlier favorable research or publicity. A future research report or publicity that is perceived by our wellness product consumers as less favorable or that questions earlier research or publicity could have a material adverse effect on our ability to generate wellness product revenues. Unfavorable market perception of our wellness products could have a material adverse effect on our reputation, the demand for our wellness products, and our ability to generate wellness product revenues.

KEY EMPLOYEES

Our business is dependent upon the performance of key employees, on-air talent and program hosts, as well as our ability to attract new employees.

Our business is dependent upon the performance and continued efforts of certain key individuals, including Edward G. Atsinger III, our Chief Executive Officer, and Stuart W. Epperson, our Chairman of the Board. Notwithstanding that we have entered into employment agreements with such individuals, the loss of the services of such key individuals could have a material adverse effect upon us. Further, Mr. Epperson has radio interests unrelated to our operations that will continue to impose demands on his time and Mr. Atsinger has an interest in an aviation business unrelated to our operations that will continue to impose demands on his time. Our success is highly dependent upon the retention of these and other key employees throughout our organization. In addition, we are dependent upon our ability to continue to attract new employees with key skills to support continued business growth.

We also employ or independently contract with several on-air personalities and hosts of syndicated radio programs with significant loyal audiences on both a national level and in their respective local markets. Several of our on-air personalities have a presence that extends beyond our radio platforms into other strategic areas. Although we have entered into long-term agreements with some of our executive officers, key on-air talent and program hosts to protect our interests in those relationships, we can give no assurance that all or any of these key employees will remain with us or will retain their audiences. Competition for these individuals is intense and many of our key employees are at-will employees who are under no legal obligation to remain with us. Our competitors may choose to extend offers to any of these individuals on terms that we may be unable or unwilling to meet. In addition, any or all of our key employees may decide to leave for a variety of personal or other reasons beyond our control. Furthermore, the popularity and audience loyalty of our key on-air talent and program hosts is highly sensitive to rapidly changing public tastes. A loss of such popularity or audience loyalty is beyond our control and could limit our ability to generate revenues.

If we fail to maintain strong relationships with our authors and other creative talent, as well as to develop relationships with new creative talent, our business and financial performance could be materially and adversely affected.

Our business, in particular book publishing and financial publications, is highly dependent on maintaining strong relationships with the authors and other creative talent who produce the products and services sold to our customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have a material adverse impact on our business and financial performance.

FACTORS AFFECTING REVENUE AND AUDIENCE GROWTH

If we are unable to maintain or grow our advertising revenues, our business, financial condition and operating results may be materially and adversely affected.

Our radio stations, digital media and publishing entities are to varying degrees dependent upon advertising for their respective revenues. We compete for advertising revenue with other commercial broadcasters, including faith-based and general format radio stations, as well as with other media outlets such as broadcast and cable television, newspapers, print magazines, direct mail, digital and billboard advertising. Due to this significant competition, we may not be able to maintain or increase our current advertising revenue. Any sustained economic downturn could negatively impact our ability to generate revenues. If we are unable to maintain and grow our advertising revenues, our business, financial condition and results of operations may be materially and adversely affected.

Since the economic recession of 2008 and 2009, we have experienced a stabilization of advertising revenue. This stabilization excludes the beneficial impact of political advertising as such impact varies with the type and nature of elections. There can be no assurance that our advertising revenue will not be volatile in the future or that such volatility will not have an adverse impact on our business, financial condition or results of operations.

Our business generates revenue from the sale of advertising, and the reduction in spending by or loss of advertisers could seriously harm our business.

We derive a substantial part of our total revenues from the sale of advertising. For the years ended December 31, 2016, 2015 and 2014, 38.3%, 39.2% and 40.0% of our total revenues, respectively, were generated from the sale of broadcast advertising. We are particularly dependent on revenue from our Los Angeles and Dallas markets which generated 15.1% and 20.8%, respectively, of our total net broadcasting advertising revenue for the year ended December 31, 2016, 14.7% and 24.5%, respectively, of our total net broadcasting advertising revenue for the year ended December 31, 2015 and 14.3% and 24.0%, respectively, for the year ended December 31, 2014.

Our revenues and net operating income may not be sufficient to utilize deferred tax assets that could offset future taxable income.

As of December 31, 2016, we had deferred tax assets of \$79.5 million, net of valuation allowances of \$4.5 million, on our consolidated balance sheet included in this annual report on Form 10-K. We expect to utilize these deferred tax assets to reduce consolidated income tax liabilities over future periods. However, we may not be able to fully utilize these deferred tax assets if future taxable income and related income tax liabilities are insufficient to allow their use. We may be required to record a larger valuation allowance against these deferred tax assets if we believe that we are unable to utilize them, which would have a material adverse effect on our results of operations and financial position.

Our advertising revenues in certain markets are ratings-sensitive and subject to decline based on ratings agency projections.

Nielsen uses its own technology to collect data for its ratings service. The Portable People Meter™ (“PPM”) is a small device that does not require active manipulation by the end user and is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals that are encoded for the service by the broadcaster. The PPM offers a number of advantages over the traditional diary ratings collection system including ease of use, more reliable ratings data and shorter time periods between when advertising runs and when audience listening or viewing habits can be reported. PPM data can fluctuate when changes are made to the “panel” (a group of individuals holding PPM devices) and in markets where we subscribe to Nielsen under the PPM, our ratings tend to fluctuate even when there are no significant programming or competitive changes in the market. As a result, all of our stations are susceptible to inconsistencies in ratings that may or may not accurately reflect the actual number of listeners at any given time, which, in turn, may result in adverse effects on our advertising revenues in markets where such revenues are ratings-sensitive.

Our revenues and net operating income may not be sufficient to utilize deferred tax assets that could offset future taxable income.

As of December 31, 2016, we had deferred tax assets of \$79.5 million, net of valuation allowances of \$4.5 million, on our consolidated balance sheet included in this offering memorandum. We expect to utilize these deferred tax assets to reduce consolidated income tax liabilities over future periods. However, we may not be able to fully utilize these deferred tax assets if future taxable income and related income tax liabilities are insufficient to allow their use. We may be required to record a larger valuation allowance against these deferred tax assets if we believe that we are unable to utilize them, which would have a material adverse effect on our results of operations and financial position.

If we cannot attract the anticipated listener, programmer and advertiser base for our newly-acquired radio stations, we may not recoup associated operating costs or achieve profitability for these radio stations.

We frequently acquire radio stations that previously broadcasted in formats other than our primary formats. We continue to program some of these stations in non-primary formats and we re-program others to one of our primary formats. During, and for a period after, the conversion of a radio station’s format, the radio station typically generates operating losses. The magnitude and duration of these losses depend on a number of factors, including the promotional and marketing costs associated with attracting listeners and advertisers to our radio station’s new format and the success of these efforts. There is no guarantee that the operation of these newly-acquired stations or our operations in new formats will attract a sufficient listener and advertiser base. If we are not successful in attracting the listener and advertiser base we anticipate, we may not recoup associated operating costs or achieve profitability for these newly-acquired radio stations.

If we do not maintain or increase our block programming revenues, our business, financial condition and operating results may be materially and adversely affected.

The financial success of each of our radio stations that feature Christian Teaching and Talk programming is significantly dependent upon our ability to generate revenue from the sale of block programming time to national and local religious and educational organizations. Block programming accounted for 42.7% of our net broadcast revenue for the year ended December 31, 2016, 41.9% of our net broadcast revenue for the year ended December 31, 2015 and 41.0% of our net broadcast revenue for the year ended December 31, 2014. We compete for this program revenue with a number of commercial and non-commercial radio stations. Due to the significant competition for this block programming, we may not be able to maintain or increase our current block programming revenue, in which case, our business, financial condition and results of operations may be materially and adversely affected.

We face significant competition, which we expect will continue to intensify, and we may not be able to maintain or improve our competitive position or market share.

We operate in a highly competitive broadcast and media business. We compete for advertisers and customers with other radio broadcasters, as well as with other media sources including broadcast and cable television, newspapers and magazines, national and local digital services, outdoor advertising, direct mail, online marketing and media companies, social media platforms, web-based blogs, and mobile devices. We face intense competition from a wide range of competitors, including online marketing and media companies, integrated social media platforms and other specialist and enthusiast websites.

Our broadcast audience ratings and market shares are subject to change, and any change in a particular market could have a material adverse effect on the revenue of our stations located in that market. Salem Web Network competes for visitors and advertisers with other companies that deliver online audio programming and Christian and conservative Internet content as well as providers of general market Internet sites. Our book publishing business competes for readers with other book publishers, including those targeted specifically at Christian and conservative audiences. Our print magazines compete for readers and advertisers with other print publications including those that follow the Christian music industry and those that address themes of interest to church leadership and the Christian audience. Salem Author Services, comprised of Xulon Press™ and Hillcrest Media, competes for authors with other self-publishers.

The level of competition that we face could make it more difficult for us to provide value to our consumers, our advertisers and our content creators. The perceived level of value could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, decreased website traffic and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, revenue, financial condition and results of operations. There can be no assurance that we will be able to compete successfully against current or future competitors.

If we are unable to continue to drive and increase visitors to our owned and operated websites and to our customer websites and convert these visitors into repeat users and customers cost-effectively, our business, financial condition and results of operations could be adversely affected.

We attract traffic to our owned and operated websites by offering content that is highly specific and that we believe is relevant to our audiences. How successful we are in these efforts depends, in part, upon our continued ability to create and distribute high-quality, commercially valuable content in a cost-effective manner at scale that connects consumers with content that meets their specific interests and effectively enables them to share and interact with the content and supporting communities. We may not be able to create content in a cost-effective manner or that meets rapidly changing consumer demand in a timely manner, if at all. Any such failure to do so may adversely affect user and customer experiences and reduce traffic driven to our websites that could adversely affect our business, revenue, financial condition and results of operations.

Even if we succeed in driving traffic to our owned and operated websites and to our customer websites, neither we nor our advertisers and customers may be able to monetize this traffic or otherwise retain consumers. Our failure to do so could result in decreases in customers and related advertising revenue, which could have a material adverse effect on our business, financial condition and results of operations.

Concentration of book publication sales may make it difficult for us to compete effectively in the publication market.

The sale of printed book publications is concentrated in national, regional, and online bookstore chains. These bookstore chains account for a vast majority of book publishing revenues. Due to this concentration of book publication sales, it may be difficult for us to compete effectively in the market, which could adversely affect our publishing revenues and growth prospects of our publishing business.

Our financial results would suffer if we fail to successfully meet market needs with our publishing business.

The sale of books represents a substantial part of revenues for Regnery Publishing. If we are unable to successfully develop and execute promotional strategies for new books that respond to customer trends, including trends related to demand for eBooks, or other technological changes, Regnery Publishing and Salem as a whole may suffer accordingly.

We may be unable to increase or maintain our digital advertising revenues, which could have a material adverse effect on our business, financial condition and results of operations.

We generate advertising revenue from the sale of digital display advertisements on our websites. Our ability to increase or maintain this advertising revenue is largely dependent upon the number of users actively visiting our websites. We also must increase user engagement with our advertisers in order to increase our advertising revenues. Additionally, digital advertising techniques are evolving, and if our technology and advertisement serving techniques do not evolve to meet the needs of advertisers, our advertising revenue could decline. Changes in our business model, advertising inventory or initiatives could also cause a decrease in our advertising revenue. Because digital media is a concentrated growth area for us, any decrease in revenues in these areas could affect our business, financial condition and results of operations.

Digital advertisements are reportedly becoming a means to distribute viruses over the Internet. If this practice continues, it could result in consumers becoming less inclined to click through digital advertisements, which could adversely affect the demand for digital advertising. Additionally, we do not have long-term agreements with most of our digital advertisers. Any termination, change or decrease in our advertising relationships could have a material adverse effect on our revenues and profitability. If we do not maintain or increase our advertising revenues, our business, results of operations and financial condition could be materially and adversely affected.

If the methodologies of Internet search engines' are modified, traffic to our websites and corresponding consumer origination volumes could decline.

We depend in part on various Internet search engines, including Google®, Bing®, and Yahoo!®, to direct a significant amount of traffic to our websites. Our ability to maintain the number of visitors directed to our websites through which we distribute our content by search engines is not entirely within our control. Changes in the methodologies used by search engines to display results could cause our websites to receive less favorable placements, which could reduce the number of unique visitors who link to our websites. Any reduction in the number of users directed to our websites could negatively affect our ability to earn revenue. If traffic on our websites declines, we may need to employ more costly resources to replace lost traffic, and such increased expense could adversely affect our business, financial condition and results of operations.

Wireless devices and mobile phones are used to access the Internet, and our online marketing services may not be as effective when accessed through these devices, which could cause harm to our business, financial condition and results of operations.

The number of people who access the Internet through devices other than personal computers has increased substantially in the last several years. Our websites were originally designed for persons accessing the Internet on a desktop or laptop computer. The smaller screens, lower resolution graphics and less convenient typing capabilities of wireless devices and mobile phones may make it more difficult for visitors to respond to our offerings. In addition, the cost of mobile advertising is relatively high and may not be cost-effective for our services. We must also ensure that our licensing arrangements with third-party content providers allow us to make this content available on these devices. If we cannot effectively make our content, products and services available on these devices, fewer consumers may access and use our content, products and services. In addition, if our services continue to be less effective or less economically attractive for customers seeking to engage in advertising through these devices and this segment of Internet traffic grows at the expense of traditional computer Internet access, we will experience difficulty attracting website visitors and attracting and retaining customers and our business, financial condition and results of operations will be harmed.

POTENTIAL LEGAL LIABILITIES

As a creator and a distributor of multimedia content, we face potential liability and expenses for legal claims based on the nature and content of the materials that we create and/or distribute, or that are accessible via our owned and operated websites and our network of customer websites. If we are required to pay damages or expenses in connection with these legal claims, our business, financial condition and results of operations may be harmed.

We rely on the work product of various content creators, both employees and non-employees, to produce original programs, articles and content for our radio programs, websites and print publications. We face potential liability based on a variety of theories, including defamation, negligence, unlawful practice of a licensed profession, copyright, trademark infringement, or other legal theories based on the nature, creation or distribution of this information, and under various laws, including the Lanham Act and the Copyright Act of 1976. We may also be exposed to similar liability in connection with content that we do not create but that is posted to our owned and operated websites and to our network of customer websites by users and other third parties through forums, comments, personas and other social media features. In addition, it is also possible that visitors to our owned and operated websites and to our network of customer websites could make claims against us for losses incurred in reliance upon information provided on our owned and operated websites or our network of customer websites. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. If we become subject to these or similar types of claims and are not successful in our defense, we may be forced to pay substantial damages. While we run our content through a rigorous quality control process, including an automated plagiarism program, there is no guarantee that we will avoid future liability and potential expenses for legal claims based on the content of the materials that we create or distribute. Should the content distributed through our owned and operated websites and our network of customer websites violate the intellectual property rights of others or otherwise give rise to claims against us, we could be subject to substantial liability, which could have a negative impact on our business, financial condition and results of operations.

We could face liability for the information we publish in our financial newsletters, including information based on data we obtain from other parties.

We may be subject to claims for securities law violations, defamation (including libel and slander), negligence, or other claims relating to the information we publish in our financial newsletters. While we strive to minimize such risks, it is possible that we could be subject to investigations and potential enforcement actions by the SEC or civil liability for securities fraud to subscribers who invest on the basis of information provided in our financial newsletters and related materials or by the independent financial commentators who provide newsletter content. For example, subscribers may take legal action against us if they rely on published information or market analysis that contains an error or on market strategies that do not perform as described. Additionally, a company may claim that we have made a defamatory statement about it, its employees or its financial position. The authors of our newsletters also rely on a variety of outside parties as sources for some of the information we use in our published data. These sources include securities exchanges, fund companies, hedge funds, transfer agents, and other data providers. Accordingly, in addition to possible exposure for publishing incorrect information that results directly from our own errors, we could face liability based on inaccurate data provided to us by others or based upon the actions of the authors. Defending civil claims or being subject to SEC investigations or enforcement actions based on the information we publish in our financial newsletters could be expensive and time-consuming and could adversely impact our business, operating results, and financial condition.

The sale of our wellness products involves product liability and related risks that could expose us to significant insurance and loss expenses.

We face an inherent risk of exposure to wellness product liability claims if the use of our wellness products results in, or is believed to have resulted in, illness or injury. Most of our wellness products contain combinations of ingredients, and there is little long-term experience with the effect of these combinations. In addition, interactions of these wellness products with other products, prescription medicines and over-the-counter drugs have not been fully explored or understood and may have unintended consequences. While our third party manufacturers perform tests in connection with the formulations of our wellness products, these tests are not designed to evaluate the inherent safety of our wellness products.

Although we maintain product liability insurance, it may not be sufficient to cover all product liability claims and such claims that may arise could have a material adverse effect on our business and financial condition. We carry product liability insurance coverage that requires us to pay deductibles/retentions with primary and excess liability coverage above the deductible/retention amount. Because of our deductibles and self-insured retention amounts, we have significant exposure to fluctuations in the number and severity of claims. The successful assertion or settlement of an uninsured claim, a significant number of insured claims or a claim exceeding the limits of our insurance coverage would harm us by adding further costs to our business and by diverting the attention of our senior management from the operation of our business. Even if we successfully defend a liability claim, the uninsured litigation costs and adverse publicity may be harmful to our business.

Any product liability claim may increase our costs and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, which, if adversely determined, could subject us to substantial monetary damages.

TECHNOLOGICAL ADVANCES

We must respond to the rapid changes in technology, services and standards of our industry in order to remain competitive.

The media industry is subject to rapid technological change, evolving industry standards and the emergence of competition from new media technologies and services. We cannot make assurances that we will have the resources to acquire new technologies or to introduce new services that could compete with these new technologies. Various new media technologies and services are currently being developed or introduced, including but not limited to:

- Satellite-delivered digital audio radio service, which has resulted in the introduction of new subscriber-based satellite radio services with numerous niche formats;
- Audio programming by cable systems, direct-broadcast satellite systems, personal communications systems, content available over the Internet and other digital audio broadcast formats;
- In-band on-channel digital radio, which provides multi-channel, multi-format digital radio services in the same bandwidth currently occupied by traditional AM and FM radio services;
- Low-power FM radio, which could result in additional FM radio broadcast outlets including additional low-power FM radio signals authorized in December 2010 under the Local Community Radio Act;
- High Definition (“HD”) radio;
- Internet radio and other audio content offerings such as Pandora and iHeart Radio; and
- Personal digital audio devices (e.g. audio via WiFi, mobile phones, WiMAX, etc.) or other emerging next-generation networks and technologies.

We currently program one channel on SiriusXM. We also offer podcasts and downloads of portions of our programming; however, we cannot assure you that this arrangement will be successful or enable us to adapt effectively to these new media technologies. We cannot predict the effect, if any, that competition arising from new technologies or regulatory change(s) may have on the radio broadcast industry or on our financial condition and results of operations.

New technologies may increase competition with our broadcasting and printing operations.

Our broadcasting and printing businesses face increasing competition from new technologies, such as broadband wireless, satellite radio and audio broadcasting by cable television systems, as well as new customer products, such as portable digital audio players and smart mobile phones. These new technologies and alternative media platforms compete with our radio stations for audience share and advertising revenues. The FCC also has approved new technologies for use in the radio broadcasting industry, including the terrestrial delivery of digital audio broadcasting, which significantly enhances the sound quality of radio broadcasts. We are unable to predict the effect that such technologies and related services and products will have on our broadcasting operations, but the capital expenditures necessary to implement such technologies could be substantial. We cannot assure that we will continue to have the resources to acquire new technologies or to introduce new services to compete with other new technologies or services, and other companies employing such new technologies or services could increase competition with our businesses.

Our printing business also faces increasing competition from the Internet, eBook reader devices, tablets and other new technologies. These new technologies and alternative media platforms compete with our printed books and magazines for audience share and advertising revenues. We must continue to expand our publishing businesses from traditional publishers to new digital technologies. We may make significant investments in new products and services that may not be profitable, or whose profitability may be significantly lower than we have experienced. Success and continued growth depends greatly on developing new products and the means to deliver them in an environment of rapid technological change.

We must respond to changes in consumer behavior as a result of new technologies in order to remain competitive.

Technology, particularly digital technology used in the entertainment industry, continues to evolve rapidly, leading to alternative methods for the delivery and storage of digital content. These technological advancements have driven changes in consumer behavior and have empowered consumers to seek more control over when, where and how they consume digital content. Content owners are increasingly delivering their content directly to consumers over the Internet, often without charge, and innovations in distribution platforms have enabled consumers to view such Internet-delivered content on televisions and portable devices. There is a risk that our responses to these changes and strategies to remain competitive, including distribution of our content on a “pay” basis, may not be adopted by consumers. In publishing, the trend toward digital media may drive down the price consumers are willing to spend on our products disproportionately to the costs associated with generating literary content. Our failure to protect and exploit the value of our content, while responding to and developing new technology and business models to take advantage of advancements in technology and the latest consumer preferences, could have a material adverse effect on our business, financial condition and results of operations.

INFORMATION TECHNOLOGY, CYBERSECURITY AND OTHER EVENTS

The interruption or failure of our information technology and communications systems, or those of third parties that we rely upon, may materially and adversely affect our business, financial condition, and results of operations.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems, or those of third parties that we rely upon (e.g., co-location providers for data servers, storage devices, and network access) could result in interruptions in our service, which could reduce our revenue and profits. Our systems are also vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses or other attempts to harm our systems.

Furthermore, third-party service providers may experience an interruption in operations or cease operations for any reason. If we are unable to agree on satisfactory terms for continued data center hosting relationships, we would be forced to enter into a relationship with other service providers or assume hosting responsibilities ourselves. If we are forced to switch hosting facilities, we may not be successful in finding an alternative service provider on acceptable terms or in hosting the computer servers ourselves. We may also be limited in our remedies against these providers in the event of a failure of service. We also rely on third-party providers for components of our technology platform, such as hardware and software providers. A failure or limitation of service or available capacity by any of these third-party providers may materially and adversely affect our business, financial condition and results of operations.

We rely on third parties to provide software and related services necessary for the operation of our business.

We incorporate and include third-party software into and with our applications and service offerings and expect to continue to do so. The operation of our applications and service offerings could be impaired if errors occur in the third-party software that we use. It may be more difficult for us to correct any defects in third-party software because the development and maintenance of the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that any third-party licensors will continue to make their software available to us on acceptable terms, to invest the appropriate levels of resources in their software to maintain and enhance its capabilities, or to remain in business. Any impairment in our relationship with these third-party licensors could harm our ability to maintain and expand the reach of our service, increase listener hours and sell advertising, each of which could harm our business, financial condition and results of operations.

Our broadcasts often rely on content owned by third parties; obtaining such content could be costly and require us to enter into disadvantageous license or royalty arrangements.

We rely heavily upon content and software owned by third parties in order to provide programming for our broadcasts. The cost of obtaining all necessary licenses and permission to use this third-party content and software continues to increase. Although we attempt to avoid infringing known proprietary rights of third parties in our broadcasting efforts, we expect that we may be subject to legal proceedings and claims for alleged infringement from time to time in the ordinary course of business. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, or require us to enter into royalty or license agreements which are not advantageous to us. In addition, parties making claims may be able to obtain an injunction, which could prevent us from broadcasting all or certain portions of individual radio broadcasts containing content owned by third parties. We also rely on software that we license from third parties, including software that is integrated with internally developed software and used to perform key broadcasting and accounting functions. We could lose the right to use this software or it could be made available to us only on commercially unreasonable terms. Although we believe that alternative software is available from other third-party suppliers or internal developments, the loss of or inability to maintain any of these software licenses or the inability of the third parties to enhance in a timely and cost-effective manner their products in response to changing customer needs, industry standards or technological developments could result in limitations or delays in broadcasting or accounting for programming by us until equivalent software can be developed internally or identified, licensed and integrated, which would harm our business.

We may have difficulty scaling and adapting our existing technology and network infrastructure to accommodate increased traffic and technology advances or changing business requirements, which could lead to the loss of current and potential customers and advertisers, and cause us to incur expenses to make architectural changes.

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computing power we will need. In the future, we may spend substantial amounts to purchase or lease data centers and equipment, upgrade our technology and network infrastructure to handle increased traffic on our owned and operated websites and roll out new products and services. This expansion could be expensive and complex and could result in inefficiencies or operational failures. If we do not implement this expansion successfully, or if we experience inefficiencies and operational failures during its implementation, the quality of our products and services and our users' experience could decline. This could damage our reputation and lead us to lose current and potential customers and advertisers. The costs associated with these adjustments to our architecture could harm our operating results. Cost increases, loss of traffic or failure to accommodate new technologies or changing business requirements could harm our business, financial condition and results of operations.

Cyber security and privacy breaches may hurt our business, damage our reputation, increase our costs, and cause losses.

Our information technology systems could be subject to invasion, cyber-attack, or data privacy breaches by employees, others with authorized access, and unauthorized persons. Such attacks could result in disruption to our operations, loss or disclosure of, or damage to, our or any of our customer's or vendor's data or confidential information. Security measures may also be breached due to employee error, malfeasance, or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, customers or vendors to disclose sensitive information in order to gain access to our data and information technology systems. Any such breach could result in significant legal and financial exposure, damage to our reputation, loss of competitive advantage, and a loss of confidence in the security of our information technology systems that could potentially have an impact on our operations. Because the techniques used to obtain unauthorized access, disable or degrade, or sabotage our information technology systems change frequently and often are not recognized until launched, we may be unable to anticipate these techniques or to implement adequate preventive measures.

Third parties that provide services for our operations could also be a source of security risk in the event of a failure of their own security systems and infrastructure. In addition, sophisticated hardware and operating system software and applications that are procured from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of our information technology systems.

Although we have developed systems and processes designed to protect information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach, such measures cannot provide absolute security. Such breaches, whether successful or unsuccessful, could result in the incurrence of costs related to rebuilding internal systems, defending against litigation, responding to regulatory inquiries or actions, paying damages, or taking other remedial steps.

Global privacy legislation, enforcement, and policy activity are rapidly expanding and creating a complex compliance environment. Our failure to comply with federal, state, or international privacy related or data protection laws and regulations could result in proceedings against us by governmental entities or others. Although we have insurance coverage for protecting against cyber security risks, it may not be sufficient to cover all possible claims and losses that could have a material adverse effect on our business.

Our business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, our Internet websites and online services.

Our business may be adversely affected by malicious applications that make changes to our users' computers and interfere with their experience with our websites. These applications may attempt to change our users' Internet experience, including hijacking queries to our website, altering or replacing search results or otherwise interfering with our ability to connect with our users. The interference often occurs without disclosure or consent, resulting in a negative experience that users may associate with us. These applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. The ability to reach users and provide them with a superior experience is critical to our success. If our efforts to combat these malicious applications are unsuccessful, our reputation may be harmed and user traffic could decline, which would damage our business.

Privacy protection is increasingly demanding, and we may be exposed to risks and costs associated with security breaches, data loss, credit card fraud and identity theft that could cause us to incur unexpected expenses and loss of revenue as well as other risks.

The protection of customer, employee, vendor, and other business data is critical to us. Federal, state, provincial and international laws and regulations govern the collection, retention, sharing and security of data that we receive from and about our employees, customers, vendors and franchisees. The regulatory environment surrounding information security and privacy has been increasingly demanding in recent years, and we may see the imposition of new and additional requirements by states and the federal government as well as foreign jurisdictions in which we do business. Compliance with these requirements may result in cost increases due to necessary systems changes and the development of new processes to meet these requirements. In addition, customers have a high expectation that we will adequately protect their personal information. If we or our service providers fail to comply with these laws and regulations or experience a significant breach of customer, employee, vendor, franchisee or other company data, our reputation could be damaged and result in an increase in service charges, suspension of service, lost sales, fines or lawsuits.

The use of credit payment systems makes us more susceptible to a risk of loss in connection with these issues, particularly with respect to an external security breach of customer information that we or third parties (including those with whom we have strategic alliances) under arrangements with us control. Significant portions of our sales require the collection of certain customer data, such as credit card information. In order for our sales channel to function, we and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. In the event of a security breach, theft, leakage, accidental release or other illegal activity with respect to employee, customer, or vendor with whom we have strategic alliances or other company data, we could become subject to various claims, including those arising out of thefts and fraudulent transactions, and may also result in the suspension of credit card services. This could cause consumers to lose confidence in our security measures, harm our reputation as well as divert management attention and expose us to potentially unreserved claims and litigation. Any loss in connection with these types of claims could be substantial. In addition, if our electronic payment systems are damaged or cease to function properly, we may have to make significant investments to fix or replace them, and we may suffer interruptions in our operations in the interim. In addition, we are reliant on these systems, not only to protect the security of the information stored, but also to appropriately track and record data. Any failures or inadequacies in these systems could expose us to significant unreserved losses, which could materially and adversely affect our business, financial condition and results of operations. Our brand reputation would likely be damaged as well.

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events and to interruption by man-made problems such as computer viruses or terrorism.

Our systems and operations are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins or similar events. A significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, financial condition and results of operations. Our insurance coverage may be insufficient to compensate us for losses that may occur. Our principal executive offices are located in Southern California, a region known for seismic activity. In addition, acts of terrorism could also cause disruptions in our business or the economy as a whole. We rely heavily on servers, computers, communications systems and the Internet to conduct our business and provide high quality service to our listeners. Our servers may be vulnerable to cyber-security risks such as computer viruses and break-ins. Disruptions in these services could negatively impact our ability to run our business, result in the loss of existing or potential listeners, the loss of existing or potential advertisers and increase maintenance costs, each of which could materially and adversely affect our business, financial condition and results of operations. To date, we have not experienced significant disruptions in running our business due to catastrophic events, earthquakes, computer viruses or terrorism.

ACQUISITIONS AND CAPITAL INVESTMENTS

We may be unable to integrate the operations and management of acquired stations or businesses, which could have a material and adverse effect on our business and operating results.

Acquisitions may have a substantial impact on our revenues, costs, cash flows, and financial position. We spent \$10.1 million, \$17.3 million and \$18.7 million on acquisitions during the years ended December 31, 2016, 2015 and 2014, respectively. We expect to make additional acquisitions of radio stations, FM transmitters, digital businesses and publishing businesses. Acquisitions involve risks and uncertainties, including difficulties in integrating acquired operations and in realizing expected opportunities; diversions of management resources and loss of key employees; challenges with respect to operating new businesses; debt incurred in financing such acquisitions; and other unanticipated problems and liabilities. There can be no assurance that we will be able to successfully integrate the operations or management of acquired radio stations and businesses and realize anticipated revenue synergies, or the operations or management of stations and businesses that may be acquired in the future.

Continued acquisitions will require us to manage a larger and likely more geographically diverse region of radio stations, digital portfolios and publishing portfolios than historically has been the case. Our inability to integrate and manage newly-acquired radio stations, digital businesses or publishing entities successfully could have a material and adverse effect on our business and operating results.

If we are unable to execute our acquisition strategy successfully, our business may not continue to grow.

We intend to continue to selectively acquire radio stations, FM translators, digital media entities and publishing businesses. With respect to the acquisition of radio stations, our acquisition strategy has been, and will continue to focus primarily on, the acquisition of stations in the top fifty (50) markets. However, we may not be able to identify and consummate future acquisitions successfully, and stations that we do acquire may not increase our station operating income or yield other anticipated benefits. Acquisitions in markets in which we already own stations may not increase our station operating income due to saturation of audience demand. Acquisitions in smaller markets may have less potential to increase operating revenues. With respect to our acquisition strategy of digital and publishing businesses, we may not be able to identify and consummate the acquisition of future businesses successfully. Additionally, we may not be able to effectively integrate the operation of newly-acquired businesses with our existing businesses, which could result in reduced operating income from our businesses. Our failure to execute our acquisition strategy successfully in the future could limit our ability to continue to grow in terms of number of stations or profitability.

Some of our acquisition agreements contain contingent earn-out consideration, the value of which may impact future operating results.

Some of our acquisition agreements include contingent earn-out consideration, the fair value of which is estimated as of the acquisition date based on the present value of the expected contingent payments as determined using weighted probabilities of possible future payments. These fair value estimates contain unobservable inputs and estimates that could materially differ from the actual future results. The fair value of the contingent earn-out consideration could increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of contingent earn-outs will be reflected in our results of operations in the period in which they are recognized, the amount of which may be material and cause volatility in our operating results.

If we are unable to implement our market cluster strategy, we may not realize anticipated operating efficiencies.

As part of our operating strategy, we attempt to realize efficiencies in operating costs and cross-selling of advertising by clustering the operations of two or more radio stations in a single market. However, there can be no assurance that this operating strategy will be successful. Furthermore, we cannot make any assurance that the clustering of radio stations in one market will not result in downward pressure on advertising rates at one or more of the existing or new radio stations within the cluster. Furthermore, there can be no assurance that any of our stations will be able to maintain or increase its current listening audiences and operating revenue in circumstances where we implement our clustering strategy.

Additionally, FCC rules and policies allow a broadcaster to own a number of radio stations in a given market and permit, within limits, joint arrangements with other stations in a market relating to programming, advertising sales and station operations. We believe that radio stations that elect to take advantage of these clustering opportunities may have lower operating costs and may be able to offer advertisers more attractive rates and services. The future development of our business in new markets, as well as the maintenance of our business growth in those markets in which we do not currently have radio station clusters, may be negatively impacted by competitors who are taking or may take advantage of these clustering opportunities by operating multiple radio stations within markets.

We base capital allocation decisions primarily on our analysis of the predicted internal rate of return. If the estimates and assumptions we use in calculating the internal rate of return are inaccurate, our capital may be inefficiently allocated. If we fail to appropriately allocate our capital, our growth rate and financial results will be adversely affected.

We continually seek opportunities for growth by increasing the strength and number of our broadcast signals, increasing the number of page views on our web platform and increasing the subscriber base of our publications. In order to realize these growth opportunities, we must rely on continued technical improvements to expand our broadcasting, digital and publication footprint. When deciding which opportunities to pursue, we must predict the internal rate of return associated with each project. Our calculations are based on certain estimates and assumptions that may not be realized. Accordingly, the calculation of internal rate of return may not be reflective of our actual returns, and our capital may be inefficiently allocated. If we fail to appropriately allocate our capital, our growth rate and financial results will be adversely affected.

Our syndicated programming is dependent upon maintenance of our transponder equipment, which is located at various customer sites.

Delivery of our national programs is dependent upon transponder equipment that is located at various customer locations. The quality and durability of this equipment, as well as our ability to protect the equipment from damage, destruction or theft, directly impacts our ability to transmit programming. Losses to this equipment and any business interruption may not be fully insurable.

If we are unable to protect our domain names, our reputation and brands could be adversely affected.

We currently hold various domain name registrations relating to our brands. The registration and maintenance of domain names generally are regulated by governmental agencies and their designees. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to register or maintain relevant domain names. We may be unable, without significant cost or at all, to prevent third parties from registering domain names that are similar to, infringe upon or otherwise decrease the value of, our trademarks and other proprietary rights. Failure to protect our domain names could adversely affect our reputation and brands, and make it more difficult for users to find our websites and our services.

Impairment of FCC licenses, goodwill and other intangible assets deemed to have indefinite useful lives could cause future losses due to asset impairment

A majority of the purchase price for broadcast stations is allocated to FCC licenses. We may also record goodwill based on our acquisition activity. Approximately 70% of our total assets at December 31, 2016 consisted of indefinite-lived intangible assets including broadcast licenses, goodwill and mastheads. The value of these indefinite-lived intangible assets depends significantly upon the operating results of our businesses. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired.

We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year. We have incurred significant impairment losses in prior years with regard to our indefinite-lived intangible assets.

The valuation of intangible assets is subjective and based on estimates rather than precise calculations. The fair value measurements of our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. Given the current economic environment and uncertainties that can negatively impact our business, there can be no assurance that our estimates and assumptions made for the purpose of our indefinite-lived intangible fair value estimates will prove to be accurate.

During our annual testing in the fourth quarter of 2016, we recognized an impairment charge of \$6.5 million associated with the value of broadcast licenses in our Cleveland, Dallas, Detroit and Portland clusters that was largely attributable to increases in the risk free interest rate and corporate borrowing rates during the year ended December 31, 2016 as compared to the prior year. We also recognized an impairment charge of \$0.5 million associated with the value of mastheads in our magazine publishing segment due to declining revenue forecasts that we believe are indicative of trends in the magazine publishing industry as a whole. During our annual testing in the fourth quarter of 2015, we recognized an impairment charge of \$0.4 million associated with the value of goodwill in our Singing News Network (formerly Solid Gospel Network) due to a reduction of projected net revenues. During our annual testing in the fourth quarter of 2014, we recognized impairment charges of \$79,000 associated with mastheads and goodwill within our magazine publishing segment, largely due to continual declines in revenues that were not offset with cost reductions from the decrease in the number of publications printed. The growth of digital-only publications, which are often free or significantly less than a print magazine has hindered the ability of the publishing industry to recover from the economic recession that began in 2008. We believe that the impairments are indicative of trends in the industry as a whole and are not unique to our company or operations.

While the impairment charges we have recognized are non-cash in nature and do not violate covenants relating to our senior secured credit facility, they are indicative of declining expectations for future economic conditions and performance. The potential for future impairment charges can be viewed as a negative factor with regard to forecasted future performance and cash flows. We believe that we have adequately considered the economic downturn in our valuation models and do not believe that the non-cash impairments in and of themselves are a liquidity risk.

FINANCIAL REPORTING

The requirements of being a public company may strain our resources and divert management's attention.

We are subject to the reporting requirements of the Exchange Act, the listing requirements of the NASDAQ Global Select Market, and other applicable securities rules and regulations. Compliance with these rules and regulations results in a higher level of legal and financial compliance costs. Compliance can divert the time and attention of management from revenue-generating activities. Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, our business and operating results may be harmed.

In addition, complying with public disclosure rules makes our business more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

We have identified a material weakness in our internal control over financial reporting, which could, if not sufficiently remediated, result in material misstatements in our consolidated financial statements.

We are subject to Section 404 of the Sarbanes-Oxley Act (SOX), which requires us to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. We have consumed and will continue to consume management resources and incur expenses for SOX compliance on an ongoing basis.

As disclosed in Item 9A of this report in November 2016, management identified a control deficiency with respect to the precision of the review of the calculation of our valuation allowance for certain deferred tax assets and concluded that such deficiency constituted a material weakness in internal control over financial reporting.

Our management has reviewed and revised its policies and procedures with respect to controls over the review and verification of the accuracy of the calculation of the valuation allowance for certain deferred tax assets to ensure that all reasonable steps are taken to correct this material weakness. Our management has enhanced the precision of the controls, including hiring a Tax Director, however, the deficiency will not be considered remediated until internal controls are operational for a period of time and tested, and management concludes that such controls are operating effectively. Based on our assessment, we consider that the material weakness related to the precision of the review of the calculation of the provision for income taxes not to have been fully remediated and is still present as of December 31, 2016 as the remedial measures have not operated effectively for a sufficient period of time for management to conclude, through testing, that the applicable controls have operated effectively.

Accordingly, based on its assessment, management has concluded that our internal control over financial reporting was not effective as of December 31, 2016, and we have received an adverse opinion from our independent registered public accounting firm on our internal control over financial reporting as of December 31, 2016. Because of the material weakness in internal control over financial reporting, our management has not been able to conclude that our disclosure controls and procedures were effective as of December 31, 2016.

We cannot assure you that any remediation plan can resolve the material weakness identified in our internal control over financial reporting. If we are unable to fully remediate such material weakness or fail to maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of our Class A common stock could be negatively affected. Additionally, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

WELLNESS PRODUCTS

The efficacy of wellness products is supported by limited conclusive clinical studies, which could result in claims that our wellness products are ineffective or harmful to consumers.

Our wellness products are made from various ingredients including vitamins, minerals, amino acids, herbs, botanicals, fruits, berries and other substances for which there is a long history of human consumption. However, there is little long-term experience with human consumption of certain product ingredients or combinations of ingredients in concentrated form. Although we believe all of our wellness products fall within the generally known safe limits for daily doses of each ingredient contained within them, nutrition science is imperfect. Moreover, some people have peculiar sensitivities or reactions to nutrients commonly found in foods, and may have similar sensitivities or reactions to nutrients contained in our wellness products. Furthermore, nutrition science is subject to change based on new research. New scientific evidence may disprove the efficacy of our wellness products or prove our wellness products to have effects not previously known. We could be adversely affected by studies that may assert that our wellness products are ineffective or harmful to consumers, or if adverse effects are associated with a competitor's similar products.

We are currently dependent on a limited number of independent suppliers and manufacturers of our wellness products, which may affect our ability to deliver our wellness products in a timely manner. If we are not able to ensure timely product deliveries, potential distributors and customers may not order our wellness products, and our revenues may decrease.

We rely entirely on a limited number of third parties to supply and manufacture our wellness products. These third parties are subject to FDA regulation and must operate in accordance with strict manufacturing requirements referred to as Current Good Manufacturing Practices (“CGMP’s”) for dietary supplements. Our wellness products are manufactured on a purchase order basis only and manufacturers can terminate their relationships with us at any time. These third party manufacturers may be unable to satisfy our supply requirements, manufacture our wellness products on a timely basis and in compliance with CGMP’s, fill and ship our orders promptly, provide services at competitive costs or offer reliable products and services. The failure to meet any of these critical needs and legal requirements would delay or reduce wellness product shipments and adversely affect our revenues, as well as jeopardize our relationships with our customers. In the event any of our third party manufacturers were to become unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. Additionally, all of our third party manufacturers source the raw materials for our products, and if we were to use alternative manufacturers, we may not be able to duplicate the exact taste and consistency profile of the product from the original manufacturer. An extended interruption in the supply of our products would result in decreased product sales and our revenues would likely decline. We believe that we can meet our current supply and manufacturing requirements with our current suppliers and manufacturers or with available substitute suppliers and manufacturers.

We are dependent on our third party manufacturers to supply our wellness products in the compositions we require, and we do not independently analyze our wellness products. Any errors in our wellness product manufacturing could result in wellness product recalls, contamination, significant legal exposure, reduced revenues and the loss of distributors.

While we require that our manufacturers verify the accuracy of the contents of our wellness products, we do not have the expertise or personnel to monitor the production of products by these third parties. We rely exclusively, without independent verification, on certificates of analysis regarding wellness product content provided by our third party suppliers and limited safety testing they perform. We cannot be assured that all of the third parties involved in the manufacturing of our products are complying with government health and safety standards, and even if our wellness products meet these standards, they could otherwise become contaminated. Errors in the manufacture of our wellness products and the occurrence of contamination could result in product recalls, significant legal exposure, adverse publicity, decreased revenues and loss of distributors and endorsers. We also cannot be assured that these outside manufacturers will continue to supply wellness products to us reliably in the compositions we require. Any of these failures or occurrences could negatively affect our wellness products business and financial performance.

If the wellness products we sell do not have the healthful effects intended, our wellness products business may suffer.

In general, our wellness products sold consist of nutritional supplements, which are classified in the United States as “dietary supplements” which do not currently require approval from the FDA or other regulatory agencies prior to sale. Although many of the ingredients in such wellness products are vitamins, minerals, herbs and other substances for which there is a long history of human consumption, they contain innovative ingredients or combinations of ingredients. Although we believe all of such wellness products and the combinations of ingredients in them are safe when taken as directed, there is little long-term experience with human or other animal consumption of certain of these ingredients or combinations thereof in concentrated form. The wellness products could have certain side effects if not taken as directed or if taken by a consumer that has certain medical conditions. Furthermore, there can be no assurance that any of the wellness products, even when used as directed, will have the effects intended or will not have harmful side effects.

RISKS ASSOCIATED WITH REGULATIONS

The restrictions on ownership of multiple radio stations in each market may prevent us from implementing our broadcasting market cluster strategy.

We seek to acquire additional radio stations in markets in which we already have existing stations. Our ability to acquire, operate and integrate any such future acquisitions as part of a cluster is limited by antitrust laws, the Communications Act, FCC regulations and other applicable laws and regulations. Changes to any of these laws or regulations may affect our ability to acquire additional stations in radio markets where we already own one (1) or more radio station(s). In 1996, Congress passed legislation that requires the FCC to periodically conduct reviews of its regulations, including those which govern the maximum number of radio stations an entity may own or have joint arrangements with relating to programming, advertising sales and station operations (the “Ownership Limits”). The FCC has adopted radio multiple ownership rules that depend upon the total number of radio stations located in the market in determining the applicable Ownership Limits. In 2003, the FCC modified its definition of the term “market” and its method of determining the number of radio stations located in a “market.” Specifically, in larger markets, the FCC replaced its “signal contour method” of defining a market and determining the number of radio stations located in the market with the use of “geographic markets” delineated by Nielsen, which is a commercial ratings service, as reported in the BIA database, as issued by BIA/Kelsey, a research and advisory company focused on the local advertising marketplace. For smaller radio markets for which Nielsen has not delineated a geographic market, the “signal contour method” continues to be the method of defining the market and determining the number of radio stations in the market. The methods the FCC uses to define markets affect the number of radio stations an entity may own or have joint arrangements with relating to programming, advertising sales and station operations in areas adjacent to a delineated Nielsen market.

In 2010, the FCC opened a new phase of rulemaking concerning its broadcast ownership rules. The FCC sought public comments on the existing rules, including arguments and factual data on their impact on competition, localism, and diversity and held public meetings around the country on the issue of media ownership rules. The FCC 2010 quadrennial review of broadcast ownership rules was consolidated into the FCC's 2014 quadrennial review of broadcast ownership rules, which commenced in spring of 2014. The local radio ownership rule, the radio/television cross-ownership rule and newspaper/broadcast cross-ownership rule are among the broadcast ownership rules considered in the 2010 and 2014 quadrennial reviews. The FCC instructed its Media Bureau to complete the combined 2010 and 2014 reviews by June 30, 2016. On August 25, 2016, the FCC released a Second Report and Order to close the 2010 and 2014 Quadrennial Review proceedings. The FCC decided to retain its local radio ownership rules without modification. The FCC, however, recently filed a motion requesting that the Third Circuit Court of Appeals hold in abeyance the consolidated cases pending before it in connection with the broadcast ownership rules, because it intends to act on a Petition for Reconsideration of the Second Report and Order, which could result in changes to the local radio ownership rules.

We cannot predict the impact of possible modifications to the FCC's local radio multiple ownership rules on our business operations. Likewise, we cannot predict whether there will be a change in the antitrust laws, Communications Act or other laws governing the ownership or operation of radio stations, or whether the FCC, U.S. Department of Justice ("DOJ") or Federal Trade Commission ("FTC") will modify their regulations and policies governing or affecting the acquisition of additional radio stations in a market. In addition, we cannot predict whether a private party will challenge acquisitions we propose in the future. These events could adversely affect our ability to implement our cluster acquisition strategy.

Government regulation of the broadcasting industry by the FTC, DOJ and FCC may limit our ability to acquire or dispose of radio stations and enter into certain agreements.

The Communications Act and FCC rules and policies require prior FCC approval for transfers of control of, and assignments of, FCC broadcast licenses. The FTC and the DOJ evaluate transactions to determine whether those transactions should be challenged under federal antitrust laws. As we have gained a presence in a greater number of markets and percentage of the top 50 markets, our future proposed transactions may be subject to more frequent and aggressive review by the FTC and/or the DOJ due to market concentration concerns. This increased level of review may be accentuated in instances where we propose to engage in a transaction with parties who themselves have multiple stations in the relevant market. The FCC might not approve a proposed radio station acquisition or disposition when the DOJ has expressed market concentration concerns with respect to the buy or sell side of a given transaction, even if the proposed transaction would otherwise comply with the FCC's numerical limits on in-market ownership. We cannot be sure that the DOJ or the FTC will not seek to prohibit or require the restructuring of our future acquisitions or dispositions on these or other bases.

If a complaint was filed against us or other FCC licensees involved in a transaction with us, or an objection to the transaction itself, the FCC could delay the grant of, or refuse to grant, its consent to an assignment or transfer of control of licenses and effectively prohibit a proposed acquisition or disposition.

As noted in the immediately preceding risk factor, the FCC's local radio multiple ownership rules limit the maximum number of stations we may own or operate in a market. This may limit our ability to make future radio station acquisitions in certain markets. Additionally, this may limit our ability, in certain markets, to enter into agreements whereby we provide programming to or sell advertising on radio stations that we do not own. It could also limit our ability to sell stations to other entities that already own stations in some markets.

We may be adversely affected by statutes dealing with indecency.

The Broadcast Decency Enforcement Act of 2005 enhances the FCC's enforcement of its rules concerning the broadcast of obscene, indecent, or profane material became law in 2006. This legislation increased the FCC's authority in this area to impose substantially higher monetary forfeiture penalties, up to \$325,000 per violation and a total of \$3,000,000 for any one incident. While we do not anticipate these increased penalties to impact us as significantly as some of our competitors given the nature of our programming, we could face increased costs in the form of fines as a result of this legislation.

We may be subject to fines and other penalties related to violations of FCC indecency rules and other FCC rules and policies, the enforcement of which has increased in recent years, and complaints related to such violations may delay our renewal applications with the FCC.

We provide live news reporting that is controlled by our on-air news talent. Although our on-air talent have been professional and careful in what they say, there is always the possibility that information may be reported that is inaccurate or even in violation of certain indecency rules promulgated by the FCC.

If we fail to maintain our broadcast licenses with the FCC, we would be prevented from operating affected radio stations.

We operate each of our radio stations pursuant to one or more FCC broadcast licenses, generally of eight years' duration. As each license expires, we apply for renewal of the license. However, we cannot be sure that any of our licenses will be renewed, and renewal is subject to challenge by third parties or to denial by the FCC. In evaluating a broadcast license renewal application, the FCC must grant the renewal if: (1) the station has served the public interest, convenience and necessity; (2) there have been no serious violations of the Communications Act or the FCC's rules; and (3) there have been no other violations which, taken together, constitute a pattern of abuse. If, however, the station fails to meet these standards, the FCC may deny the application, after notice and an opportunity for a hearing, or grant the application on terms and conditions that are appropriate, including renewal for less than the maximum term otherwise allowed. The failure to renew any of our licenses would prevent us from operating the affected station and generating revenue from it. If the FCC decides to include conditions or qualifications in any of our licenses, we may be limited in the manner in which we may operate the affected station.

Proposed legislation requires radio broadcasters to pay higher royalties to record labels and recording artists.

We must maintain music programming royalty arrangements with, and pay license fees to, Broadcast Music, Inc. ("BMI"), American Society of Composers, Authors and Publishers ("ASCAP"), and SESAC, Inc. ("SESAC"). These organizations negotiate with copyright users, collect royalties and distribute them to songwriters and music publishers. Currently, we pay royalties to song composers and publishers through BMI, ASCAP and SESAC.

On April 13, 2015, legislation was introduced to Congress under the "Fair Play, Fair Pay Act" (H.R. 1733 – 114th Congress) that would require terrestrial radio broadcasters to pay a royalty to record labels and performing artists for use of their recorded songs. The proposed legislation would add an additional layer of royalties to be paid directly to the record labels and artists. As of the date of this report, this bill has not been passed. It is currently unknown what proposed legislation, if any, will become law, and what significance this royalty would have on our results from operations, cash flows or financial position.

Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could diminish the value of our services and cause us to lose customers and revenue.

When a user visits our websites or certain pages of our customers' websites, we use technologies, including "cookies," to collect information related to the user, such as the user's Internet Protocol, or IP, address, demographic information, and history of the user's interactions with advertisements previously delivered by us. The information that we collect about users helps us deliver appropriate content and targeted advertising to the user. A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from and about our users. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. We post privacy policies on all of our owned and operated websites that set forth our policies and practices related to the collection and use of customer data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with industry standards or laws or regulations could result in a loss of customer confidence in us, or result in actions against us by governmental entities or others, all of which could potentially cause us to lose customers and revenues.

In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. New laws may be enacted, or existing laws may be amended or re-interpreted, in a manner that limits our ability to analyze user data. If our access to user data is limited through legislation or any industry development, we may be unable to provide effective technologies and services to customers and we may lose customers and revenue.

Certain U.S. and foreign laws could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that may subject us to claims or other remedies. Our failure to comply with applicable laws may subject us to additional liabilities, which could adversely affect our business, financial condition and results of operations. In addition to laws and regulations that are described elsewhere in the risk factors, laws and regulations that are particularly relevant to our business address (a) privacy; (b) freedom of expression; (c) information security; (d) content and distribution of content, including liability for user reliance on such content; (e) intellectual property rights, including secondary liability for infringement by others; (f) domain name registration; and (g) online advertising and marketing, including email marketing and unsolicited commercial email.

Many applicable laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues of the Internet. Moreover, the applicability and scope of the laws that do address the Internet remain uncertain. For example, the laws relating to the liability of providers of online services are evolving. Claims have been either threatened or filed against us under both U.S. and foreign laws for defamation, copyright infringement and trademark infringement. In the future, claims may also be alleged against us based on tort claims and other theories based on our content, products and services or content generated by our users.

We receive, process and store large amounts of personal user data on our owned and operated websites and from our freelance content creators. Our privacy and data security policies govern the collection, use, sharing, disclosure and protection of this data. The storing, sharing, use, disclosure and protection of personal information and user data are subject to federal, state and international privacy laws, the purpose of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. If requirements regarding the manner in which certain personal information and other user data are processed and stored change significantly, our business may be adversely affected, impacting our financial condition and results of operations. In addition, we may be exposed to potential liabilities as a result of differing views on the level of privacy required for customer and other user data we collect. Our failure or the failure of various third-party vendors and service providers to comply with applicable privacy policies or applicable laws and regulations or any compromise of security that results in the unauthorized release of personal information or other user data could adversely affect our business, financial condition and results of operations.

Government regulation of the Internet is evolving, and unfavorable developments could have a material and adverse affect on our operating results.

We are subject to general business regulations and laws, as well as regulations and laws specific to the Internet. Such laws and regulations cover taxation, user privacy, data collection and protection, copyrights, electronic contracts, sales procedures, automatic subscription renewals, credit card processing procedures, customer protections, broadband Internet access and content restrictions. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing issues such as privacy, taxation and consumer protection apply to the Internet. Moreover, as Internet commerce continues to evolve, increasing regulation by federal, state and foreign agencies becomes more likely. The adoption of any laws or regulations that adversely affect the popularity or growth in use of the Internet, including laws limiting Internet neutrality, could decrease listener demand for our service offerings and increase our cost of doing business. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also hinder our operational flexibility, raise compliance costs and result in additional historical or future liabilities for us, resulting in material and adverse impacts on our business and our operating results.

Environmental, health, safety and land use laws and regulations may limit or restrict some of our operations.

We must comply with various federal, state and local environmental, health, safety and land use laws and regulations that have a tendency to affect broadcast facilities differently than other uses. We are subject to such laws and regulations relating to the use, storage, disposal, emission and release of hazardous and non-hazardous substances and employee health and safety, as well as zoning restrictions that may affect, among other things, the ability for us to improve or relocate our radio broadcasting facilities. Historically, we have not incurred significant expenditures to comply with these laws; however, existing laws, and those that may be applied in the future, or a finding of a violation of such laws or liability, could require us to make significant expenditures and otherwise limit or restrict some of our operations.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints, which can make compliance for our wellness business costly and subject us to enforcement actions by governmental agencies.

The processing, formulation, safety, manufacturing, packaging, labeling, advertising and distribution of our wellness products are subject to federal laws and regulation by one or more federal agencies, including the FDA, FTC, U.S. Consumer Product Safety Commission, United States Department of Agriculture and Environmental Protection Agency. These activities are also regulated by various state, local and international laws and agencies of the states and localities in which our wellness products are sold. Government regulations may prevent or delay the introduction, or require the reformulation, of our wellness products, which could result in lost revenues and increased costs to us. For instance, the FDA regulates, among other things, the composition, safety, manufacture, labeling and marketing of dietary supplements (including vitamins, minerals, herbs, and other dietary ingredients for human use). The FDA may not accept the evidence of safety for any new dietary ingredient that we may wish to market, may determine that a particular dietary supplement or ingredient presents an unacceptable health risk based on the required submission of serious adverse events or other information, and may determine that a particular claim or statement of nutritional value that we use to support the marketing of a dietary supplement is an impermissible drug claim, is not substantiated, or is an unauthorized version of a "health claim."

Any of these actions could prevent us from marketing particular wellness products or making certain claims or statements with respect to those wellness products. The FDA could also require us to remove a particular wellness product from the market. Any future recall or removal would result in additional costs to us, including lost revenues from any wellness product that we are required to remove from the market, any of which could be material. Any wellness product recalls or removals could also lead to an increased risk of litigation and liability, substantial costs, and reduced growth prospects.

Additional or more stringent laws and regulations of dietary supplements and other wellness products have been considered from time to time. These developments could require reformulation of some wellness products to meet new standards, recalls or discontinuance of some wellness products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some wellness products, additional or different labeling, additional scientific substantiation, or other new requirements. Any of these developments could increase our costs significantly.

Our failure to comply with FTC regulations could result in substantial monetary penalties and could adversely affect our business, financial condition and results of operations.

The FTC exercises jurisdiction over the advertising of wellness products and has instituted numerous enforcement actions against dietary supplement companies for failure to have adequate substantiation for claims made in advertising or for the use of false or misleading advertising claims. Our failure to comply with FTC regulations could result in substantial monetary penalties and could adversely affect our business, financial condition and results of operations.

RISKS ASSOCIATED WITH OUR SUBSTANTIAL INDEBTEDNESS

Capital requirements necessary to implement acquisitions could pose risks.

We face competition from other companies for acquisition opportunities. If the prices sought by sellers of these companies were to rise, we may find fewer acceptable acquisition opportunities. In addition, the purchase price of possible acquisitions could require additional debt or equity financing on our part. Since the terms and availability of this financing depend to a large degree upon general economic conditions and third parties over which we have no control, we can give no assurance that we will obtain the needed financing or that we will obtain such financing on attractive terms. In addition, our ability to obtain financing depends on a number of other factors, many of which are also beyond our control, such as interest rates and national and local business conditions. If the cost of obtaining needed financing is too high or the terms of such financing are otherwise unacceptable in relation to the acquisition opportunity we are presented with, we may decide to forego that opportunity. Additional indebtedness could increase our leverage and make us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures.

If we are not able to obtain financing or generate sufficient cash flows from operations, we may be unable to fund future acquisitions.

We may require significant financing to fund our acquisition strategy, which may not be available to us. The availability of funds under our existing senior secured credit facility at any time is dependent upon, among other factors, our ability to satisfy financial covenants. Our future operating performance will be subject to financial, economic, business, competitive, regulatory and other factors, many of which are beyond our control. Accordingly, we cannot make any assurances that our future cash flows or borrowing capacity will be sufficient to allow us to complete future acquisitions or implement our business plan, which could have a material negative impact on our business and results of operations.

We have substantial debt and have the ability to incur additional debt. The principal and interest payment obligations of such debt may restrict our future operations and impair our ability to meet our obligations under such debt.

At December 31, 2016, we and our subsidiary guarantors had approximately \$263.0 million outstanding on our Term Loan B and \$0.5 million on our revolving credit facility (“Revolver”) with Wells Fargo Bank.

Our substantial debt may have important consequences. For instance, it could:

- make it more difficult for us to satisfy our financial obligations;
- require us to dedicate a substantial portion of any cash flow from operations to the payment of interest and principal due under our debt, which will reduce funds available for other business purposes, including capital expenditures, acquisitions and payment of dividends;
- place us at a competitive disadvantage compared with some of our competitors that may have less debt and better access to capital resources; and
- limit our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute our business or acquisition strategies.

The agreements governing our various debt obligations impose restrictions on our business and could adversely affect our ability to undertake certain corporate actions.

The agreements governing our debt obligations, including the agreements governing our Term Loan B and Revolver, include covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

- incur additional debt;
- declare or pay dividends, redeem stock or make other equity distributions to stockholders;
- make investments;

- create liens or use assets as security in other transactions;
- merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of our assets;
- engage in transactions with affiliates; and
- sell or transfer assets.

Our Term Loan B and our Revolver also require us to comply with a number of financial ratios and covenants and restricts our ability to make certain capital expenditures.

Our ability to comply with these agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities. The breach of any of these covenants or restrictions could result in a default under the Term Loan B and Revolver. An event of default under any of our debt agreements could permit some of our lenders to declare all amounts borrowed from them to be immediately due and payable, together with accrued and unpaid interest, which could, in turn, trigger defaults under other debt obligations and the commitments of the lenders to make further extensions of credit under our Revolver could be terminated. If we were unable to repay debt to our lenders, or are otherwise in default under any provision governing our outstanding secured debt obligations, our secured lenders could proceed against us and the subsidiary guarantors and against the collateral securing that debt.

To service our indebtedness, we will require a significant amount of cash. However, our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on, and to refinance, our indebtedness, and to fund capital expenditures, will depend on our ability to generate cash in the future, which, in turn, is subject to general economic, financial, competitive, regulatory and other factors, many of which are beyond our control.

Our business may not generate sufficient cash flow from operations and we may not have available to us future borrowings in an amount sufficient to enable us to pay our indebtedness. In these circumstances, we may need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms, or at all. Without this financing, we could be forced to sell assets or secure additional financing to make up for any shortfall in our payment obligations under unfavorable circumstances. In addition, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own or lease various properties throughout the United States from which we conduct business. No one physical property is material to our overall business operations. We believe that each of our properties are in good condition and suitable for our operations; however, we continually evaluate opportunities to upgrade our properties. We believe that we will be able to renew existing leases when applicable or obtain comparable facilities, as necessary.

Corporate

Our corporate headquarters are located in Camarillo, California where we own an approximately 46,000 square foot office building.

Broadcasting

We own or lease multiple properties throughout the United States from which we operate our radio stations and related facilities. These properties include offices and studios, transmitter locations, antenna sites and tower sites. A radio station studio is typically located in an office in a downtown or business district. Transmitter, antenna and tower sites are located in areas that provide maximum market coverage.

Our SRN and SMR offices, Salem Consumer Products, and our Dallas radio station studios and offices are located in the Dallas, Texas metropolitan area, where we own an approximately 43,000 square foot office building. We also own office buildings in Honolulu, Hawaii; Tampa, Florida; and Orlando, Florida from which our radio stations studios and offices operate. Our national radio network operates from various offices and studios. These studios may be used to generate programming or programming can also be relayed from a remote point of origination. Our network leases satellite transponders used in the delivery of its programming.

We lease certain property from our principal stockholders or trusts and partnerships created for the benefit of the principal stockholders and their families. These leases are described in Note 16 – Related Party Transactions in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K. All such leases have cost of living adjustments. Based upon our management’s assessment and analysis of local market conditions for comparable properties, we believe such leases have terms that are as favorable as, or more favorable, to the company than those that would have been available from unaffiliated parties.

Our current lease agreements range from one to thirty years remaining on the lease term.

While none of our owned or leased properties is individually material to our operations, if we were required to relocate any of our broadcast towers, the cost would be significant. Significant costs are due to the moving and reconstruction of the tower as well as the limited number of sites in any geographic area that permit a tower of reasonable height to provide adequate market coverage. These limitations are due to zoning and other land use restrictions, as well as Federal Aviation Administration and FCC regulations.

Digital Media

Our digital media entities operate from office buildings and also require data storage centers. Salem Web Network operates from leased office facilities in Richmond, Virginia and Nashville, Tennessee. Townhall Media operates from a leased facility in Washington, D.C. that is also used by our radio stations in that market. Eagle Financial Publications operates from a leased office in Washington, D.C. that is also used by Eagle Wellness and Gene Smart. Fulfillment of wellness inventory is managed by a third party in New Holland, Pennsylvania. Our current lease agreements range from one to nine years remaining on the lease term.

Publishing

Salem Publishing operates from leased office facilities in Nashville, Tennessee. Salem Author Services, comprised of Xulon Press and Hillcrest Media, operates from leased facilities in Orlando, Florida. Regnery Publishing operates from leased facilities in Washington, D.C. with inventory fulfillment managed by a third party in Jackson, Tennessee. Our current lease agreements range from one to two years remaining on the lease term.

ITEM 3. LEGAL PROCEEDINGS.

We and our subsidiaries, incident to our 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. We maintain insurance that may provide coverage for such matters. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. We believe, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our annual consolidated financial position, results of operations or cash flows.

In April 2016, pursuant to a counterclaim to a collection suit initiated by Salem, an award was issued against Salem for breach of contract and attorney fees. While we have filed an appeal against the award as well as a malpractice lawsuit against the lawyer that represented Salem in the suit, we recorded a legal reserve of \$0.5 million as of March 31, 2016. This reserve represents the total possible loss contingency without third-party recoveries from our appeal, malpractice lawsuit or insurance claims. There have been no changes in our estimates as of the date of this filing.

ITEM 4. MINE AND SAFETY DISCLOSURES.

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our Class A common stock trades on the NASDAQ Global Market® ("NASDAQ-NGM") under the symbol SALM. On February 2, 2017, the company had approximately 47 stockholders of record (not including the number of persons or entities holding stock in nominee or street name through various brokerage firms) and 20,275,480 outstanding shares of its Class A common stock and two stockholders of record and 5,553,696 outstanding shares of its Class B common stock. The following table sets forth for the fiscal quarters indicated the range of high and low sale price information per share of the Class A common stock of the company as reported on the NASDAQ-NGM.

	2015				2016			
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
High (mid-day)	\$ 7.97	\$ 6.75	\$ 6.85	\$ 6.50	\$ 6.06	\$ 8.17	\$ 8.10	\$ 6.64
Low (mid-day)	\$ 5.50	\$ 4.38	\$ 5.26	\$ 4.53	\$ 3.60	\$ 5.84	\$ 5.68	\$ 5.00

There is no established public trading market for the company's Class B common stock.

DIVIDEND POLICY

Our dividend policy is based upon our Board of Directors' current assessment of our business and the environment in which we operate. The actual declaration of any future equity distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. The reduction or elimination of equity distributions may negatively affect the market price of our common stock.

The following table shows the equity distributions that have been declared and paid to all stockholders of record of our Class A and Class B common stock during the years ended December 31, 2016 and 2015.

Announcement Date	Record Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)
December 7, 2016	December 19, 2016	December 31, 2016	\$ 0.0650	\$ 1,678
September 9, 2016	September 19, 2016	September 30, 2016	\$ 0.0650	\$ 1,679
June 2, 2016	June 16, 2016	June 30, 2016	\$ 0.0650	\$ 1,664
March 10, 2016	March 22, 2016	April 5, 2016	\$ 0.0650	\$ 1,657
December 1, 2015	December 15, 2015	December 29, 2015	\$ 0.0650	\$ 1,656
September 1, 2015	September 16, 2015	September 30, 2015	\$ 0.0650	\$ 1,655
June 2, 2015	June 16, 2015	June 30, 2015	\$ 0.0650	\$ 1,654
March 5, 2015	March 17, 2015	March 31, 2015	\$ 0.0650	\$ 1,647

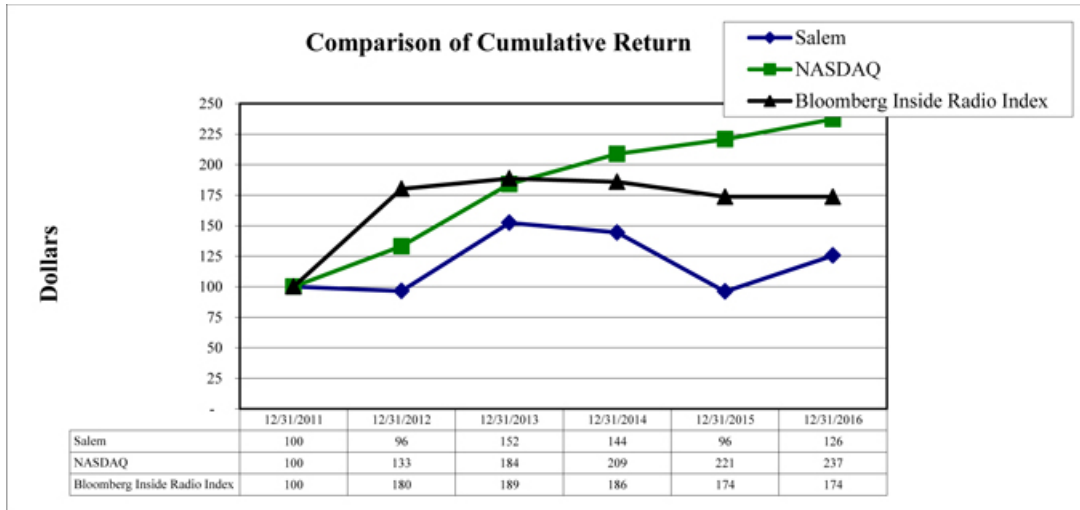
While we intend to pay regular quarterly distributions, the actual declaration of such future distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. The current policy of the Board of Directors is to review each of these factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 6, Selected Financial Data included in this annual report on Form 10-K.

Based on the number of shares of Class A and Class B common stock currently outstanding we expect to pay total annual equity distributions of approximately \$6.8 million in 2017.

Our sole source of cash available for making any future equity distributions is our operating cash flow subject to our Term Loan B and Revolver, which contain covenants that restrict the payment of dividends and equity distributions unless certain specified conditions are satisfied.

STOCK PRICE PERFORMANCE GRAPH

The graph below compares the cumulative total stockholder return of the our Class A common stock with the cumulative total return of the NASDAQ – NMS equity index and the Bloomberg Broadcast and Cable Radio Index for a five year period commencing December 31, 2011 and ending December 31, 2016. Our Class B common stock is not publicly traded and is not registered under the Exchange Act. The graph assumes that the value of an investment in our Class A common stock and each index was \$100 on December 31, 2010 and that any dividends were reinvested. Stockholder returns over the indicated period are not indicative of future stockholder returns.



The stock price performance graph above shall not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data below as of and for the years ended December 31, 2016 and December 31, 2015, is derived from our audited consolidated financial statements included in Item 8 of this annual report on Form 10-K. The selected financial data as of and for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 is derived from our audited financial statements not included herein. The selected financial data should be read in conjunction with, and is qualified by reference to, our consolidated financial statements, related notes, other financial information included (incorporated by reference) herein, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations," including the disclosure concerning the reconciliation for historical Non-GAAP financial measures presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" included in Item 7 of this annual report on Form 10-K.

Certain reclassifications have been made to prior year financial data to conform to the current year presentation. These reclassifications include: (1) the change in composition of our operating segments as of December 2014 to include digital revenue generated by our broadcast stations within broadcast operating revenue and (2) the inclusion of Salem Consumer Products within broadcast operating revenue. These changes were to conform to how our chief operating decision makers, which we define as a collective group of senior executives, assess the performance of each operating segment and determine the appropriate allocations of resources to each segment. All prior periods presented are updated to reflect this new composition of our operating segments. Refer to Note 20 – Segment Data in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for additional information.

Note that our financial results are not comparable from year to year due to acquisitions and dispositions of radio stations, digital media operations, publishing entities, asset impairments and other non-recurring significant events:

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	<i>(Dollars in thousands, except share and per share data)</i>				
Statement of Operations Data:					
Net broadcast revenue	\$ 189,169	\$ 189,892	\$ 194,094	\$ 197,184	\$ 202,016
Net digital media revenue	26,637	33,808	45,691	44,761	46,777
Net publishing revenue	13,373	13,234	26,751	23,842	25,528
Total revenue	<u>229,179</u>	<u>236,934</u>	<u>266,536</u>	<u>265,787</u>	<u>274,321</u>
Operating expenses:					
Broadcast operating expenses	127,551	130,713	139,206	140,819	146,283
Digital media operating expenses	21,811	24,885	35,590	35,380	36,290
Publishing operating expenses	13,339	14,280	26,143	24,774	26,209
Unallocated corporate expenses	14,396	16,081	17,092	15,146	14,994
Depreciation and amortization	14,647	15,262	18,825	17,741	17,276
Change in the estimated fair value of contingent earn-out consideration	—	—	734	(1,715)	(689)
Impairment of long-lived assets	6,808	—	—	—	700
Impairment of indefinite-lived long-term assets other than goodwill	88	1,006	34	—	7,041
Impairment of goodwill	—	438	45	439	32
Impairment of amortizable intangible assets	—	—	—	—	8
(Gain) loss on the sale or disposal of assets	49	(264)	251	181	(1,901)
Total operating expenses	<u>198,689</u>	<u>202,401</u>	<u>237,920</u>	<u>232,765</u>	<u>246,243</u>
Operating income from continuing operations	<u>30,490</u>	<u>34,533</u>	<u>28,616</u>	<u>33,022</u>	<u>28,078</u>
Other income (expense):					
Interest income	106	68	45	8	6
Interest expense, net of capitalized interest	(24,911)	(16,892)	(15,993)	(15,429)	(14,938)
Change in fair value of interest rate swaps	—	3,177	(2,702)	(1,273)	285
Gain on bargain purchase	—	—	—	1,357	95
Loss on early retirement of long-term debt	(1,088)	(27,795)	(391)	(41)	(87)
Net miscellaneous income and expenses	79	18	665	201	6
Total other expense, net	<u>(25,814)</u>	<u>(41,424)</u>	<u>(18,376)</u>	<u>(15,177)</u>	<u>(14,633)</u>
Income from continuing operations before income taxes	4,676	(6,891)	10,240	17,845	13,445
Provision for (benefit from) income taxes	153	(4,192)	4,765	6,695	4,572
Income (loss) from continuing operations	4,523	(2,699)	5,475	11,150	8,873
Loss from discontinued operations, net of tax	(95)	(37)	—	—	—
Net income (loss)	<u>\$ 4,428</u>	<u>\$ (2,736)</u>	<u>\$ 5,475</u>	<u>\$ 11,150</u>	<u>\$ 8,873</u>
Basic earnings (loss) per share data:					
Earnings (loss) per share Class A and Class B common stock from continuing operations	\$ 0.18	\$ (0.11)	\$ 0.21	\$ 0.43	\$ 0.34
Loss per share from discontinued operations	—	—	—	—	—
Net earnings (loss) per share Class A and Class B common stock	\$ 0.18	\$ (0.11)	\$ 0.21	\$ 0.43	\$ 0.34
Diluted earnings (loss) per share data:					
Earnings (loss) per share Class A and Class B common stock from continuing operations	\$ 0.18	\$ (0.11)	\$ 0.21	\$ 0.43	\$ 0.34
Loss per share from discontinued operations	—	—	—	—	—
Net earnings (loss) per share Class A and Class B common stock	\$ 0.18	\$ (0.11)	\$ 0.21	\$ 0.43	\$ 0.34
Distributions per share	\$ 0.14	\$ 0.21	\$ 0.24	\$ 0.26	\$ 0.26
Basic weighted average Class A and Class B common shares outstanding	24,577,605	24,938,075	25,336,809	25,426,732	25,669,538
Diluted weighted average Class A and Class B common shares outstanding	24,986,966	24,938,075	26,081,175	25,887,819	26,034,990

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	<i>(Dollars in thousands)</i>				
Balance Sheet Data:					
Cash and cash equivalents	\$ 380	\$ 65	\$ 33	\$ 98	\$ 130
Broadcast licenses	373,720	381,836	385,726	393,031	388,517
Other intangible assets, net including goodwill	33,009	32,035	37,912	36,877	40,353
Total assets	268,980	290,793	277,505	274,755	261,674
Long-term debt (including current portion)					
Stockholders' equity	206,069	201,785	203,994	209,821	213,846
Cash flows related to:					
Operating activities	\$ 31,077	\$ 28,735	\$ 41,925	\$ 36,130	\$ 38,866
Investing activities	(19,066)	(17,737)	(21,734)	(29,183)	(15,493)
Financing activities	(11,697)	(11,276)	(20,223)	(6,882)	(23,341)
Non-GAAP Financial Measures:					
Station Operating Income (1)	\$ 61,618	\$ 59,179	\$ 54,888	\$ 56,365	\$ 55,733
Station Operating Income margin (2)	32.6%	31.2%	28.3%	28.6%	27.6%
Digital Media Operating Income (3)	\$ 4,826	\$ 8,923	\$ 10,101	\$ 9,381	\$ 10,487
Publishing Operating Income (Loss) (4)	\$ 34	\$ (1,046)	\$ 608	\$ (932)	\$ (681)
Adjusted EBITDA (5)	\$ 53,450	\$ 52,824	\$ 50,081	\$ 50,439	\$ 51,127

- (1) We define non-GAAP Station Operating Income as net broadcast revenue less broadcast operating expenses.
- (2) We define non-GAAP Station Operating Income margin as Station Operating Income as a percentage of net broadcast revenue.
- (3) We define non-GAAP digital media operating income as net digital media revenue less digital media operating expenses
- (4) We define non-GAAP publishing operating income as net publishing revenue less publishing operating expenses.
- (5) We define Non-GAAP Adjusted EBITDA as net income before interest, taxes, depreciation, and amortization (EBITDA) before gains or losses on the sale or disposal of assets, before changes in the estimated fair value of contingent earn-out consideration, before the change in fair value of interest rate swaps, before the impairment of long-lived assets, before net miscellaneous income and expenses, before loss on early retirement of debt and before non-cash compensation expense.

NON-GAAP FINANCIAL MEASURES

Management uses certain non-GAAP financial measures defined below in communications with investors, analysts, rating agencies, banks and others to assist such parties in understanding the impact of various items on our financial statements. We use these non-GAAP financial measures to evaluate financial results, develop budgets, manage expenditures and as a measure of performance under compensation programs.

Our presentation of these non-GAAP financial measures should not be considered as a substitute for or superior to the most directly comparable financial measures as reported in accordance with GAAP.

Item 10(e) of Regulation S-K defines and prescribes the conditions under which certain non-GAAP financial information may be presented in this report. We closely monitor EBITDA, Adjusted EBITDA, Station Operating Income (“SOI”), Same Station net broadcast revenue, Same Station broadcast operating expenses, Same Station Operating Income, Digital Media Operating Income, and Publishing Operating Income, all of which are non-GAAP financial measures. We believe that these non-GAAP financial measures provide useful information about our core operating results, and thus, are appropriate to enhance the overall understanding of our financial performance. These non-GAAP financial measures are intended to provide management and investors a more complete understanding of our underlying operational results, trends and performance.

The performance of a radio broadcasting company is customarily measured by the ability of its stations to generate SOI. We define SOI as net broadcast revenue less broadcast operating expenses. Accordingly, changes in net broadcast revenue and broadcast operating expenses, as explained above, have a direct impact on changes in SOI. SOI is not a measure of performance calculated in accordance with GAAP. SOI should be viewed as a supplement to and not a substitute for our results of operations presented on the basis of GAAP. We believe that SOI is a useful non-GAAP financial measure to investors when considered in conjunction with operating income (the most directly comparable GAAP financial measures to SOI), because it is generally recognized by the radio broadcasting industry as a tool in measuring performance and in applying valuation methodologies for companies in the media, entertainment and communications industries. SOI is commonly used by investors and analysts who report on the industry to provide comparisons between broadcasting groups. We use SOI as one of the key measures of operating efficiency and profitability, including our internal reviews associated with impairment analysis of our indefinite-lived intangible assets. SOI does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash activity in accordance with GAAP and our income statement presents our financial performance prepared in accordance with GAAP. Our definition of SOI is not necessarily comparable to similarly titled measures reported by other companies.

We define Same Station net broadcast revenue as net broadcast revenue from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. We define Same Station broadcast operating expenses as broadcast operating expenses from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station Operating Income includes those stations we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station Operating Income for a full calendar year is calculated as the sum of the Same Station-results for each of the four quarters of that year. We use Same Station Operating Income, a non-GAAP financial measure, both in presenting our results to stockholders and the investment community, and in our internal evaluations and management of the business. We believe that Same Station Operating Income provides a meaningful comparison of period over period performance of our core broadcast operations as this measure excludes the impact of new stations, the impact of stations we no longer own or operate, and the impact of stations operating under a new programming format. Our presentation of Same Station Operating Income is not intended to be considered in isolation or as a substitute for the most directly comparable financial measures reported in accordance with GAAP. Our definition of Same Station net broadcast revenue, Same Station broadcast operating expenses and Same Station Operating Income is not necessarily comparable to similarly titled measures reported by other companies.

We apply a similar methodology to our digital media and publishing group. Digital Media Operating Income is defined as net digital media revenue less digital media operating expenses. Publishing Operating Income is defined as net publishing revenue less publishing operating expenses. Digital Media Operating Income and Publishing Operating Income are not measures of performance in accordance with GAAP. Our presentations of these non-GAAP financial performance measures are not to be considered a substitute for or superior to our operating results reported in accordance with GAAP. We believe that Digital Media Operating Income and Publishing Operating Income are useful non-GAAP financial measures to investors, when considered in conjunction with operating income (the most directly comparable GAAP financial measure), because they are comparable to those used to measure performance of our broadcasting entities. We use this analysis as one of the key measures of operating efficiency, profitability and in our internal review. This measurement does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash activity in accordance with GAAP and our income statement presents our financial performance in accordance with GAAP. Our definitions of Digital Media Operating Income and Publishing Operating Income are not necessarily comparable to similarly titled measures reported by other companies.

We define EBITDA as net income before interest, taxes, depreciation, and amortization. We define Adjusted EBITDA as EBITDA before gains or losses on the sale or disposal of assets, before changes in the estimated fair value of contingent earn-out consideration, before gains on bargain purchases, before the change in fair value of interest rate swaps, before impairments, before net miscellaneous income and expenses, before loss on early retirement of debt, before (gain) loss from discontinued operations and before non-cash compensation expense. EBITDA and Adjusted EBITDA are commonly used by the broadcast and media industry as important measures of performance and are used by investors and analysts who report on the industry to provide meaningful comparisons between broadcasters. EBITDA and Adjusted EBITDA are not measures 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 our results of operations and financial condition presented in accordance with GAAP. Our definitions of EBITDA and Adjusted EBITDA are not necessarily comparable to similarly titled measures reported by other companies.

For all non-GAAP financial measures, investors should consider the limitations associated with these metrics, including the potential lack of comparability of these measures from one company to another.

We use non-GAAP financial measures to evaluate financial performance, develop budgets, manage expenditures, and determine employee compensation. Our presentation of this additional information is not to be considered as a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES:

In the tables below, we present a reconciliation of net broadcast revenue, the most comparable GAAP measure, to Same Station net broadcast revenue, and broadcast operating expenses, the most comparable GAAP measure to Same Station broadcast operating expense. We show our calculation of Station Operating Income and Same Station Operating Income, which is reconciled from net income, the most comparable GAAP measure in the table following our calculation of Digital Media Operating Income and Publishing Operating Income (Loss). Our presentation of these non-GAAP measures are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	<i>(Dollars in thousands)</i>				
Reconciliation of Net Broadcast Revenue to Same Station Net Broadcast Revenue					
Net broadcast revenue	\$ 189,169	\$ 189,892	\$ 194,094	\$ 197,184	\$ 202,016
Net broadcast revenue – acquisitions	(1,310)	(65)	(1,551)	(105)	(2,522)
Net broadcast revenue – format change	(417)	—	—	(107)	(115)
Net broadcast revenue – dispositions	(103)	—	—	—	—
Net broadcast revenue – Same Station	<u>\$ 187,339</u>	<u>\$ 189,827</u>	<u>\$ 192,543</u>	<u>\$ 196,972</u>	<u>\$ 199,379</u>
Reconciliation of Broadcast Operating Expenses to Same Station Broadcast Operating Expenses					
Broadcast operating expenses	\$ 127,551	\$ 130,713	\$ 139,206	\$ 140,819	\$ 146,283
Broadcast operating expenses – acquisitions	(1,475)	(136)	(1,848)	(140)	(2,843)
Broadcast operating expenses – format change	(350)	—	—	(192)	(142)
Broadcast operating expenses – dispositions	(67)	—	—	—	—
Broadcast operating expenses – Same Station	<u>\$ 125,659</u>	<u>\$ 130,577</u>	<u>\$ 137,358</u>	<u>\$ 140,487</u>	<u>\$ 143,298</u>
Reconciliation of Operating Income to Same Station Operating Income					
Station Operating Income	\$ 61,618	\$ 59,179	\$ 54,888	\$ 56,365	\$ 55,733
Station operating loss – acquisitions	165	71	297	35	321
Station operating income – format change	(67)	—	—	85	27
Station operating income – dispositions	(36)	—	—	—	—
Station Operating Income – Same Station	<u>\$ 61,680</u>	<u>\$ 59,250</u>	<u>\$ 55,185</u>	<u>\$ 56,485</u>	<u>\$ 56,081</u>

In the table below, we present our calculations of Station Operating Income, Digital Media Operating Income and Publishing Operating Income. Our presentation of these non-GAAP performance indicators are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	<i>(Dollars in thousands)</i>				
Calculation of Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)					
Net Broadcast revenue	\$ 189,169	\$ 189,892	\$ 194,094	\$ 197,184	\$ 202,016
Less Broadcast operating expenses	(127,551)	(130,713)	(139,206)	(140,819)	(146,283)
Station Operating Income	\$ 61,618	\$ 59,179	\$ 54,888	\$ 56,365	\$ 55,733
Net Digital Media revenue	\$ 26,637	\$ 33,808	\$ 45,691	\$ 44,761	\$ 46,777
Less Digital Media Operating expenses	(21,811)	(24,885)	(35,590)	(35,380)	(36,290)
Digital Media Operating Income	\$ 4,826	\$ 8,923	\$ 10,101	\$ 9,381	\$ 10,487
Net Publishing revenue	\$ 13,373	\$ 13,234	\$ 26,751	\$ 23,842	\$ 25,528
Less Publishing operating expenses	(13,339)	(14,280)	(26,143)	(24,774)	(26,209)
Publishing Operating Income (Loss)	\$ 34	\$ (1,046)	\$ 608	\$ (932)	\$ (681)

In the table below, we present a reconciliation of net income, the most directly comparable GAAP measure to Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss). Our presentation of these non-GAAP performance indicators are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	<i>(Dollars in thousands)</i>				
Reconciliation of Net Income (Loss) to Operating Income and Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)					
Net income (loss)	\$ 4,428	\$ (2,736)	\$ 5,475	\$ 11,150	\$ 8,873
Plus loss from discontinued operations	95	37	—	—	—
Plus provision for (benefit from) income taxes	153	(4,192)	4,765	6,695	4,572
Plus net miscellaneous income and (expenses)	(79)	(18)	(665)	(201)	(6)
Plus gain on bargain purchase	—	—	—	(1,357)	(95)
Plus loss on early retirement of long-term debt	1,088	27,795	391	41	87
Plus change in fair value of interest rate swaps	—	(3,177)	2,702	1,273	(285)
Plus interest expense, net of capitalized interest	24,911	16,892	15,993	15,429	14,938
Less interest income	(106)	(68)	(45)	(8)	(6)
Net operating income from continuing operations	<u>\$ 30,490</u>	<u>\$ 34,533</u>	<u>\$ 28,616</u>	<u>\$ 33,022</u>	<u>\$ 28,078</u>
Plus gain (loss) on the sale or disposal of assets	49	(264)	251	181	(1,901)
Plus impairment of amortizable intangible assets	—	—	—	—	8
Plus impairment of goodwill	—	438	45	439	32
Plus impairment of indefinite-lived long-term assets other than goodwill	88	1,006	34	—	7,041
Plus impairment of long-lived assets	6,808	—	—	—	700
Change in the estimated fair value of contingent earn-out consideration	—	—	734	(1,715)	(689)
Plus depreciation and amortization	14,647	15,262	18,825	17,741	17,276
Plus unallocated corporate expenses	14,396	16,081	17,092	15,146	14,994
Combined Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)	<u>\$ 66,478</u>	<u>\$ 67,056</u>	<u>\$ 65,597</u>	<u>\$ 64,814</u>	<u>\$ 65,539</u>
Station Operating Income	<u>\$ 61,618</u>	<u>\$ 59,179</u>	<u>\$ 54,888</u>	<u>\$ 56,365</u>	<u>\$ 55,733</u>
Digital Media Operating Income	4,826	8,923	10,101	9,381	10,487
Publishing Operating Income (Loss)	34	(1,046)	608	(932)	(681)
	<u>\$ 66,478</u>	<u>\$ 67,056</u>	<u>\$ 65,597</u>	<u>\$ 64,814</u>	<u>\$ 65,539</u>

In the table below, we present a reconciliation of Adjusted EBITDA to EBITDA to Net Income (Loss), the most directly comparable GAAP measure. EBITDA and Adjusted EBITDA are non-GAAP financial performance measures that are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	<i>(Dollars in thousands)</i>				
Reconciliation of Adjusted EBITDA to EBITDA to Net Income					
Net income (loss)	\$ 4,428	\$ (2,736)	\$ 5,475	\$ 11,150	\$ 8,873
Plus interest expense, net of capitalized interest	24,911	16,892	15,993	15,429	14,938
Plus provision for (benefit from) income taxes	153	(4,192)	4,765	6,695	4,572
Plus depreciation and amortization	14,647	15,262	18,825	17,741	17,276
Less interest income	(106)	(68)	(45)	(8)	(6)
EBITDA	<u>\$ 44,033</u>	<u>\$ 25,158</u>	<u>\$ 45,013</u>	<u>\$ 51,007</u>	<u>\$ 45,653</u>
Plus gain (loss) on the sale or disposal of assets	49	(264)	251	181	(1,901)
Plus change in the estimated fair value of contingent earn-out consideration	—	—	734	(1,715)	(689)
Plus gain on bargain purchase	—	—	—	(1,357)	(95)
Plus changes the fair value of interest rate swaps	—	(3,177)	2,702	1,273	(285)
Plus impairment of long-lived assets	6,808	—	—	—	700
Plus impairment of indefinite-lived long-term assets other than goodwill	88	1,006	34	—	7,041
Plus impairment of goodwill	—	438	45	439	32
Plus impairment of amortizable intangible assets	—	—	—	—	8
Plus net miscellaneous income and expenses	(79)	(18)	(665)	(201)	(6)
Plus loss on early retirement of long-term debt	1,088	27,795	391	41	87
Plus loss from discontinued operations	95	37	—	—	—
Plus non-cash stock-based compensation	1,368	1,849	1,576	771	582
Adjusted EBITDA	<u>\$ 53,450</u>	<u>\$ 52,824</u>	<u>\$ 50,081</u>	<u>\$ 50,439</u>	<u>\$ 51,127</u>

ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K. Our consolidated financial statements are not directly comparable from period to period due to acquisitions and dispositions of selected radio station assets, digital and publishing businesses. Refer to Note 4 of our consolidated financial statements under Item 8 of this annual report on Form 10-K for details of each of these transactions.

Salem Media Group, Inc. ("Salem") is a domestic multimedia company with integrated operations including radio broadcasting, digital media, and publishing. Salem was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Our content is intended for audiences interested in Christian and family-themed programming and conservative news talk. We maintain a website at www.salemma.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these 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 SEC. *The information 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

We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which also qualify as reportable segments. Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assess the performance of each operating segment and determine the appropriate allocations of resources to each segment. We continually review our operating segment classifications to align with operational changes in our business and may make changes as necessary.

During the third quarter of 2016 we reclassified Salem Consumer Products, our e-commerce business that sells books, DVD's and editorial content developed by our on-air personalities, from Digital Media to Broadcast to assess the performance of each network program based on all revenue sources. Changes to our operating segments did not impact the reporting units used to test non-amortizable assets for impairment. All prior periods presented are updated to reflect the new composition of our operating segments. Refer to Note 20 – Segment Data in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for additional information.

We measure and evaluate our operating segments based on operating income and operating expenses that exclude costs related to corporate functions, such as accounting and finance, human resources, legal, tax and treasury. We also exclude costs such as amortization, depreciation, taxes and interest expense when evaluating the performance of our operating segments.

Our principal sources of broadcast revenue include:

- the sale of block program time to national and local program producers;
- the sale of advertising time on our radio stations to national and local advertisers;
- the sale of advertising time on our national network;
- the syndication of programming on our national network;
- product sales and royalties for on-air host materials, including podcasts and programs;
- the sale of banner advertisements on our station websites or on our mobile applications;
- the sale of digital streaming advertisements on our station websites or on our mobile applications;
- the sale of advertisements included in digital newsletters;
- fees earned for creating custom web pages or social media promotions on behalf of our advertisers;
- revenue from station events, including ticket sales and sponsorships; and
- listener purchase programs, often called non-traditional revenue, where revenue is generated by promoting discounted goods and services to our listeners from special discounts and incentives offered to our listeners.

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

- audience share;
- how well our stations and digital platform perform for our clients;
- the size of the market and audience reached;
- the number of impressions delivered;
- the number of page views achieved;
- the number of events held, the number of event sponsorships sold and the attendance at each event;

- the general economic conditions in each market; and
- supply and demand on both a local and national level.

Our principal sources of digital media revenue include:

- the sale of digital banner advertisements on our websites and mobile applications;
- the sale of digital streaming advertisements on websites and mobile applications;
- the support and promotion to stream third-party content on our websites;
- the sale of advertisements included in digital newsletters;
- the digital delivery of newsletters to subscribers;
- the number of video and graphic downloads; and
- the sale and delivery of wellness products.

Our principal sources of publishing revenue include:

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

Broadcasting

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network® (“SRN”), SRN News Network (“SNN”), Today’s Christian Music (“TCM”), Singing News Network (formerly Solid Gospel Network), and Salem Media Representatives™ (“SMR”). SRN, SNN, and Singing News Network are networks that develop, produce and syndicate a broad range of programming specifically targeted to Christian and family-themed talk stations, music stations and News Talk stations throughout the United States, including Salem-owned and operated stations. SMR, a national advertising sales firm with offices in nine U.S. cities, specializes in placing national advertising on religious and other commercial radio stations. In December 2014, we merged Vista Media Representatives (“VMR”), our national advertising sales firm established for non-Christian format stations, into SMR as our SMR and VMR sales teams consistently pursue advertising for all station formats.

We currently program 40 of our stations with our Christian Teaching and Talk format, which is talk programming with Christian and family themes. We also program 32 News Talk stations, 13 Contemporary Christian Music stations, 13 Business format stations, and eight Spanish-language Christian Teaching and Talk stations. The business format features financial commentators, business talk, and nationally recognized Bloomberg programming. The business format operates similar to our Christian Teaching and Talk format as it features long-form block programming. Each of our radio stations has a website specifically designed for that station.

Revenues generated from our radio stations are reported as broadcast revenue in our consolidated financial statements included in Item 8 of this annual report on Form 10-K. Broadcast revenues are impacted by the rates radio stations can charge for programming and advertising time, the level of airtime sold to programmers and advertisers, the number of impressions delivered or downloads made, and the number of events held, including the size of the event and the number of attendees. Block programming rates 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 market ourselves to advertisers based on the responsiveness of our audiences. We do not subscribe to traditional audience measuring services for most of our radio stations. In select markets, we subscribe to Nielsen Audio, which develops quarterly reports measuring 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 available for block programming and/or advertising, which may vary at different times of the day.

Nielsen Audio uses PPM technology to collect data for its ratings service. PPM is a small device that is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals encoded by the broadcaster. The PPM offers a number of advantages over traditional diary ratings collection systems, including ease of use, more reliable ratings data, shorter time periods between when advertising runs and actual listening data, and little manipulation of data by users. A disadvantage of the PPM includes data fluctuations from changes to the “panel” (a group of individuals holding PPM devices). This makes all stations susceptible to some inconsistencies in ratings that may or may not accurately reflect the actual number of listeners at any given time.

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. Additionally, we experience increased demand for advertising during election years by way of political advertisements. Quarterly revenue from the sale of block programming time does not tend to vary significantly because program rates are generally set annually and are recognized on a per program basis.

Our cash flows from broadcasting are affected by transitional periods experienced by radio stations when, based on the nature of the radio station, our plans for the market and other circumstances, we find it beneficial to change the station format. During this transitional period, when we develop a radio station's listener and customer base, the station may generate negative or insignificant cash flow.

Trade or barter agreements are common in the broadcast industry. Our radio stations utilize barter agreements to exchange airtime for goods or services in lieu of cash. We enter barter agreements if the goods or services to be received can be used in our business or can be sold to our audience under Listener Purchase Programs. We minimize the use of barter agreements with our general policy being not to preempt airtime paid for in cash for airtime sold under a barter agreement. In each of the years ended December 31, 2016, 2015 and 2014, 97% of our broadcast revenue was sold for cash.

Broadcast operating expenses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses, (iv) production and programming expenses, and (v) music license fees. In addition to these expenses, our network incurs programming costs and lease expenses for satellite communication facilities.

Digital Media

Web-based and digital content has been a growth area for Salem and continues to be a focus of future development. Our digital media-based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Salem Web Network™ ("SWN") websites include Christian content websites: OnePlace.com, Christianity.com, Crosswalk.com®, GodVine.com, CrossCards.com, LighSource.com, Jesus.org, BibleStudyTools.com, iBelieve.com, CCMmagazine.com and ChristianHeadlines.com. Our conservative opinion websites, collectively known as Townhall Media, include Townhall.com™, HotAir.com, Twitchy.com, HumanEvents.com, RedState.com, and BearingArms.com. We also issue digital newsletters, including Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

Church product websites including WorshipHouseMedia.com, SermonSpice.com, SermonSearch.com, and ChurchStaffing.com offer downloads and service platforms to pastors and other educators. Our web content is accessible through all of our radio station websites that feature content of interest to local audiences throughout the United States.

E-commerce includes Eagle Wellness and Gene Smart, which are online e-commerce sites offering complimentary health advice and sales of nutritional products.

The revenues generated from this segment are reported as digital media revenue in our consolidated statements of operations included in this annual report on Form 10-K. Digital media revenues are impacted by the rates our sites can charge for advertising time, the level of advertisements sold, the number of impressions delivered or the number of downloads made and the number digital subscriptions sold. Like our broadcasting segment, 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. We also experience fluctuations in quarter-over-quarter comparisons based on the date on which the Easter holiday is observed, as this holiday generates a higher volume of video downloads from our church product sites. Additionally, we experience increased demand for advertising time and placement during election years for political advertisements.

The primary operating expenses incurred by our Digital Media businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses, (iv) royalties, (v) streaming costs, and (vi) cost of goods sold associated with e-commerce sites.

Publishing

Our publishing operations include book publishing through Regnery Publishing, print magazines and our self-publishing services. Regnery Publishing has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, David Limbaugh, Ed Klein, Mark Steyn and Dinesh D'Souza. Books are sold in traditional printed form and as eBooks.

Salem Publishing™ produces and distributes numerous Christian and conservative opinion print magazines, including *Homecoming® The Magazine*, *YouthWorker Journal™*, *Singing News®*, *FaithTalk Magazine™*, and *Preaching Magazine™*. Salem Author Services includes Xulon Press™ and Hillcrest Media, which offer print-on-demand self-publishing services for authors. Xulon Press™ publishes books for Christian authors while Hillcrest Media publishes books for all general market publications.

The revenues generated from this segment are reported as publishing revenue in our consolidated statements of operations included in this annual report on Form 10-K. Publishing revenue is impacted by the retail price of books and e-books, the number of books sold, the number and retail price of e-books sold, the number and rate of print magazine subscriptions sold, the rate and number of pages of advertisements sold in each print magazine, and the number and rate at which self-published books are made. Regnery Publishing revenue has been impacted by elections as they generate higher levels of interest and demand for publications containing conservative and political based opinions.

The primary operating expenses incurred by our Publishing businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses, (iv) printing and production costs, including paper costs, (v) cost of goods sold, and (vi) inventory reserves.

KNOWN TRENDS AND UNCERTAINTIES

Broadcast revenue growth remains challenged, which we believe is due to several factors, including increasing competition from other forms of content distribution and time spent listening by audio streaming services, podcasts and satellite radio. This increase in competition and mix of radio listening time may lead advertisers to conclude that the effectiveness of radio has diminished. To minimize the impact of these factors, we continue to enhance our digital assets to complement our broadcast content. We also support industry initiatives to increase the number of smartphones and other wireless devices that contain an enabled FM tuner as well as provide initiatives for wireless carriers in the United States to permit these FM tuners to receive the free over-the-air local radio stations.

Our Broadcast revenues are particularly dependent on our Los Angeles and Dallas markets, which generated 11.9% and 11.0%, respectively, of our total net broadcasting revenue for the year ended December 31, 2016.

Revenues from print magazines, including advertising revenue and subscription revenues, are challenged both economically and by the increasing use of other mediums that deliver comparable information. Book sales are contingent upon overall economic conditions and our ability to attract and retain authors. Because digital media has been a growth area for us, decreases in digital revenue streams could adversely affect our operating results, financial condition and results of operations. Digital revenue is impacted by the nature and delivery of page views. We have experienced a shift in the number of page views from desktop devices to mobile devices. While mobile page views have increased dramatically, they carry a lower number of advertisements per page which are generally sold at lower rates. Digital media revenue is impacted by page views and the number of advertisements per page. Declines in desktop page views impact revenue as mobile devices carry lower rates and less advertisement per page. To minimize the impact that any one of these areas could have, we continue to explore opportunities to cross-promote our brands and our content, and to strategically monitor costs.

KEY FINANCIAL PERFORMANCE INDICATORS – SAME STATION DEFINITION

In the discussion of our results of operations below, we compare our broadcast operating results between periods on an as-reported basis, which includes the operating results of all radio stations and networks owned or operated at any time during either period and on a Same-Station basis. Same Station is a Non-GAAP financial measure used both in presenting our results to stockholders and the investment community as well as in our internal evaluations and management of the business. We believe that Same Station Operating Income provides a meaningful comparison of period over period performance of our core broadcast operations as this measure excludes the impact of new stations, the impact of stations we no longer own or operate, and the impact of stations operating under a new programming format. Our presentation of Same Station Operating Income is not intended to be considered in isolation or as a substitute for the most directly comparable financial measures reported in accordance with GAAP. Our definition of Same Station Operating Income is not necessarily comparable to similarly titled measures reported by other companies. Refer to “NON-GAAP FINANCIAL MEASURES” presented after our results of operation for a reconciliation of these non-GAAP performance measures to the most comparable GAAP measures.

We define Same Station net broadcast revenue as net broadcast revenue from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. We define Same Station broadcast operating expenses as broadcast operating expenses from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station Operating Income includes those stations we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station Operating Income for a full calendar year is calculated as the sum of the Same Station results for each of the four quarters of that year.

RESULTS OF OPERATIONS

Year Ended December 31, 2016 compared to the year ended December 31, 2015

The following factors affected our results of operations and our cash flows for the year ended December 31, 2016 as compared to the prior year:

Financing

Throughout the year ended December 31, 2016, we repaid \$11.0 million in principal from \$274.0 million to \$263.0 million on our term loan of \$300.0 million (“Term Loan B”) and paid interest through each repayment date compared to principal repayments of \$2.0 million, from \$276.0 million to \$274.0 million, plus interest through each repayment date during the prior year.

Broadcast Acquisitions

We acquired or entered agreements to acquire several FM Translators or FM Translator construction permits during the year. The FCC permits AM and FM radio stations to operate FM Translators. The FCC began an AM Revitalization program, or "AMR," that included several initiatives intended to benefit AM broadcasters. One of these benefits, intended to promote the use of FM Translators by AM broadcasters, allows an AM station to relocate one FM translator up to 250 miles from its authorized site and operate the translator on any non-reserved band FM channel in the AM station's market, subject to coverage and interference rules ("250 Mile Window"). On February 23, 2017, the FCC amended its rules to allow an AM station using a rebroadcasting FM translator to locate the FM translator anywhere within the AM station's daytime service contour or anywhere within a 25-mile radius of the transmitter, even if the contour extends farther than 25 miles from the transmitter. This rule change, when it becomes effective, will be particularly useful for finding a location for these translators.

On January 29, 2016, the FCC opened a one-time only 250 Mile Window during which only Class C and Class D AM broadcast stations could participate. This window closed on July 28, 2016. A second window opened on July 29, 2016, allowing Class A and Class B AM broadcast stations to participate in addition to any Class C and Class D AM broadcast station that did not participate in the first 250 Mile Window. The second 250 Mile Window closed on October 31, 2016. During these filing windows, qualifying AM stations were able to apply for one new FM translator station, in the non-reserved FM band to be used solely to re-broadcast the AM station's AM signal to provide fill-in and/or nighttime service. The FM translator must rebroadcast the related AM station for at least four years, not counting any periods of silence.

Construction permits provide authority to construct new FM Translators or make changes in existing facilities. We believe that securing these FM Translators allows us to increase our listening audience by providing enhanced coverage and reach of our existing AM broadcasts that can be heard on FM or expand the listenership of FM HD channels with the potential to create new stations using the HD-2, HD-3 and HD-4 channel capacity.

Our broadcast acquisitions during the year ended December 31, 2016 include the following:

On December 31, 2016, we closed on the acquisition of an FM translator in Aurora, Florida for \$50,000 in cash. The FM translator will be used by our WHIM-AM radio station in Miami, Florida.

On December 31, 2016, we closed on the acquisition of an FM translator in Port St. Lucie, Florida for \$50,000 in cash. The FM translator will be used by our WLCC-AM radio station in Tampa, Florida.

On December 14, 2016, we closed on the acquisition of an FM translator in Rhinelander, Wisconsin for \$50,000 in cash. The FM translator will be used by our WWTC-AM radio station in Minneapolis, Minnesota.

On December 8, 2016, we closed on the acquisition of an FM translator in Little Fish Lake Valley, California for \$44,000 in cash. The FM translator will be used by our KFIA-AM radio station in Sacramento, California.

On December 1, 2016, we closed on the acquisition of an FM translator in Lake Placid, Florida for \$35,000 in cash. The FM translator will be used by our WTLN-AM radio station in Orlando, Florida.

On November 22, 2016, we closed on the acquisition of two FM translator construction permits in Lahaina, Hawaii and Kihei, Hawaii for \$110,000 in cash. The FM translators will be used by our KHNR-AM and KGU-AM radio stations in Honolulu, Hawaii.

On November 22, 2016, we closed on the acquisition of an FM translator in Crested Butte, Colorado for \$38,500 in cash. The FM translator will be used by our KZNT-AM radio station in Colorado Springs, Colorado.

On November 21, 2016, we closed on the acquisition of an FM translator in Dansville, New York for \$75,000 in cash. The FM translator will be used by our WMCA-AM radio station in New York, New York.

On November 21, 2016, we closed on the acquisition of an FM translator in Carbondale, Pennsylvania for \$75,000 in cash. The FM translator will be used by our WPGP-AM radio station in Pittsburgh, Pennsylvania.

On November 11, 2016, we closed on the acquisition of an FM translator construction permit in Kingsville, Texas for \$50,000 in cash. The FM translator will be used by our KNTH-AM radio station in Houston, Texas.

On November 7, 2016, we closed on the acquisition of an FM translator in Sebring, Florida for \$77,000 in cash. The FM translator will be used by our WKAT-AM radio station in Miami, Florida.

On October 20, 2016, we closed on the acquisition of radio station KXFN-AM in St. Louis, Missouri for \$190,000 in cash. The station was dark upon closing and launched in December 2016.

On October 20, 2016, we closed on the acquisition of three FM translator construction permits for \$155,000 in cash. The FM translator construction permits were based in Angola, Indiana, Cofax, Indiana and Battle Creek, Michigan and will be used by WHK-AM and WHKW-AM, our radio stations in Cleveland, Ohio and WSDZ-AM our radio station in St. Louis, Missouri.

On October 19, 2016, we closed on the acquisition of an FM translator construction permit in Palm Coast, Florida for \$65,000 in cash from a related party. The FM translator will be used by our WTWD-AM radio station in Tampa, Florida.

On October 12, 2016, we closed on the acquisition of an FM translator in Lake City, Florida for \$65,000 in cash from a related party. The FM translator will be used by our WBZW-AM radio station in Orlando, Florida.

On June 24, 2016, we entered into a Local Marketing Agreement (“LMA”) to operate radio station KTRB-AM in San Francisco, California beginning on July 1, 2016. On December 15, 2016, we entered into a new LMA to operate this station with East Bay Broadcasting, LLC, a related party.

On June 20, 2016, we closed on the acquisition of an FM translator in the Columbus, Ohio market for \$0.3 million in cash. The FM translator is used in our Columbus, Ohio market.

On June 10, 2016, we closed on the acquisition of an FM translator in Amherst, New York for \$60,000 in cash. The FM translator is used in our Pittsburgh, Pennsylvania market.

On June 8, 2016, we closed on the acquisition of a construction permit for an FM translator construction permit in Charlotte, Michigan for \$50,000 in cash. The FM translator will be used in our Detroit, Michigan market.

On June 3, 2016, we closed on the acquisition of a construction permit for an FM translator in Atwood, Kentucky for \$88,000 in cash. The FM translator will be used in our Columbus, Ohio market.

On May 13, 2016, we closed on the acquisition of a construction permit for an FM translator in Kerrville, Texas for \$50,000 in cash. The FM translator will be used in our Houston, Texas market.

On May 2, 2016, we closed on the acquisition of an FM translator in Lincoln, Maine for \$100,000 in cash. The FM translator is used in our Boston, Massachusetts market.

On April 29, 2016, we closed on the acquisition of a construction permit for an FM translator in Emporia, Kansas for \$25,000 in cash. The FM translator will be relocated to Omaha, Nebraska, for use by our KCRO-AM radio station.

Acquisitions – Digital Media

On December 1, 2016, we acquired ChristianConcertAlerts.com for \$0.2 million, of which \$0.1 million was paid in cash upon close and the remaining \$50,000 is due in two installments within the next year.

On October 17, 2016, we purchased Historyonthenet.com and Authentichistory.com for \$0.1 million in cash.

On September 13, 2016, we acquired Mike Turner’s line of investment products, including TurnerTrends.com, other domain names and related assets for \$0.4 million in cash and the assumption of \$0.1 million in deferred subscription liabilities. As part of the purchase agreement, we may pay up to an additional \$0.1 million in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks.

On April 1, 2016, we acquired the Retirement Watch newsletter and websites for \$0.1 million in cash and the assumption of \$0.6 million in deferred subscription liabilities.

On March 8, 2016, we acquired King James Bible mobile applications for \$4.0 million, of which \$2.7 million was paid in cash upon close and \$1.3 million is due in deferred installments within one year from the closing date.

Throughout the twelve-month period ended December 31, 2016, we acquired other domain names and assets associated within our digital media operating segment for approximately \$3,000 in cash.

Acquisitions – Publishing

On August 1, 2016, we acquired the assets of Hillcrest Media Group, Inc. for \$3.5 million and the assumption of \$1.0 million in deferred revenue liabilities. We paid \$3.3 million in cash upon close with the remaining \$0.2 million due within 90 days upon the finalization of deferred revenue obligations.

Throughout the twelve-month period ended December 31, 2016, we acquired other domain names and assets associated within our publishing operating segment for approximately \$3,000 in cash.

Divestitures

· In November 2016, we entered an agreement with Word Broadcasting Network to transfer the operation of our Louisville radio stations (WFIA-AM; WFIA-FM; WGTK-AM) under a twenty-four month Time Brokerage Agreement (“TBA”) effective as of January 3, 2017. We received \$0.5 million of cash from Word Broadcasting Network associated with an option for them to purchase these stations.

- On September 1, 2016, we received \$0.7 million in cash associated with a land easement granted in our South Carolina market.
- On June 10, 2016, we received \$2.5 million in cash from the National Park Service in exchange for its claim under eminent domain for our tower site in Miami, Florida. We recognized a pre-tax gain of \$1.9 million from this sale. We entered a limited terms of use agreement with the National Park Service to broadcast from the tower site for the next twenty years for a nominal fee.

Net Broadcast Revenue

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Broadcast Revenue	\$ 197,184	\$ 202,016	\$ 4,832	2.5%	74.2%	73.6%
Same Station Net Broadcast Revenue	\$ 196,972	\$ 199,379	\$ 2,407	1.2%		

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

	Year Ended December 31,			
	2015	2016		
	<i>(Dollars in thousands)</i>			
Block program time:				
National	\$ 46,401	23.5%	\$ 49,271	24.4%
Local	36,156	18.3	37,034	18.3
	82,557	41.9	86,305	42.7
Advertising:				
National	13,939	7.1	13,426	6.6
Local	63,375	32.1	64,028	31.7
	77,314	39.2	77,454	38.3
Digital	6,680	3.4	6,984	3.5
Infomercials	2,545	1.3	2,636	1.3
Network	15,010	7.6	17,683	8.8
Other	13,078	6.6	10,954	5.4
Net broadcast revenue	\$ 197,184	100.0%	\$ 202,016	100.0%

Block programming revenue increased \$3.7 million of which \$1.1 million was generated from stations that we acquired late in 2015, many of which we began programming in January 2016. On existing stations, we saw increases in the number of national and local programmers featured on our stations that often creates a higher demand for certain time slots. This increase in demand can result in the realization of higher rates. Our Christian Teaching and Talk stations generated a \$1.4 million increase in programming revenues of which \$1.3 million was from national programs. Programming revenue on our News Talk stations increased \$0.9 million of which \$0.3 million was generated from launching a local program onto our national platform. The remaining \$0.3 million increase was generated from our Spanish Christian Teaching and Talk and Business News format stations.

Advertising revenue, net of agency commissions, increased by \$0.1 million including a \$2.3 million increase in political advertising. Net of political advertising, the net decrease in advertising revenue of \$2.2 million was due to a \$3.5 million decline in advertising on our CCM stations, particularly in our Dallas market due to higher competition for advertising sales from agencies and what we believe to be a shift in advertisers toward a younger demographic. In response to these trends, we have undertaken efforts to retool our music, image and promotions to capture more of that audience. The decline in advertising on our CCM stations was partially offset with a \$0.7 million increase from our News Talk stations, a \$0.3 million increase from our Business stations and a \$0.2 million increase from our Spanish Christian Teaching and Talk stations. Our stations, particularly our News Talk format, benefited from a higher demand for airtime associated with news and related content from the 2016 presidential election cycle. This higher demand for airtime results in higher spot rates for premium airtime.

Digital revenue generated from our radio station websites increased \$0.3 million, primarily from our News Talk Stations. Digital revenues were favorably impacted by higher demand and higher page views associated with news and related content from the 2016 presidential election cycle. Rates charged were consistent with those during the same period of the prior year.

Infomercial revenue increased \$0.1 million due to a higher number of placements on our Christian Teaching and Talk stations. We have seen declining infomercial revenues in recent years due to our efforts to feature programming that is tailored to our listeners and consistent with our company values. While we continue to seek alternatives to infomercial programs that we believe are not of interest to our listeners, we may continue to place programs that are categorized as infomercials.

Network revenue increased by \$2.7 million including a \$2.9 million increase in advertising sales through our network, of which \$0.2 million was due to political advertising. This increase was offset by a \$0.2 million decline in event revenue due to a special listener event held in 2015 that included our network hosts on a historical tour.

Other revenues declined by \$2.1 million due to a \$1.4 million decline in listener purchase program revenue due to lower demand from our audience with respect to participation in sales incentives and discount programs and a \$0.7 million decline in event revenue due to lower ticket sales and attendance primarily due to weather related conditions during outdoor summer events.

On a Same Station basis, net broadcast revenue increased \$2.4 million, which reflects these items net of the impact of stations with acquisitions and format changes.

Net Digital Media Revenue

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Net Digital Media Revenue	\$ 44,761	\$ 46,777	\$ 2,016	4.5%	16.8%	17.1%

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

	Year Ended December 31,			
	2015		2016	
	<i>(Dollars in thousands)</i>			
Digital Advertising, Net	\$ 24,472	54.7%	\$ 27,296	58.4%
Digital Streaming	4,472	10.0	4,504	9.6
Digital Subscriptions	5,189	11.6	4,881	10.4
Digital Downloads	7,661	17.1	7,475	16.0
e-commerce	2,371	5.3	2,159	4.6
Other Revenue	596	1.3	462	1.0
Net Digital Media Revenue	\$ 44,761	100.0%	\$ 46,777	100.0%

Digital advertising revenue, net of agency commissions, increased \$2.8 million on a consolidated basis of which \$0.6 million was due to political-based advertising revenue. Salem Web Network generated a \$1.5 million increase in net digital advertising revenue while our conservative option websites within Townhall Media generated a \$0.7 million increase in net digital advertising revenue. These increases resulted from growth in page views including growth in page views generated from the use of mobile applications.

While changes in the Facebook newsfeed algorithm negatively impacted the volume of our desktop page views, we have been developing and promoting the use of mobile applications. The increases in traffic to our websites that we have observed to date are largely due to increases in the number of visits and in the number of Christian mobile applications available. The growth in traffic from mobile applications reduces our reliance on Facebook to generate traffic. One important note about this shift in traffic to mobile applications and away from desktop and tablet is that there are far fewer ads on mobile and visits are much shorter. As a result, our growth in traffic is larger than our growth in revenue.

Digital streaming revenue increased slightly as compared to the prior year based on higher usage of content available on our Christian websites. The rates charged were consistent with those of the same period of the prior year.

Digital subscription revenue declined by \$0.3 million due to lower distribution levels of Eagle Financial Publications. The stock market performance during 2016, particularly the drop in the market during January 2016, along with uncertainty with the presidential election, negatively impacted the demand for these products. There were no changes in subscriber rates during this period.

Digital download revenue decreased \$0.2 million due to a lower volume of downloads generated as compared to the prior year. Of this decrease, \$0.1 million was generated from WorshipHouseMedia.com and \$0.1 million was generated from SermonSpice.com. There were no changes in rates charged to our customers for digital downloads.

E-commerce revenue includes sales of wellness products through Eagle Wellness and Gene Smart. Sales of Eagle Wellness products declined by \$0.3 million and were partially offset with an increase in products sold under the Gene Smart line of \$0.1 million. The net decline was due to a 5% reduction in the number of products sold with no change in the retail prices. However, based on the composite mix of products sold, there was a 5% reduction in the average unit price per unit.

Net Publishing Revenue

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Publishing Revenue	\$ 23,842	\$ 25,528	\$ 1,686	7.1%	9.0%	9.3%

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

	Year Ended December 31,			
	2015		2016	
	<i>(Dollars in thousands)</i>			
Book Sales	\$ 17,955	75.3%	\$ 17,006	66.6%
Estimated Sales Returns & Allowances	(6,404)	(26.9)	(4,482)	(17.6)
E-book Sales	1,970	8.3	2,213	8.7
Self-Publishing Fees	5,406	22.7	6,138	24.0
Print Magazine Subscriptions	1,665	7.0	1,501	5.9
Print Magazine Advertisements	1,821	7.6	1,651	6.5
Other Revenue	1,429	6.0	1,501	5.9
Net Publishing Revenue	\$ 23,842	100.0%	\$ 25,528	100.0%

On a consolidated basis, sales of print books decreased by \$0.9 million comprised of a \$1.6 million decline in book sales from Regnery Publishing that were offset by a \$0.7 million increase in book sales to authors through our self-publishing services. The \$0.7 million increase in book sales generated from self-publishing services included a \$1.1 million increase due to activity from our newly acquired publisher Hillcrest Media that was offset by a \$0.4 million decline in book sales from Xulon PressTM. There were no changes in rates charged as compared to the same period of the prior year. Book sales generated by Regnery Publishing are directly attributable to the composite mix of titles released and available in each period. Revenues can vary significantly based on the book release date and the number of titles that achieve the New York Times bestseller list, which can increase awareness and demand for the book. The \$1.9 million decrease in estimated sales returns and allowances was due to a decline in print book sales from Regnery Publishing and a reduction of the previously recorded reserve of \$0.3 million associated with titles published in 2014 for which actual returns were less than the original estimates.

E-book sales from Regnery Publishing increased \$0.2 million based on a higher volume of books sold as compared to the same period of the prior year. Similar to the sale of books in print, e-book sales are also directly attributable to the composite mix of titles available in each period. Revenues can vary significantly based on the book release date and the number of titles that achieve the New York Times bestseller list, which can increase awareness and demand for the book.

Self-publishing fees increased \$0.7 million due to growth in the number of authors utilizing Salem Author Services, including \$0.4 million generated from our newly acquired publisher Hillcrest Media and \$0.3 million generated from Xulon PressTM. There were no changes in fees as compared to the same period of the prior year. We believe that our ability to cross-promote our self-publishing services to authors interested in Regnery Publishing provides us with ongoing growth potential. We believe that our acquisition of Hillcrest Media, a self-publishing service provider for all authors, also increases our ability to cross-promote our publishing services. Hillcrest Media is a "tuck-in" acquisition that will transition its operations within our existing Xulon PressTM management team and facility. These operations are collectively referred to as Salem Author Services.

Print magazine revenues continued to decline with a \$0.2 million reduction in subscription revenue based on a lower number of subscribers and a \$0.2 million decline in advertising revenues due to reduced demand from advertisers and reduced rates based on the lower subscriber levels as compared to the same period of the prior year. We continue to explore cost reductions in this segment to offset the eroding revenue base.

Broadcast Operating Expenses

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Broadcast Operating Expenses	\$ 140,819	\$ 146,283	\$ 5,464	3.9%	53.0%	53.3%
Same Station Broadcast Operating Expenses	\$ 140,487	\$ 143,298	\$ 2,811	2.0%		

Broadcast operating expenses increased by \$5.5 million of which \$2.5 million relates to operating expenses for stations acquired during 2015 that are included in 2016 operations for the full year. The increase also includes a \$3.0 million increase in payroll related costs due to higher staffing levels and sales-based commissions associated with higher revenues and a \$0.5 million increase in benefit costs due to higher value claims under our health insurance plan, a \$0.5 million charge associated with a contract litigation matter and \$0.5 million increase in travel expenses that include a corporate-sponsored conference. The corporate sponsored conference was held in January 2016 and featured our local and national talk show hosts focusing on opportunities with the upcoming political elections. These increases were partially offset by a \$0.7 million decline in bad debt expense due to an increase in collection efforts and a \$0.2 million decline in professional services. The increase in broadcast operating expenses on a Same Station basis reflects these items net of the impact of start-up costs associated with acquisitions and format changes.

Digital Media Operating Expenses

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Digital Media Operating Expenses	\$ 35,380	\$ 36,290	\$ 910	2.6%	13.3%	13.2%

The \$0.9 million increase in digital media operating expenses includes a \$0.4 million increase in payroll related costs across all business units based on higher staffing levels and higher sales based commissions and bonuses, a \$0.1 million increase in employee benefit costs due to an increase in higher value claims under our health insurance plan, a \$0.6 million increase in streaming expenses due to a higher usage volume primarily from Townhall Media, and a \$0.1 million increase in professional services that were partially offset with \$0.2 million in savings realized from lower rent costs due to consolidation of the Townhall Media facility.

Publishing Operating Expenses

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Publishing Operating Expenses	\$ 24,774	\$ 26,209	\$ 1,435	5.8%	9.3%	9.6%

Publishing operating expenses reflect a \$0.5 million increase in the cost of goods sold associated with book sales generated through Salem Author Services, our self-publishing operations through Xulon Press and Hillcrest Media. The gross profit margin for our self-publishing entities was consistent at 71% for each of the years ended December 31, 2016 and 2015. The gross profit margin for Regnery Publishing was 46% for the year ended December 31, 2016 compared to 42% for the same period of the prior year. Cost of goods sold for Regnery Publishing improves with sale of e-books, which have a lower cost of goods sold due to the nature of delivery and no sales returns.

Our newly acquired publisher Hillcrest Media generated approximately \$1.5 million of operating expenses including salary, advertising and promotional costs, and facility related costs. These costs were partially offset with a \$0.4 million decline in advertising and promotions with Regnery Publishing and a \$0.2 million decline in operating costs from our print magazine segment due to cost saving initiatives.

Unallocated Corporate Expenses

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Unallocated Corporate Expenses	\$ 15,146	\$ 14,994	\$ (152)	(1.0)%	5.7%	5.5%

Unallocated corporate expenses include shared services, such as accounting and finance, human resources, legal, tax and treasury, that are not directly attributable to any one of our operating segments. The net decrease of \$0.2 million includes a \$1.2 million reduction in accrued management bonuses and a \$0.1 million decrease in non-cash stock-based compensation expense that were partially offset by a \$0.1 million increase in employee benefit costs due to an increase in higher value claims under our health insurance plan, a \$0.6 million increase in professional fees associated with legal and accounting services and a \$0.5 million increase in net payroll related costs due to higher staffing levels associated with acquisitions and growth.

Depreciation Expense

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Depreciation Expense	\$ 12,417	\$ 12,205	\$ (212)	(1.7)%	4.7%	4.4%

There were no changes in our depreciation methods or in the estimated useful lives of our asset groups. The decline in depreciation of \$0.2 million reflects the impact of computer software acquired during the year ended December 31, 2012 that was fully depreciated during the year ended December 31, 2016, compared to generating depreciation expense of \$0.5 million during the prior year as well as the composite mix of other capital expenditures incurred.

Amortization Expense

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Amortization Expense	\$ 5,324	\$ 5,071	\$ (253)	(4.8)%	2.0%	1.8%

There were no changes in our amortization methods or in the estimated useful lives of our intangible asset groups. The decline in amortization expense of \$0.3 million reflects the impact of customer lists and contracts acquired with Eagle Publishing that were fully amortized as of the year ended December 31, 2016, compared to generating amortization expense of \$1.0 million during the prior year that were offset with the amortization of intangible assets acquired with King James Bible in March 2016 and Hillcrest Media in September 2016.

Change in the Estimated Fair Value of Contingent Earn-Out Consideration

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	\$ (1,715)	\$ (689)	\$ 1,026	(59.8)%	(0.6)%	(0.3)%

Our acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. We review the probabilities of possible future payments to estimate the fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable.

For the year ended December 31, 2016, we recorded a net reduction in our contingent earn-out liabilities of \$0.7 million compared to \$1.7 million for the prior year. The changes are based on actual results as compared to the estimates used in our probability analysis for each contingency. Refer to Note 5 in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for a detailed analysis of the changes in our assumptions and the impact for each contingency.

Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

Impairment of Indefinite-Lived Long-Term Assets Other Than Goodwill

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Impairment of Indefinite-Lived Long Term Assets Other Than Goodwill	\$ —	\$ 7,041	\$ 7,041	100.0%	—%	2.6%

The impairment charge of \$7.0 million includes \$6.5 million of impairments associated with our broadcast licenses and \$0.5 million associated with the value of mastheads. These impairments were recognized during our annual testing period in the fourth quarter of 2016. Broadcast licenses were deemed to be impaired in four of the twenty five markets tested. Impairments were recorded in our Cleveland, Dallas, Detroit and Portland market clusters due to an increase in the risk-adjusted discount rate or Weighted Average Cost of Capital ("WACC"). The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis. The impairment charge also includes a \$0.5 million charge associated with magazine mastheads due to further reductions in projected net revenues and increases in the WACC. We believe that these impairments are indicative of trends in the industry and are not unique to our company or operations.

Impairment of Goodwill

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Impairment of Goodwill	\$ 439	\$ 32	\$ (407)	(92.7)%	0.2%	—%

During our annual testing period in the fourth quarter of 2016, we noted operating losses and missed projections within our wellness business indicating that the value of goodwill may be impaired. We engaged an independent third-party appraisal and valuation firm to assist us with determining the enterprise value. Based on this review and analysis, we recorded an impairment charge of \$32,000 associated with the value of goodwill for Eagle Wellness. This impairment charge resulted from reductions in revenue forecasts for this business due to actual operating results to date that have not met expectations.

For our annual testing as of the fourth quarter of 2015, we identified operating losses within our Singing News Network that indicated that the value of goodwill may be impaired. We engaged an independent third-party appraisal and valuation firm to assist us with determining the enterprise value. Based on this review and analysis, we recorded an impairment charge of \$0.4 million associated with the value of goodwill for the Singing News Network. We believe that this impairment is indicative of trends in the industry and is not unique to our company or operations.

Impairment of Amortizable Intangible Assets

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Amortizable Intangible Assets	\$ —	\$ 8	\$ 8	100.0%	—%	—%

When performing our review of goodwill associated with our wellness products business during our annual testing in the fourth quarter of 2016, we determined that the carrying value of Eagle Wellness exceeded its fair value. When this occurs, we are required to perform Step 2 of the impairment testing in which we determine the fair value of an entity following the same procedures as a purchase price allocation. Under Step 2, the implied fair value of the reporting unit, including goodwill, was less than the carrying value. We recorded an impairment charge of approximately \$8,000 associated with amortizable intangible assets of Eagle Wellness. This impairment charge resulted from reductions in revenue forecasts for this business due to actual operating results to date that have not met expectations.

Impairment of Long-Lived Assets

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Long-Lived Assets	\$ —	\$ 700	\$ 700	100.0%	—%	0.3%

We recorded a \$0.7 million impairment charge associated with the fair value of land in Covina, California. Based on changes in management's planned usage, we classified this land as held for sale as of June 2012. While we continue to market the land for sale and have no intention to use the land in our operations, we have not received successful purchase offers for the land. Due to the amount of time that the land has been held for sale, we obtained a third-party valuation for the land as of June 2016. We reduced the value of the land based on this fair value appraisal. Previously recognized impairment charges for this land were \$5.6 million in June 2012 and \$1.2 million in December 2012.

(Gain) Loss on the Sale or Disposal of Assets

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
(Gain) Loss on the Sale or Disposal of Assets	\$ 181	\$ (1,901)	\$ (2,082)	(1,150.3)%	0.1%	(0.7)%

The net gain on the sale or disposal of assets of \$1.9 million for the year ended December 31, 2016 includes a \$1.9 million gain on the sale of our Miami tower site and \$0.7 million gain from a land easement in our South Carolina market offset by a \$0.4 million charge associated with leasehold improvements that were abandoned during the relocation of our offices in the Washington, D.C. market and various fixed asset disposals.

The net loss on the sale or disposal of assets for the year ended December 31, 2015 includes a \$0.2 million charge associated with the relocation of our office and studio in our Seattle, Washington market offset by proceeds from various fixed asset and equipment disposals.

Other Income (Expense)

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Interest income	\$ 8	\$ 6	\$ (2)	(25.0)%	—%	—%
Interest Expense, net of Capitalized Interest	(15,429)	(14,938)	491	(3.2)%	(5.8)%	(5.4)%
Change in the Fair Value of Interest Rate Swap	(1,273)	285	1,558	(122.4)%	(0.5)%	0.1%
Gain on Bargain Purchase	1,357	95	(1,262)	(93.0)%	0.5%	—%
Loss on Early Retirement of Long-Term Debt	(41)	(87)	(46)	112.2%	—%	—%
Net Miscellaneous Income and (Expenses)	201	6	(195)	(97.0)%	0.1%	—%

Interest income represents earnings on excess cash and interest due under promissory notes.

Interest expense includes interest due on outstanding debt balances, interest due on our swap agreement and non-cash interest accretion related to deferred payments related to our acquisition activity and from our contingent earn-out consideration. The \$0.5 million decline in interest expense is due to a lower principal balance outstanding on our Term Loan B and a lower average outstanding balance on our Revolver.

The change in the fair value of interest rate swap reflects the mark-to-market fair value adjustment of the interest rate swap agreement that was entered into on March 28, 2013.

In accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805 “*Business Combinations*,” effective as of January 1, 2009, any excess of fair value of the acquired net assets over the acquisition consideration shall be recognized as a gain on a bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. We underwent such a reassessment, and as a result, have recorded a gain on bargain purchase for KXFN-AM in St. Louis, Missouri, of \$0.1 million. If new information is obtained during the measurement period about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized for assets acquired and liabilities assumed, we will adjust the amounts recognized as of the acquisition date.

For the same period of the prior year, we recorded a gain on the bargain purchase for WSDZ-AM in St. Louis, Missouri, of \$0.8 million, for KDIZ-AM in Minneapolis, Minnesota, of \$0.3 million and for WWMI-AM in Tampa, Florida, of \$0.3 million. We believed that the gain on bargain purchase resulted from various factors that impacted the acquisition price, including, without limitation, Disney’s plan to exit the broadcasting business and divest its Radio Disney properties.

The loss on early retirement of long-term debt reflects the unamortized discount and bank loan fees associated with principal redemptions of our Term Loan B.

Net miscellaneous income and expenses includes royalty income, usage fees for our real estate properties and insurance proceeds.

Provision for Income Taxes

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>					
	<i>% of Total Net Revenue</i>					
Provision for Income Taxes	\$ 6,695	\$ 4,572	\$ (2,123)	(31.7)%	2.5%	1.7%

The decrease in our provision for income taxes of \$2.1 million reflects the impact of pre-tax income of \$13.4 million recognized during the year ended December 31, 2016 compared to \$17.8 million for the prior year and a \$1.6 million out-of-period adjustment to correct an error in our estimated valuation allowance for certain deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized that was recorded in September 2016. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate, was 34.0% for the year ended December 31, 2016 compared to 37.5% for the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes and changes in the valuation allowance related to the utilization of certain state net operating loss carryforwards.

Net Income

	Year Ended December 31,					
	2015	2016	Change \$	Change %	2015	2016
	<i>(Dollars in thousands)</i>					
	<i>% of Total Net Revenue</i>					
Net Income	\$ 11,150	\$ 8,873	\$ (2,277)	(20.4)%	4.2%	3.2%

Our net income declined by \$2.3 million to \$8.9 million for the year ended December 31, 2016 compared to \$11.2 million during the prior year. This decline reflects the impact of \$7.8 million of impairment charges in 2016 compared to \$0.4 million in the prior year and an increase in operating expenses of \$7.7 million, that were partially offset by an \$8.5 million increase in net revenue and the \$2.1 million favorable impact of gains on the sale or disposal of assets in 2016.

Year Ended December 31, 2015 compared to the year ended December 31, 2014

The following factors affected our results of operations and our cash flows for the year ended December 31, 2015 as compared to the prior year:

Financing

Throughout the year ended December 31, 2015, we repaid \$2.0 million in principal on our Term Loan B and paid interest through each repayment date compared to \$15.3 million in principal plus interest through each repayment date during the prior year.

Equity

Throughout the year ended December 31, 2015, we paid total equity distributions of \$6.6 million compared to total equity distributions of \$6.2 million during the prior year.

Broadcast Acquisitions

We completed a number of broadcast acquisitions during the year ended December 31, 2015, most notably from Disney's divestiture of its Radio Disney properties. Of the eleven radio stations that we acquired during 2015, 10 were former Radio Disney properties. With the exception of WSDZ-AM in the St. Louis, Missouri market, each of these acquisitions were in markets in which we already have broadcast facilities and staff, or "tuck-in" acquisitions. We consummate tuck-in acquisitions when we believe it is advantageous to increase the strength and number of our broadcast signals while minimizing costs under our market cluster-operating concept. The St. Louis market, as one of the top 25 radio markets in the United States, provides a unique opportunity to expand our platform in a new market. During the year ended December 31, 2015, we paid \$12.4 million of cash to acquire broadcast assets and radio stations. A summary of our broadcast acquisitions during the year ended December 31, 2015, in order of most recent, is as follows:

- On December 18, 2015, we acquired radio station WSDZ-AM in St. Louis, Missouri, for \$0.3 million in cash.
- On December 15, 2015, we acquired radio station KDIZ-AM in Minneapolis, Minnesota, for \$0.4 million in cash.
- On December 11, 2015, we acquired radio station WWMI-AM in Tampa, Florida, for \$0.8 million in cash.
- On December 8, 2015, we acquired radio station KDDZ-AM in Denver, Colorado, for \$0.6 million in cash.
- On December 4, 2015, we acquired radio station KDZR-AM in Portland, Oregon, for \$0.3 million in cash.
- On October 1, 2015, we acquired radio station KKSP-FM in Little Rock, Arkansas for \$1.5 million in cash.
- On September 15, 2015, we acquired radio station KEXB-AM (formerly KMKI-AM) in Dallas, Texas, for \$3.0 million in cash.
- On September 10, 2015, we acquired radio station WBIX-AM (formerly WMKI-AM) in Boston, Massachusetts, for \$0.5 million in cash.
- On May 12, 2015, we acquired radio station WPGP-AM (formerly WDDZ-AM) in Pittsburgh, Pennsylvania, for \$1.0 million in cash.
- On May 7, 2015, we acquired radio station WDWD-AM in Atlanta, Georgia, for \$2.8 million in cash.
- On April 7, 2015, we acquired land and real estate used in the operations of our radio stations in Greenville, South Carolina, for \$0.2 million in cash.
- On March 27, 2015, we acquired radio station WDYZ-AM in Orlando, Florida, for \$1.3 million in cash. We began operating this station under an Asset Purchase Agreement ("APA") as of December 10, 2014.

Digital Acquisitions

We continued to expand our digital platform with acquisitions of complementary businesses and assets. During the year ended December 31, 2015, we paid \$4.5 million of cash to acquire digital media assets and businesses. A summary of our digital acquisitions and asset purchases, in order of most recent, is as follows:

- On December 7, 2015, we acquired the Instapray mobile applications and a related website for \$0.1 million in cash.
- On October 29, 2015, we acquired DividendYieldHunter.com for \$42,500 in cash, with \$21,250 paid at closing and \$21,250 payable in January 2016.

- On September 3, 2015, we acquired a Spanish Bible mobile application and its related website and Facebook properties for \$0.5 million in cash.
- On September 1, 2015, we acquired the DailyBible mobile applications, including all content, code and functionality, for \$1.5 million in cash.
- On July 1, 2015, we acquired DividendInvestor.com for \$1.0 million in cash and the assumption of \$70,000 in deferred subscription liabilities.
- On June 4, 2015, we acquired the Gene Smart Wellness e-commerce website for \$0.1 million in cash.
- On May 6, 2015, we acquired domain names, mobile applications and code functionality for the Daily Bible Devotion for \$1.1 million in cash. We may pay up to an additional \$0.3 million in contingent earn-out consideration payable over the next two years based upon the achievement of certain benchmarks.
- On February 6, 2015, we acquired Bryan Perry Newsletters with assets valued at \$0.6 million and assumed deferred subscription liabilities of \$0.4 million. We paid no cash to the seller upon closing. We recorded an estimated contingent earn-out liability at the discounted present value of \$0.2 million based on amounts that we expect to pay in the future. As of September 30, 2015, we have paid \$30,000 of cash toward the contingent earn-out installments based on actual subscription revenues.

Divestitures

- On December 31, 2015, we ceased programming KVCE-AM, Dallas, Texas upon expiration of a TBA.

Net Broadcast Revenue

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Broadcast Revenue	\$ 194,094	\$ 197,184	\$ 3,090	1.6%	72.8%	74.2%
Same Station Net Broadcast Revenue	\$ 192,705	\$ 193,796	\$ 1,091	0.6%		

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

	Year Ended December 31,			
	2014		2015	
	<i>(Dollars in thousands)</i>			
Block program time:				
National	\$ 44,921	23.2%	\$ 46,401	23.5%
Local	34,600	17.8	36,156	18.4
	79,521	41.0	82,557	41.9
Advertising:				
National	14,986	7.7	13,939	7.1
Local	62,566	32.2	63,375	32.1
	77,552	39.9	77,314	39.2
Digital	6,279	3.2	6,680	3.4
Infomercials	3,906	2.0	2,545	1.3
Network	15,822	8.2	15,010	7.6
Other	11,014	5.7	13,078	6.6
Net broadcast revenue	\$ 194,094	100.0%	\$ 197,184	100.0%

Block programming revenue grew by \$3.0 million due to an increase in the number of national and local programmers featured on our stations and an increase in programming airtime available from a reduction in the number of infomercials sold. Our Christian Teaching and Talk stations generated a \$2.0 million increase in block programming revenue based on a higher number of national and local programs featured while our News Talk stations generated a \$1.2 million increase. These increases were partially offset by a \$0.3 million decline in local programs on our Spanish Christian Teaching and Talk stations. The increase in the number of programmers featured on-air creates a higher demand for premium time slots. This increase in demand often results in realization of higher rates.

Consolidated broadcast advertising revenue, net of agency commissions, declined by \$0.2 million. The decline includes the impact of political advertising, which was \$2.0 million during the year ended December 31, 2014 based on the then upcoming local and congressional elections compared to \$0.4 million for the year ended December 31, 2015. Excluding the \$1.6 million impact of political advertising, net advertising revenue increased by \$1.3 million due to increases in demand from local advertisers on our News Talk and Contemporary Christian Music stations. The increases in demand from local advertisers also resulted in the realization of higher rates for premium time slots.

Digital revenues generated from our radio station websites increased \$0.4 million based on higher sales volume consistent with our efforts to promote advertising value from our station websites.

Declines in infomercial revenue reflect our effort to feature programming that is tailored to our audience and consistent with our company values. We continue to seek alternatives to infomercial programs that we believe are not of interest to our audience.

Network revenue declined \$0.8 million, including a \$0.4 million decline in political advertisements and the remainder due to declines in the number of advertisements associated with faith-based movies and educational institutions.

Increases in other revenue include a \$0.9 million increase in event revenue generated from higher attendance and sponsorships at local events such as distinguished speakers and concerts, a \$0.4 million increase from listener purchase programs that offer our listeners access to special discounts and incentives from local advertisers, and \$0.3 million of revenue generated from an FM translator and HD channel agreement.

On a same-station basis, net broadcast revenue increased \$1.1 million, which reflects these items net of the impact of revenue generated from newly-acquired stations.

Net Digital Media Revenue

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Digital Media Revenue	\$ 45,691	\$ 44,761	\$ (930)	(2.0)%	17.1%	16.8%

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

	Year Ended December 31,			
	2014			2015
	<i>(Dollars in thousands)</i>			
Digital Advertising, Net	\$ 24,789	54.2%	\$ 24,472	54.7%
Digital Streaming	4,280	9.4	4,472	10.0
Digital Subscriptions	5,825	12.7	5,189	11.6
Digital Downloads	7,982	17.5	7,661	17.1
e-commerce	2,223	4.9	2,371	5.3
Other Revenue	592	1.3	596	1.3
Net Digital Media revenue	\$ 45,691	100.0%	\$ 44,761	100.0%

Digital advertising revenue, net of agency commissions, declined by \$0.3 million on a consolidated basis. Included in this amount is a \$1.9 million decline in digital advertising revenue generated from Townhall.com due to a reduction in the number of advertising supported email distributions to readers. The decline was offset by an increase in digital advertising revenue of \$1.5 million generated from Salem Web Network, including a \$1.4 million increase in remnant advertising revenue based on sales volumes. The number of page views generated directly impacts the amount of digital advertising revenue generated for each site. Total page views were negatively impacted by changes in the Facebook newsfeed algorithm that make it more difficult to drive traffic from Facebook to our websites. We are also seeing a shift in the number of desktop page views declining to an increase in mobile page views, which carry lower advertising inventory and rates. Total page views from desktop devices were down 6% from the prior year.

Increases in digital streaming revenue of \$0.2 million reflect an increase in volume of streaming content from our Christian content websites.

Declines in digital subscription revenue of \$0.6 million reflect lower distribution levels based on a 28% decline in the number of new digital subscriptions sold. During 2014, a rebranding of the newsletters generated a higher interest level and a corresponding increase in the number of new subscriptions sold. While 2015 did not generate the same level of new subscribers, renewals increased by \$0.3 million, or a 12% increase in the number of renewals. There were no changes in rates for our digital subscriptions.

Digital download revenue decreased \$0.3 million due to a reduction in the number of downloads from our Church Products division websites, including a \$0.5 million decline in video downloads on our WorshipHouseMedia.com website offset by \$0.2 million increase in fees generated from ChurchStaffing.com and ChristianJobs.com. The decline in downloads of these third party produced videos are common throughout the industry as users become more adept at creating their own content. We believe that our sermon content is unique and valuable and that the number of downloads of our content will not be impacted as severely by user created content. We tend to see increases in the volume of our digital downloads with the approach of Christian holidays, specifically Easter and Christmas.

E-commerce revenue increased \$0.1 million, including a \$0.1 million increase in the sales volume of wellness products of which approximately \$57,000 was attributable to our acquisition of Gene Smart on June 4, 2015. There were no changes in the retail sales price for products sold year over year. We believe the increase in volume of wellness products sold is directly attributable to our cross-promotion and marketing efforts on our integrated media platform.

Other revenue reflects a \$0.2 million increase in event revenue from our RedState Gathering held in August 2015. The RedState Gathering featured several 2016 GOP candidates and was attended by over 750 paid attendees, 185 credentialed media and 100 representatives from 32 co-sponsoring organizations. The increase in event revenue was offset by a \$0.2 million decline in the number of digital promotions used under a deferred advertising arrangement.

Net Publishing Revenue

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Publishing Revenue	\$ 26,751	\$ 23,842	\$ (2,909)	(10.9)%	10.0%	9.0%

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

	Year Ended December 31,					
	2014		2015			
	<i>(Dollars in thousands)</i>					
Book Sales	\$ 19,552		73.1%	\$ 17,955		75.3%
Estimated Sales Returns & Allowances	(5,759)		(21.5)	(6,404)		(26.9)
E-book Sales	2,655		9.9	1,970		8.3
Self-Publishing Fees	5,121		19.1	5,406		22.7
Print Magazine Subscriptions	2,055		7.7	1,665		7.0
Print Magazine Advertisements	1,983		7.4	1,821		7.6
Other Revenue	1,144		4.3	1,429		6.0
Net Publishing Revenue	\$ 26,751		100.0%	\$ 23,842		100.0%

Consolidated book sale revenues include a \$1.7 million decline in print book sales from Regnery Publishing. The decline is directly attributable to the composite mix of titles available in each of the years and the number of these titles that achieve the New York Times bestseller list. The decrease in estimated sales returns and allowances for Regnery Publishing of \$0.6 million is consistent with the lower volume of print book sales during the year ended December 31, 2015 as compared to the prior year. These declines were offset by a \$0.1 million increase in book sales from Xulon PressTM due to an increase in the number of author submissions.

E-book sales from Regnery Publishing decreased \$0.7 million based on the number of units sold as compared to the prior year. The top ten titles sold during 2015 generated e-book revenue of \$1.0 million compared to 2014 when the top 10 e-books generated \$1.9 million of revenue. Similar to sales of printed books, the decline is directly attributable to the composite mix of titles available in each of the years and the number of these titles that achieve the New York Times bestseller list.

Xulon PressTM self-publishing fees increased \$0.3 million due to an increase in the number of authors utilizing the services with no changes in rates compared to the prior year. We believe that our ability to cross-promote the self-publishing services of Xulon PressTM to authors interested in Regnery Publishing provides us with ongoing growth potential.

Print magazine revenue continues to decline with a \$0.4 million drop in subscription revenue based on the number of subscribers and a corresponding \$0.2 million decline in advertising revenues based on reduced demand and reduced rates due to lower distribution levels. As of December 2014, we discontinued printing and distributing Townhall Magazine, the content of which is currently only available online. We continue to explore cost reductions in this segment to offset the eroding revenue base.

Broadcast Operating Expenses

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Broadcast Operating Expenses	\$ 139,206	\$ 140,819	\$ 1,613	1.2%	52.2%	53.0%
Same Station Broadcast Operating Expenses	\$ 138,278	\$ 137,785	\$ (493)	(0.4)%		

Increases in broadcast operating expenses include an increase of \$1.6 million in personnel-related costs including sales-based commissions, consistent with the higher revenues generated and an increase in the number of stations owned. Included in this amount is a \$0.3 million increase in group health insurance premiums. Facility-related costs increased by \$0.9 million due to recent acquisitions and the relocation and consolidation of our facilities in Washington DC, for which we are incurring duplicative rent expense until the build out of our new facility is complete and we can vacate our existing locations. In addition, there was a \$0.3 million increase in production and programming expense and a \$0.2 million increase in professional services, each of which is attributable to recent acquisitions. These increases were offset by a \$1.1 million decrease in bad debt expense due to an increase in collection efforts.

The decline in broadcast operating expenses on a same-station basis reflects these items net of the impact of start-up costs from newly acquired stations. Our cost containment efforts, including the elimination of certain positions that began in March 2015, contributed to the overall savings in net broadcast operating expenses on a same-station basis.

Digital Media Operating Expenses

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Digital Media Operating Expenses	\$ 35,590	\$ 35,380	\$ (210)	(0.6)%	13.4%	13.3%

Across all digital platforms, we incurred lower variable costs consistent with the lower revenues generated and cost reduction efforts that began in March 2015 that included the elimination of certain positions. Savings in variable operating costs include a \$0.2 million decline in royalties and a \$0.3 million decline in professional services, offset by a \$0.3 million increase in facility-related expenses, a \$0.2 million increase in advertising expenses and a \$0.1 million increase in streaming and hosting expenses. Personnel-related costs decreased \$0.4 million from lower sales commissions of \$0.6 million offset by a \$0.1 million increase in group health insurance premiums and a \$0.1 million increase in travel and entertainment expense.

Publishing Operating Expenses

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Publishing Operating Expenses	\$ 26,143	\$ 24,774	\$ (1,369)	(5.2)%	9.8%	9.3%

Publishing operating expenses include cost of goods sold associated with Regnery Publishing of \$1.9 million for the year ended December 31, 2015 compared to \$2.1 million for the prior year. The decline in the costs of goods sold of \$0.2 million is consistent with the declines in revenue from a reduction in the number of books sold as compared to the prior year. There were no significant changes in our margins. Consistent with lower revenues from Regnery Publishing, we generated savings from variable costs including \$0.8 million in royalties and \$0.2 million in fulfillment costs.

Operating expenses associated with our print magazines declined \$0.7 million, including \$0.2 million in printing and mailing costs, \$0.3 million in personnel-related costs and \$0.1 million in promotional costs, as well as overall declines in expenses from the discontinuation of production for Townhall Magazine as of the December 2014 issue.

Operating expense for Xulon PressTM increased by \$0.1 million, including a \$0.1 million increase in the cost of sales and \$0.2 million increase in advertising costs, consistent with the increase in revenue, offset by a \$0.2 million decrease in bad debt expense attributed to more successful collection efforts.

Unallocated Corporate Expenses

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Unallocated Corporate Expenses	\$ 17,092	\$ 15,146	\$ (1,946)	(11.4)%	6.4%	5.7%

Unallocated corporate expenses include shared services, such as accounting and finance, human resources, legal, tax and treasury that are not directly attributable to any one of our operating segments. Decreases in these costs over the prior year include a \$1.0 million decline in personnel-related costs, a \$0.5 million decline in non-cash stock-based compensation expense, a \$0.2 million decline in travel and entertainment expenses, a \$0.2 million decline in acquisition-related costs and a \$0.1 million decline in facility-related expenses. We continue to seek cost effective ways to reduce our overhead operating costs and expenses.

Depreciation Expense

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Depreciation Expense	\$ 12,629	\$ 12,417	\$ (212)	(1.7)%	4.7%	4.7%

Depreciation expense decreased due to higher depreciation expense recognized in 2014 on capital expenditures such as computer software, data processing and office equipment that have shorter estimated useful lives than tower and broadcasting assets that were acquired in 2013. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Amortization Expense	\$ 6,196	\$ 5,324	\$ (872)	(14.1)%	2.3%	2.0%

The decrease in amortization expense reflects the higher acquisition volume in early 2014 and our acquisition of WorshipHouseMedia.com in 2011 that included intangibles such as advertising agreements, customer lists, domain names, and author agreements that had estimated useful lives of from one to five years. These items were fully depreciated at or near the beginning of the 2015 calendar year resulting in lower amortization expense for this year. There were no changes in our amortization methods or in the estimated useful lives of our intangible asset groups.

Change in the Estimated Fair Value of Contingent Earn-Out Consideration

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	\$ 734	\$ (1,715)	\$ (2,449)	(333.7)%	0.3%	(0.6)%

Our acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. We review the probabilities of possible future payments to estimate the fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable.

For the year ended December 31, 2015, we recorded a net reduction in our contingent earn-out liabilities of \$1.7 million compared to a net increase of \$0.7 million for the prior year. The changes are based on actual results as compared to the estimates used in our probability analysis for each contingency. Refer to Note 5 in the notes to our consolidated financial statements contained in Item 8 of this annual report for a detailed analysis of the changes in our assumptions and the impact for each contingency.

Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

Impairment of Indefinite-Lived Long-Term Assets Other than Goodwill

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Indefinite-Lived Long-Term Assets Other Than Goodwill	\$ 34	\$ —	\$ (34)	(100.0)%	—%	—%

During our annual testing for 2014, which coincided with our budget and financial forecasts process for the following year, we decided to cease publishing Townhall Magazine as of December 2014. We reduced our projected net revenues for the following year and considered ceasing additional print magazines in the future. Although we expect to realize cost savings from the reduction in the number of print magazines produced, we do not expect the cost savings to increase operating margins. Based on the reduction of projected net revenues and the potential to further reduce the number of magazines published, we recorded an impairment charge of \$34,000 associated with magazine mastheads.

The impairment was driven by a reduction in the projected net revenues and a reduction in the number of print magazines published. The growth of digital-only publications, which are often free or available at a significantly reduced cost to readers, has hindered the ability of the publishing industry to recover from the economic recession that began in 2008. We believe that the impairments are indicative of trends in the publishing industry as a whole and are not unique to our company or operations.

Impairment of Goodwill

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Goodwill	\$ 45	\$ 439	\$ 394	875.6%	—%	0.2%

For our annual testing as of the fourth quarter of 2015, we identified operating losses within our Singing News Network that indicated that the value of goodwill may be impaired. We engaged an independent third-party appraisal and valuation firm to assist us with determining the enterprise value. Based on this review and analysis, we recorded an impairment charge of \$0.4 million associated with the value of goodwill for the Singing News Network.

For our annual testing as of the fourth quarter of 2014, based on the impairment charges previously recognized to the value of our mastheads, we could not conclude that the value of goodwill associated with our magazine publishing unit was not impaired. We obtained an independent fair value of our magazine publishing unit. Based on this review and analysis, we recorded an impairment charge of \$45,000 associated with the value of goodwill for our print magazines.

Loss on the Sale or Disposal of Assets

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Loss on the Sale or Disposal of Assets	\$ 251	\$ 181	\$ (70)	(27.9)%	0.1%	0.1%

The net loss on the sale or disposal of assets for the year ended December 31, 2015 includes a \$0.2 million charge associated with the relocation of our office and studio in our Seattle, Washington market offset by proceeds from various fixed asset and equipment disposals.

The net loss on the sale or disposal of assets for the year ended December 31, 2014 includes a \$0.2 million loss associated with the write-off of a receivable from a prior station sale, a \$0.2 million loss associated with the sale of land in our Miami, Florida station offset by a \$0.2 million note receivable settlement and \$0.1 million of insurance proceeds from a claim associated with one of our markets as well as other insignificant fixed asset and equipment disposals.

Other Income (Expense)

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Interest Income	\$ 45	\$ 8	\$ (37)	(82.2)%	—%	—%
Interest Expense, net of Capitalized Interest	(15,993)	(15,429)	564	(3.5)%	(6.0)%	(5.8)%
Change in the Fair Value of Interest Rate Swap	(2,702)	(1,273)	1,429	(52.9)%	(1.0)%	(0.5)%
Gain on Bargain Purchase	—	1,357	1,357	100.0%	—%	0.5%
Loss on Early Retirement of Long-Term Debt	(391)	(41)	350	(89.5)%	(0.1)%	—%
Net Miscellaneous Income	665	201	(464)	(69.8)%	0.2%	0.1%

Interest income represents earnings on excess cash and interest due under promissory notes. The \$37,000 decline is due to a decrease in the balances outstanding on promissory notes during the year ended December 31, 2015 as compared to the prior year.

The decrease in interest expense of \$0.6 million reflects a \$0.6 million decrease in interest on the remaining principal balance outstanding on our Term Loan B, a \$0.1 million decrease in the interest accretion from a deferred advertising credit, and a \$0.1 million decrease in the interest accretion of our contingent earn-out consideration offset by a \$0.3 million increase in interest payments on our interest rate swap agreement.

The change in the fair value of interest rate swap reflects the mark-to-market fair value adjustment of the interest rate swap agreement that was entered into on March 28, 2013.

In accordance with the FASB ASC Topic 805 "Business Combinations," effective as of January 1, 2009, any excess of fair value of the acquired net assets over the acquisition consideration shall be recognized as a gain on a bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. We underwent such a reassessment, and as a result, have recorded a gain on the bargain purchase for WSDZ-AM in St. Louis, Missouri, of \$0.8 million, for KDIZ-AM in Minneapolis, Minnesota, of \$0.3 million and for WWMI-AM in Tampa, Florida, of \$0.3 million. We believe that these gains on the bargain purchase resulted from various factors that may have impacted the acquisition price, including, without limitation, Disney's plan to exit the broadcasting business and divest its Radio Disney properties.

The loss on early retirement of long-term debt reflects the unamortized discount and bank loan fees on principal redemptions of our Term Loan B.

Net miscellaneous income and expenses includes royalty income, usage fees for our real estate properties, and insurance proceeds. The net miscellaneous income and expenses for the prior year includes \$0.2 million of royalty income and fees for our real estate properties, \$0.3 million of insurance proceeds, and \$0.2 million received in an eminent domain settlement.

Provision for Income Taxes

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	(Dollars in thousands)			% of Total Net Revenue		
Provision for Income Taxes	\$ 4,765	\$ 6,695	\$ 1,930	40.5%	1.8%	2.5%

Our provision for income taxes was \$6.7 million for the year ended December 31, 2015 compared to \$4.8 million for the prior year. The increase in our provision results from \$17.8 million of pre-tax income from continuing operations for the current period compared to a pre-tax income of \$10.2 million for the prior year, net of expirations of certain state statute of limitations for prior year deductions and carryovers. Provision for income taxes as a percentage of income before income taxes, or the effective tax rate, was 37.5% for the year ended December 31, 2015 compared to 46.5% for the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes and changes in the valuation allowance related to the utilization of certain state net operating loss carryforwards.

Net Income

	Year Ended December 31,					
	2014	2015	Change \$	Change %	2014	2015
	(Dollars in thousands)			% of Total Net Revenue		
Net Income	\$ 5,475	\$ 11,150	\$ 5,675	103.7%	2.1%	4.2%

We recognized net income of \$11.2 million for the year ended December 31, 2015 compared to \$5.5 million in the prior year. During this period, our net operating income increased \$4.4 million due to a \$5.2 million reduction in operating expenses offset by a \$0.7 million decline in net revenue. We recorded a gain on bargain purchase of \$1.4 million from our acquisition of three Radio Disney properties partially offset by a reduction in other income due to non-recurring royalties and insurance proceeds recognized in the prior year.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Significant areas for which management uses estimates include:

- asset impairments, including goodwill, broadcasting licenses and other indefinite-lived intangible assets;
- probabilities associated with the potential for contingent earn-out consideration;
- fair value measurements;
- contingency reserves;
- allowance for doubtful accounts;
- sales returns and allowances;
- barter transactions;
- inventory reserves;
- reserves for royalty advances;
- fair value of equity awards;
- self-insurance reserves;
- estimated lives for tangible and intangible assets;
- income tax valuation allowances; and
- uncertain tax positions.

These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

We believe the following accounting policies and the related judgments and estimates are critical accounting policies that affect the preparation of our consolidated financial statements. For a more comprehensive list of our accounting policies, see Note 1 – Summary of Significant Accounting Policies, in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K. Note 1 contains several other policies which are important to the preparation of our consolidated financial statements, but do not meet the SEC's definition of critical accounting policies because they do not involve subjective or complex judgments.

Goodwill, Broadcast Licenses and Other Indefinite-Lived Intangible Assets

We have accounted for acquisitions for which a significant amount of the purchase price was allocated to broadcast licenses and goodwill. Approximately 70% of our total assets at December 31, 2016 consisted of indefinite-lived intangible assets including broadcast licenses, goodwill and mastheads. The value of these indefinite-lived intangible assets depends significantly upon the operating results of our businesses. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on experiences and judgment about future operating performance of our markets and business segments. We did not find reconciliation to our current market capitalization meaningful in the determination of our enterprise value given current factors that impact our market capitalization, including but not limited to: limited trading volume, the impact of our publishing segment operating losses and the significant voting control of our Chairman and Chief Executive Officer.

The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*" as Level 3 inputs discussed in detail in Note 12 in the notes to our consolidated financial statements contained in Item 8 of this annual report on form 10-K.

We are permitted to perform a qualitative assessment as to whether it is more likely than not that an indefinite-lived intangible asset is impaired. This qualitative assessment requires significant judgment in considering events and circumstances that may affect the estimated fair value of our indefinite-lived intangible assets and requires that we weigh these events and circumstances by what we believe to be the strongest to weakest indicator of potential impairment. If it is more likely than not that an impairment exists, we are required to perform a quantitative analysis to estimate the fair value of the assets.

ASU 2012-02 provides examples of events and circumstances that could affect the estimated fair value of indefinite-lived intangible assets; however, the examples are not all-inclusive and are not by themselves indicators of impairment. We consider these events and circumstances, as well as other external and internal considerations. Our analysis includes the following events and circumstances, which are presented in the order of what we believe to be the strongest to weakest indicators of impairment:

- (1) the difference between any recent fair value calculations and the carrying value;
- (2) financial performance, such as station operating income, including performance as compared to projected results used in prior estimates of fair value;
- (3) macroeconomic economic conditions, including limitations on accessing capital that could affect the discount rates used in prior estimates of fair value;
- (4) industry and market considerations such as a declines in market-dependent multiples or metrics, a change in demand, competition, or other economic factors;
- (5) operating cost factors, such as increases in labor, that could have a negative effect on future expected earnings and cash flows;
- (6) legal, regulatory, contractual, political, business, or other factors;
- (7) other relevant entity-specific events such as changes in management or customers; and
- (8) any changes to the carrying amount of the indefinite-lived intangible asset.

When we are required to perform a quantitative analysis to estimate the fair value of our broadcast licenses, the Greenfield Method, a form of the income approach is used. The premise of the Greenfield Method is that the value of a broadcast license is equivalent to a hypothetical start-up in which the only asset owned by the station as of the valuation date is the broadcast license. This approach eliminates factors that are unique to the operation of the station, including its format and historical financial performance. The method then assumes the entity has to purchase, build, or rent all of the other assets needed to operate a comparable station to the one in which the broadcast license is being utilized as of the valuation date. Cash flows are estimated and netted against all start-up costs, expenses and investments necessary to achieve a normalized and mature state of operations, thus reflecting only the cash flows directly attributable to the broadcast license. A multi-year discounted cash flow approach is then used to determine the net present value of these cash flows to derive an indication of fair value. For cash flows beyond the projection period, a terminal value is calculated using the Gordon constant growth model and long-term industry growth rate assumptions based on long-term industry growth and Gross Domestic Product inflation rates.

The primary assumptions used in the Greenfield Method are:

- (1) gross operating revenue in the station's designated market area;
- (2) normalized market share;
- (3) normalized profit margin;
- (4) duration of the "ramp-up" period to reach normalized operations, (which was assumed to be three years);
- (5) estimated start-up costs (based on market size);
- (6) ongoing replacement costs of fixed assets and working capital;
- (7) the calculations of yearly net free cash flows to invested capital; and
- (8) amortization of the intangible asset, or the broadcast license.

When we are required to perform a quantitative analysis to estimate the fair value of mastheads, the relief from royalty method is used. The relief from royalty method estimates the fair value of mastheads through use of a discounted cash flow model that incorporates a hypothetical "royalty rate" that a third-party owner would be willing to pay in lieu of owning the asset. The royalty rate is based on observed royalty rates for comparable assets as of the measurement date. We adjust the selected royalty rate to account for a percentage of the royalty fee that could be attributed to the use of other intangibles, such as goodwill, time in existence, trade secrets and industry expertise. The adjusted royalty rate represents the royalty fee remaining that could be attributed to the use of the masthead only.

When performing Step 1 of our annual impairment testing for goodwill, the fair value of each applicable accounting unit is estimated using a discounted cash flow analysis, which is a form of the income approach. The discounted cash flow analysis utilizes a five to seven year projection period to derive operating cash flow projections from a market participant view. We make certain assumptions regarding future revenue growth based on industry market data, historical performance and expected future performance. We also make assumptions regarding working capital requirements and ongoing capital expenditures for fixed assets.

If the results of Step 1 indicate that the fair value of a reporting unit is less than its carrying value, Step 2 is required. Under Step 2, the implied fair value of the reporting unit, including goodwill, is calculated to determine the amount of the impairment.

We believe we have made reasonable estimates and assumptions to calculate the estimated fair value of our indefinite-lived intangible assets, however, these estimates and assumptions are highly judgmental in nature. Actual results can be materially different from estimates and assumptions. If actual market conditions are less favorable than those projected by the industry or by us, or if events occur or circumstances change that would reduce the estimated fair value of our indefinite-lived intangible assets below the amounts reflected on our balance sheet, we may recognize future impairment charges, the amount of which may be material.

Sensitivity of Key Broadcasting Licenses and Goodwill Assumptions

When estimating the fair value of our broadcasting licenses and goodwill, we make assumptions regarding revenue growth rates, operating cash flow margins and discount rates. These assumptions require substantial judgment, and actual rates and margins may differ materially. We prepared a sensitivity analysis of these assumptions and the hypothetical non-cash impairment charge that would have resulted if our estimated discount rate were increased.

We performed a sensitivity analysis of certain current year key assumptions, including the long-term revenue growth rate and the WACC to determine the impact that such changes would have on the estimated fair value of our broadcast licenses. The sensitivity analysis indicated that a reduction in the long-term revenue growth rate by 100 basis points and an increase in the WACC by 100 basis points would have resulted in an additional impairment to our broadcast licenses of \$42.6 million.

We performed a sensitivity analysis of certain current year key assumptions, including the long-term revenue growth rate and the WACC, to determine the impact that such changes would have on the estimated fair value of goodwill associated with our broadcasting segment. The sensitivity analysis indicated that reducing the long-term revenue growth rates by 100 basis points and increasing the WACC by 100 basis points would have resulted in an impairment to goodwill associated with our broadcast entities of \$0.6 million.

We performed a sensitivity analysis of certain current year key assumptions, including the long-term revenue growth rate and the WACC, to determine the impact that such changes would have on the estimated fair value of goodwill associated with our digital media segment. The sensitivity analysis indicated that reducing the long-term revenue growth rates by 100 basis points and increasing the WACC by 100 basis points would have resulted in an impairment to goodwill associated with our digital media entities of \$0.4 million.

We performed a sensitivity analysis of certain current year key assumptions, including the long-term revenue growth rate and the WACC, to determine the impact that such changes would have on the estimated fair value of goodwill associated with our publishing segment. The sensitivity analysis indicated that reducing the long-term revenue growth rate by 100 basis points and increasing the WACC by 100 basis points would have no incremental impact to the carrying value of goodwill associated with our publishing entities.

Impairment of Long-Lived Assets

We account for property and equipment in accordance with FASB ASC Topic 360-10, *Property, Plant and Equipment*. We periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. In accordance with authoritative guidance for impairment of long-lived assets, we must estimate the fair value of assets when events or circumstances indicate that they may be impaired. The fair value measurements for our long-lived assets use significant observable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material.

We believe we have made reasonable estimates and assumptions to calculate the estimated fair value of our long-lived assets, however, these estimates and assumptions are highly judgmental in nature. Actual results can be materially different from estimates and assumptions. If actual market conditions are less favorable than those projected by the industry or by us, or if events occur or circumstances change that would reduce the estimated fair value of long-lived assets below the amounts reflected on our balance sheet, we may recognize future impairment charges, the amount of which may be material.

Business Acquisitions

We account for business acquisitions in accordance with the acquisition method of accounting as specified in FASB ASC Topic 805 *Business Combinations*. The total acquisition consideration is allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. The excess of consideration paid over the estimated fair values of the net assets acquired is recorded as goodwill and any excess of fair value of the net assets acquired over the consideration paid is recorded as a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued.

Acquisitions may include contingent earn-out consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts.

A majority of our radio station acquisitions have consisted primarily of the FCC licenses to broadcast in a particular market. We often do not acquire the existing format, or we change the format upon acquisition when we find it beneficial. As a result, a substantial portion of the purchase price for the assets of a radio station is allocated to the broadcast license.

We may retain a third-party appraiser to estimate the fair value of the acquired net assets as of the acquisition date. As part of the valuation and appraisal process, the third-party appraiser prepares a report assigning estimated fair values to the various asset categories in our financial statements. These fair value estimates are subjective in nature and require careful consideration and judgment. Management reviews the third party reports for reasonableness of the assigned values. We believe that the purchase price allocations represent the appropriate estimated fair value of the assets acquired and we have not had to modify our purchase price allocations.

We estimate the economic life of each tangible and intangible asset acquired to determine the period of time in which the asset should be depreciated or amortized. A considerable amount of judgment is required in assessing the economic life of each asset. We consider our own experience with similar assets, industry trends, market conditions and the age of the property at the time of our acquisition to estimate the economic life of each asset. If the financial condition of the assets were to deteriorate, the resulting change in life or impairment of the asset could cause a material impact and volatility in our operating results. To date, we have not experienced changes in the economic life established for each major category of our assets.

Contingent Earn-Out Consideration

Our acquisitions often include contingent earn-out consideration as part of the purchase price. The fair value of the contingent earn-out consideration is estimated as of the acquisition date based on the present value of the contingent payments expected to be made using a weighted probability of possible payments. The unobservable inputs used in the determination of the fair value of the contingent earn-out consideration include our own assumptions about the likelihood of payment based on the established benchmarks and discount rates based on our internal rate of return analysis. The fair value measurement includes inputs that are Level 3 measurement as discussed in Note 12 in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K.

We review the probabilities of possible future payments to the estimated fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results increase or decrease as compared to the assumption used in our analysis, the fair value of the contingent earn-out consideration obligations will increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of the contingent earn-out consideration could cause a material impact and volatility in our operating results. We recorded a net decrease to our estimated contingent earn-out liabilities of \$0.7 million for the year ended December 31, 2016 and \$1.7 million during the year ended December 31, 2015. The changes in our estimates reflect volatility from variables, such as revenue growth, page views and session time as discussed in Note 5 – Contingent Earn-Out Consideration in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K.

We believe that we have used reasonable estimates and assumptions to calculate the estimated fair value of all remaining contingent earn-out consideration however, these estimates and assumptions are highly judgmental in nature. Actual results can be materially different from estimates and assumptions.

Fair Value Measurements

FASB ASC Topic 820, “*Fair Value Measurements and Disclosures*” established a single definition of fair value in generally accepted accounting principles and requires expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value.

The fair value provisions include guidance on how to estimate the fair value of assets and liabilities in the current economic environment and reemphasize that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market, and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less (or no) pricing observability and a higher degree of judgment utilized in measuring fair value.

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

- Level 1 Inputs—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 Inputs—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- Level 3 Inputs—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity’s own data).

We believe that we have used reasonable estimates and assumptions to calculate the estimated fair value of our financial assets as discussed in Note 12 in the notes to our consolidated financial statements contained in Item 8 of this annual report on form 10-K.

Contingency Reserves

In the ordinary course of business, we are involved in various legal proceedings, lawsuits, arbitration and other claims that are complex in nature and have outcomes that are difficult to predict. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. Certain of these proceedings are discussed in Note 14, Commitments and Contingencies, contained in our consolidated financial statements.

We record contingency reserves to the extent we conclude that it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. The establishment of the reserve is based on a review of all relevant factors, the advice of legal counsel, and the subjective judgment of management. The reserves we have recorded to date have not been material to our consolidated financial position, results of operations or cash flows. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

While we believe that the final resolution of any known matters, individually and in the aggregate, will not have a material adverse effect upon our consolidated financial position, results of operations or cash flows, it is possible that we could incur additional losses. We maintain insurance that may provide coverage for such matters. Future claims against us, whether meritorious or not, could have a material adverse effect upon our consolidated financial position, results of operations or cash flows, including losses due to costly litigation and losses due to matters that require significant amounts of management time that can result in the diversion of significant operational resources.

Allowance for Doubtful Accounts

We evaluate the balance reserved in our allowance for doubtful accounts on a quarterly basis based on our historical collection experience, the age of the receivables, specific customer information and current economic conditions. Past due balances are generally not written-off until all of our collection efforts have been unsuccessful, including use of a collections agency. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Sales Returns and Allowances

We provide for estimated returns for products sold with the right of return, primarily book sales associated with Regnery Publishing and nutritional products sold through Eagle Wellness and Gene Smart. We record an estimate of these product returns as a reduction of revenue in the period of the sale. Our estimates are based upon historical sales returns, the amount of current period sales, economic trends and any changes in customer demand and acceptance of our products. We regularly monitor actual performance to estimated return rates and make adjustments as necessary. Estimated return rates utilized for establishing estimated returns reserves have approximated actual returns experience. However, actual returns may differ significantly, either favorably or unfavorably, from these estimates if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or the market. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Barter Transactions

We may provide broadcast time or digital advertising placement to customers in exchange for certain products, supplies or services. The terms of these exchanges generally permit for the preemption of such broadcast time or digital placements in favor of customers who purchase these items for cash. We include the value of such exchanges in net revenues and operating expenses. The value recorded for barter revenue and barter expense is based upon management's estimate of the fair value of the products, supplies or services received. We believe that our estimates and assumptions are reasonable and that our barter revenue and barter expense are accurately reflected.

We record barter revenue as it is earned, typically when the broadcast time is used or the digital advertisement is delivered. We record barter expense equal to the estimated fair value of the goods or services received upon receipt or usage of the items as applicable. Barter advertising revenue included in broadcast revenue for the year ended December 31, 2016 and 2015 was approximately \$5.4 million and \$6.1 million, respectively. Barter expenses included in broadcast operating expense for the year ended December 31, 2016 and 2015 was approximately \$5.3 million and \$5.9 million, respectively. Barter advertising revenue included in digital media revenue for the year ended December 31, 2016 and 2015 was approximately \$42,000 and \$0.1 million, respectively. Barter expenses included in digital media operating expense for the year ended December 31, 2016 and 2015 was approximately \$34,000 and \$0.1 million, respectively.

Inventory Reserves

Inventories consist of finished goods, including published books and wellness products. Inventory is recorded at the lower of cost or market as determined on a First-In First-Out ("FIFO") cost method. We reviewed historical data associated with book and wellness product inventories held by Regnery Publishing and our e-commerce wellness entities, as well as our own experiences to estimate the fair value of inventory on hand. Our analysis includes a review of actual sales returns, our allowances, royalty reserves, overall economic conditions and product demand. We record a provision to expense the balance of unsold inventory that we believe to be unrecoverable. We regularly monitor actual performance to our estimates and make adjustments as necessary. Estimated inventory reserves may be adjusted, either favorably or unfavorably, if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or the market. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Reserves for Royalty Advances

Royalties due to book authors are paid in advance and capitalized. Royalties are expensed as the related book revenues are earned or when we determine that future recovery of the royalty is not likely. We reviewed historical data associated with royalty advances, earnings and recoverability based on actual results of Regnery Publishing. Historically, the longer the unearned portion of an advance remains outstanding, the less likely it is that we will recover the advance through the sale of the book. We apply this historical experience to outstanding royalty advances to estimate the likelihood of recovery. A provision was established to expense the balance of any unearned advance which we believe is not recoverable. Our analysis also considers other discrete factors, such as death of an author, any decision to not pursue publication of a title, poor market demand or other relevant factors. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Fair Value of Equity Awards

We account for stock-based compensation under the provisions of FASB ASC Topic 718, "Compensation—Stock Compensation." We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of each award using the Black-Scholes valuation model that requires the input of highly subjective assumptions, including the expected stock price volatility and expected term of the award granted. The exercise price for each award is equal to or greater than the closing market price of Salem Media Group, Inc. common stock as of the date of the award. We use the straight-line attribution method to recognize share-based compensation costs over the expected service period of the award. Upon exercise, cancellation, forfeiture, or expiration of the award, deferred tax assets for awards with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. We have not modified our estimates or assumptions used in our valuation model. We believe that our estimates and assumptions are reasonable and that our stock based compensation is accurately reflected in our results of operations.

Partial Self-Insurance on Employee Health Plan

We provide health insurance benefits to eligible employees under a self-insured plan whereby we pay actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Our estimates are based on historical data and probabilities. Any projection of losses concerning our liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was \$0.8 million and \$0.7 million at December 31, 2016 and 2015, respectively. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. While we had an unusually high level of claims in the third quarter of 2016 due to a larger than normal number of expensive claims, we believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Income Tax Valuation Allowances (Deferred Taxes)

In preparing our consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of audits conducted by tax authorities. Reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities are established if necessary. Although we believe our judgments, assumptions and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the tax implications are known. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such a determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

For financial reporting purposes, we recorded a valuation allowance of \$4.5 million as of December 31, 2016 to offset \$4.2 million of the deferred tax assets related to the state net operating loss carryforwards and \$0.3 million associated with asset impairments. During the third quarter of 2016, we identified an error in our estimated valuation allowance for certain deferred tax assets. We recorded an out-of-period adjustment to increase our valuation allowance by \$1.6 million for a portion of the deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized. For financial reporting purposes, we recorded a valuation allowance of \$2.8 million as of December 31, 2015 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Income Taxes and Uncertain Tax Positions

We are subject to audit and review by various taxing jurisdictions. We may recognize liabilities on our financial statements for positions taken on uncertain tax positions. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others may be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, we believe it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. It is inherently difficult and subjective to estimate such amounts, as this requires us to make estimates based on the various possible outcomes.

We review and reevaluate uncertain tax positions on a quarterly basis. Changes in assumptions may result in the recognition of a tax benefit or an additional charge to the tax provision. During the year ended December 31, 2016, we recognized a net decrease of \$0.1 million in liabilities associated with uncertain tax positions. Accordingly, we have no liabilities for uncertain tax positions recorded at December 31, 2016. The \$0.1 million balance at December 31, 2015 included approximately \$21,000 of accrued interest, net of federal income tax benefits, and \$6,000 for the related penalties previously recorded in income tax expense. Our evaluation was performed for all tax years that remain subject to examination, which range from 2012 through 2015. There are currently no tax examinations in process.

Recent Accounting Pronouncements

Changes to accounting principles are established by the FASB in the form of Accounting Standards Updates (“ASU”) to the FASB’s Codification. We consider the applicability and impact of all ASUs on our financial position, results of operations, cash flows, or presentation thereof. Described below are ASUs that are not yet effective, but may be applicable to our financial position, results of operations, cash flows, or presentation thereof. ASUs not listed below were assessed and determined to not be applicable to our financial position, results of operations, cash flows, or presentation thereof.

In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20)*, which clarifies the scope and application of ASC Topic 610-20 on accounting for the sale or transfer of nonfinancial assets, that is an asset with physical value such as real estate, equipment, intangibles or similar property. ASU 2017-05 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill in Step 2 of the goodwill impairment test. Under ASU 2017-04, goodwill impairment charges will be based on the excess of a reporting unit’s carrying amount over its fair value as determined in Step 1 of the testing. ASU 2017-04 is effective for interim and annual testing dates after January 1, 2019, with early adoption permitted for interim and annual goodwill impairment testing dates after January 1, 2017. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323)* which amends the Codification to incorporate SEC staff views regarding recently issued accounting standards and investments in qualified affordable housing projects. The guidance requires registrants to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. ASU 2017-03 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years with early adoption permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We do not expect the adoption of ASU 2017-03 to impact our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-01, “*Business Combinations – Clarifying the Definition of a Business*,” which clarifies the definition of a business for determining whether transactions should be accounted for as acquisitions or disposals of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2017-01 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In December 2016, the FASB issued ASU 2016-19 “*Technical Corrections and Improvements*,” which covers a wide range of topics in the Codification. The amendments in this update represent changes to clarify, correct errors, or make minor improvements to the Accounting Standards Codification. ASU 2016-19 is effective upon issuance for amendments that do not have transition guidance, and for fiscal years beginning after December 15, 2016, and interim periods within those years for all other amendments with early adoption permitted. The adoption of ASU 2016-19 did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In November 2016, the FASB issued ASU 2016-18, “*Statements of Cash Flows (Topic 230): Restricted Cash*” which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We do not expect the adoption of ASU 2016-18 to have a material impact on our cash flows or presentation thereof.

In October 2016, the FASB issued ASU 2016-17, “*Interests Held through Related Parties That Are under Common Control*,” which amends the consolidation guidance in ASU 2015-02 regarding the treatment of indirect interests held through related parties that are under common control. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2016-17 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In October 2016, the FASB issued ASU 2016-16 “*Intra-Entity Transfers of Assets Other Than Inventory*,” which modifies existing guidance for the accounting for income tax consequences of intra-entity transfers of assets. This ASU requires entities to immediately recognize the tax consequences on intercompany asset transfers (excluding inventory) at the transaction date, rather than deferring the tax consequences under current GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, and interim reports within those fiscal years, with early adoption permitted only as of the first quarter of a fiscal year. We do not expect the adoption of ASU 2016-16 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*,” which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing diversity in practice related to eight specific types of transactions. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2016-15 to have a material impact on our financial cash flows or presentation thereof.

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments-Credit Losses*,” which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today’s “incurred loss” model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In March 2016, the FASB issued ASU 2016-09, “*Improvements to Employee Share-Based Payment Accounting*.” This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption is permitted. We do not expect the adoption of ASU 2016-09 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*,” which requires that lessees recognize a right-of-use asset and a lease liability for all leases with lease terms greater than twelve months in the balance sheet. ASU 2016-02 requires additional disclosures including the significant judgments made by management to provide insight into the revenue and expense to be recognized from existing contracts and the timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We have not yet determined the dollar impact of recording operating leases on our statement of financial position. The adoption of ASU 2016-02 will have a material impact on our financial position and the presentation thereof. Our existing credit facility stipulates that our covenants are based on GAAP as of the agreement date. Therefore, the material impact of recording right-to-use assets and lease liabilities on our statement of financial position is not expected to impact the compliance status for any covenant.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides updated guidance that enhances the reporting model for financial instruments, including amendments, to address aspects of recognition, measurement, presentation and disclosure. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. With the exception of the early application guidance applicable to certain entities, early adoption of the amendments is not permitted. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption is permitted. The adoption of ASU 2015-17 is not expected to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, to reduce the complexity in accounting for inventory. This ASU requires entities to measure inventory at the lower of cost or net realizable value, replacing the market value approach that required floor and ceiling considerations. This guidance for public entities is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2015-11 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016, within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 respectively (ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 collectively, "Topic 606"). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. These estimates include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. The guidance is effective for us as of January 2018, the first interim period within fiscal years beginning on or after December 15, 2017, using either of two methods: (1) retrospective application of Topic 606 to each prior reporting period presented with the option to elect certain practical expedients as defined within Topic 606 or (2) retrospective application of Topic 606 with the cumulative effect of initially applying Topic 606 recognized at the date of initial application and providing certain additional disclosures as defined per Topic 606. We have developed a project plan for the implementation of ASC 606 and all related ASU's as of the effective date with further analysis planned during 2017 to complete the implementation plan. Based on our evaluation of a sample of revenue contracts with customers against the requirements of the standard, we believe that the reporting of revenue as principal (gross) or agent (net) will impact our consolidated financial statements. We may sell advertising that includes placement on third party websites that we currently report on a gross basis as principal due to having latitude in establishing the sales price and bearing credit risk. Under new guidance, we will report this revenue net as agent because the third party is primarily responsible for fulfilling the service. Preliminarily, we plan to adopt Topic 606 pursuant to the (1) retrospective application method of Topic 606 and we do not currently believe that there will be a material impact to our revenues upon adoption. We continue to evaluate the impact of our pending adoption of Topic 606 and our preliminary assessments are subject to change.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, and capital expenditures from operating cash flow, borrowings under credit facilities and, if necessary, proceeds from the sale of selected assets or businesses. We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and from proceeds on selected asset dispositions. We expect to fund future acquisitions from cash on hand, borrowings under our credit facilities, operating cash flow and possibly through the sale of income-producing assets or proceeds from debt and equity offerings. We believe that the borrowing capacity under our current credit facilities allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months.

Our cash and cash equivalents balance was unchanged at \$0.1 million at December 31, 2016 and 2015. Our working capital increased \$3.3 million to \$16.4 million as of December 31, 2016 compared to \$13.1 million as of December 31, 2015 due to a reduction in the current portion of long-term debt of \$5.1 million offset by a \$1.4 million increase in accounts payable and accrued expenses.

Operating Cash Flows

Our largest source of operating cash inflows are receipts from customers in exchange for advertising and programming. Other sources of operating cash inflows include cash receipts from customers for digital downloads and streaming, book sales, subscriptions, ticket sales, sponsorships, and vendor promotions. A majority of our operating cash outflows consist of payments to employees, such as salaries and benefits, and vendor payments under facility and tower leases, talent agreements, inventory purchases and recurring services such as utilities and music license fees.

Net cash provided by operating activities during the year ended December 31, 2016 increased by \$2.7 million to \$38.9 million compared to \$36.1 million during the prior year. The increase in cash provided by operating activities includes the impact of the following items:

- Net income decreased \$2.3 million to \$8.9 million compared to \$11.2 million for the same period of the prior year due to a \$7.3 million increase in non-cash impairment charges;
- Miscellaneous other receivables decreased \$1.2 million;
- Our Day's Sales Outstanding, or the average number of days to collect cash from the date of sale, decreased to 64 days at December 31, 2016 compared to 68 days for the same period of the prior year;
- Net accounts payable and accrued expenses increased \$1.3 million to \$28.8 million from \$27.5 million as of the same period of the prior year; and
- Net inventories on hand decreased \$0.2 million to \$0.7 million at December 31, 2016 compared to an increase of \$0.3 million to \$0.9 million at December 31, 2015.

Investing Cash Flows

Our primary source of investing cash inflows includes proceeds from the sale or disposal of assets or businesses. Our investing cash outflows include cash payments made to acquire businesses, to acquire property and equipment and to acquire intangible assets such as domain names. While our focus continues to be on deleveraging the company, we remain committed to explore and pursue strategic acquisitions.

In recent years, our acquisition agreements have contained contingent earn-out arrangements that are payable in the future based on the achievement of predefined operating results. We believe that these contingent earn-out arrangements provide some degree of protection with regard to our cash outflows should these acquisitions not meet our operational expectations.

During 2017, we expect to close on the acquisition of several FM translators and have the option to acquire radio station KHTE-FM in Little Rock, Arkansas. We plan to fund these asset purchases and any acquisitions from cash on hand, operating cash flow or our credit facilities. These transactions include:

We have the option to acquire radio station KHTE-FM, Little Rock, Arkansas, for \$1.2 million in cash during our 36-month TBA that is extendable to 48 months. The TBA began on April 1, 2015, at which time we began programming the station. The accompanying consolidated statements of operations included in this annual report on Form 10-K reflect the operating results of this entity as of the TBA date.

We entered into agreements to acquire FM translators or FM translator construction permits during the applicable windows of the FCC AM Revitalization program, or "AMR," that included several initiatives intended to benefit AM broadcasters. We believe that securing these FM translators allows us to increase our listening audience by providing enhanced coverage and reach of our existing AM broadcasts. As of December 31, 2016, we have \$36,000 of cash deposited into escrow accounts associated with APA's for these FM translator and FM translator construction permits as follows:

Date APA Entered	Permit or ID	Authorized Site - Current	Purchase Price	Escrow Deposits	Date Closed	Market
<i>(Dollars in thousands)</i>						
7/25/2016	K283CA	Festus, Missouri *	40	8	-	St. Louis, Missouri
7/26/2016	K294CP	Roseburg, Oregon *	45	9	3/01/2017	Portland, Oregon
7/26/2016	K276FZ	Eaglemount, Washington *	40	8	-	Portland, Oregon
8/25/2016	K278BH	Astoria, Oregon	33	7	1/16/2017	Seattle, Washington
9/22/2016	K260CG	Mohave Valley, Arizona*	20	2	1/6/2017	Phoenix, Arizona
10/07/2016	K279CM	Quartz Site, Arizona *	20	2	-	To be determined

* Indicates that the purchase is for an FM translator construction permit.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses, expand our digital and web-based offerings, improve our facilities and upgrade our computer infrastructures. The nature and timing of these upgrades and expenditures can be delayed or scaled back at the discretion of management. Based on our current plans, we expect to incur capital expenditures of approximately \$8.7 million during 2017.

Net cash used in investing activities during the year ended December 31, 2016 decreased \$13.7 million to \$15.5 million compared to \$29.2 million during the prior year. The decrease in cash used for investing activities includes:

- Cash paid for acquisitions decreased \$8.5 million to \$8.4 million compared to \$16.9 million during the same period of the prior year;
- Cash paid for capital expenditures net of tenant improvement allowances increased \$0.6 million to \$9.4 million compared to \$8.8 million during the same period of the prior year;
- Cash received from the sale of assets was \$3.1 million compared to \$10,000 during the same period of the prior year; and
- Capital expenditures for leasehold improvements reimbursable under tenant improvement allowances decreased \$2.4 million to \$0.6 million compared to \$3.0 million during the same period of the prior year.

Financing Cash Flows

Financing cash inflows include borrowings under our credit facilities and any proceeds from the exercise of stock options issued under our stock incentive plan. Financing cash outflows include repayments of our credit facilities, the payment of equity distributions and payments of amounts due under deferred installments and contingency earn-out consideration associated with acquisition activity.

We believe that cash payments for deferred installments and contingent earn-out consideration that were entered contemporaneously with an acquisition are appropriately recorded as financing activities. These payments are similar to seller financing arrangements in that cash payments are typically due one to three years after the acquisition date. We referred to guidance in FASB ASC Topic 230-10-45-13 (c) which states that only advance payments, down payments, or other amounts paid at the time of purchase or soon before or after a purchase of property, plant and equipment and other productive assets are investing cash outflows. The guidance clarifies that incurring directly related debt to the seller is a financing transaction and that subsequent payments of that debt are financing cash outflows. This is consistent with the guidance in FASB ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows issued in August 2016. During the year ended December 31, 2016, we paid \$0.1 million in cash for contingent earn-out consideration due under acquisition agreements and \$3.6 million in cash for the deferred installments.

During the year ended December 31, 2016, the principal balances outstanding under our credit facilities ranged from \$263.5 million to \$278.1 million. These outstanding balances were ordinary and customary based on our operating and investing cash needs during this time.

Based on the number of shares of Class A and Class B common stock currently outstanding we expect to pay total annual equity distributions of approximately \$6.8 million in 2017. However, the actual declaration of dividends and equity distributions, as well as the establishment of per share amounts, dates of record, and payment dates are subject to final determination by our Board of Directors and depend upon future earnings, cash flows, financial and legal requirements, and other factors. The current policy of the Board of Directors is to review each of these factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K.

Our sole source of cash available for making any future equity distributions is our operating cash flow, subject to our credit facilities, which contain covenants that restrict the payment of dividends and equity distributions unless certain specified conditions are satisfied.

Net cash used in financing activities during the year ended December 31, 2016 increased \$16.4 million to \$23.3 million compared to \$6.9 million during the prior year. The decrease in cash used for financing activities includes:

- We repaid \$11.0 million of principal outstanding on the Term Loan B compared to \$2.0 million of principal during the same period of the prior year;
- We paid \$3.6 million of cash against deferred installments due under our purchase agreements during the year ended December 31, 2016 compared to \$0.9 million for the same period of the prior year;
- The book overdraft decreased \$2.1 million to \$12,000 during the year ended December 31, 2016 compared to \$2.1 million for the same period of the prior year;

- We paid \$0.1 million of cash for the amount earned under the contingent earn-out provision of our purchase agreements during the year ended December 31, 2016 compared to \$1.2 million during the same period of the prior year; and
- We paid cash equity distributions of \$6.7 million, on our Class A and Class B common stock compared to \$6.6 million during the same period of the prior year.

Term Loan B and Revolving Credit Facility

On March 14, 2013, we entered into a senior secured credit facility, consisting of a term loan of \$300.0 million (“Term Loan B”) and a revolving credit facility of \$25.0 million (“Revolver”). The Term Loan B was issued at a discount for total net proceeds of \$298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. For each of the twelve months ended December 31, 2015 and 2016, approximately \$0.2 million, respectively, of the discount has been recognized as interest expense.

The Term Loan B has a term of seven years, maturing in March 2020. During this term, the principal amount may be increased by up to an additional \$60.0 million, subject to the terms and conditions of the credit agreement. We are required to make principal payments of \$750,000 per quarter as of September 30, 2013. Prepayments may be made against the outstanding balance of our Term Loan B with each prepayment applied ratably to each of the next four principal installments due within 12 months of the prepayment date in the direct order of maturity and thereafter to the remaining principal balance in reverse order of maturity.

We have made prepayments on our Term Loan B, including interest due as of the date of the repayment as follows:

Date	Principal Paid	Unamortized Discount
	<i>(Dollars in Thousands)</i>	
December 30, 2016	\$ 5,000	\$ 12
November 30, 2016	1,000	3
September 30, 2016	1,500	4
September 30, 2016	750	—
June 30, 2016	441	1
June 30, 2016	750	—
March 31, 2016	750	—
March 17, 2016	809	2
January 30, 2015	2,000	15
December 31, 2014	4,000	16
November 28, 2014	4,000	15
September 29, 2014	5,000	18
March 31, 2014	2,250	8
December 30, 2013	750	3
September 30, 2013	4,000	16
June 28, 2013	4,000	14

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” that requires the cost of issuing debt to be recorded as a reduction of the debt proceeds or a reduction of the debt liability, similar to the presentation of debt discounts. Prior to this ASU, debt issue costs were recorded as deferred costs, or long-term intangible assets. In August 2015, the FASB issued ASU 2015-15, “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting” that amended ASU 2015-03 to reflect the SEC staff’s position that it would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings under that line-of-credit arrangement.

We adopted ASU 2015-03, as amended by ASU 2015-15, as of the effective date, or fiscal years beginning after December 31, 2015. We chose to continue presentation of debt issue costs associated with our Revolver as an asset in accordance with ASU 2015-15. We have retrospectively accounted for the implementation of ASU 2015-03 and ASU 2015-15 as a change in accounting principle. We have reclassified debt issue costs reported on our December 31, 2015 consolidated balance sheet as follows:

	December 31, 2015	
	(Dollars in thousands)	
	As Reported	As Updated ASU 2015-03
Balance Sheet Line Items:		
Term Loan B	\$ 273,136	\$ 274,000
Less: Unamortized discount based on imputed interest rate of 4.78%	—	(864)
Less: Unamortized debt issuance costs based on imputed interest rate of 4.78%	—	(2,361)
Term Loan B net carrying value	<u>273,136</u>	<u>270,775</u>
Revolver	3,306	3,306
Capital leases and other loans	674	674
	<u>\$ 277,116</u>	<u>\$ 274,755</u>
Less current portion	(5,662)	(5,662)
Long-term debt and capital lease obligations less unamortized discount and debt issuance costs, net of current portion	<u>\$ 271,454</u>	<u>\$ 269,093</u>
Deferred financing costs	<u>\$ 2,512</u>	<u>\$ 151</u>

Debt issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For each of the twelve months ended December 31, 2015 and 2016, approximately \$0.6 million of the debt issue costs associated with the Term Loan B were recognized as interest expense.

Debt issue costs associated with our Revolver are recorded as an asset in accordance with ASU 2015-15. These costs are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%. For each of the twelve months ended December 31, 2015 and 2016, we recorded amortization of deferred financing costs of approximately \$0.1 million each.

The Revolver has a term of five years, maturing in March 2018. We report outstanding balances on our Revolver as short-term based on use of the Revolver to fund ordinary and customary operating cash needs with repayments made frequently. We believe that the borrowing capacity under our Term Loan B and Revolver allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months.

Borrowings under the Term Loan B may be made at LIBOR (subject to a floor of 1.00%) plus a spread of 3.50% or Wells Fargo Bank, National Association's ("Wells Fargo") base rate plus a spread of 2.50%. Borrowings under the Revolver may be made at LIBOR or Wells Fargo's base rate plus a spread determined by reference to our leverage ratio, as set forth in the pricing grid below. If an event of default occurs under the credit agreement, the applicable interest rate may increase by 2.00% per annum. At December 31, 2016, the blended interest rate on amounts outstanding under the Term Loan B and Revolver including the impact of the interest rate swap agreement was 5.08%.

Pricing Level	Consolidated Leverage Ratio	Revolver Pricing	
		Base Rate Loans	LIBOR Loans
1	Less than 3.00 to 1.00	1.250%	2.250%
2	Greater than or equal to 3.00 to 1.00 but less than 4.00 to 1.00	1.500%	2.500%
3	Greater than or equal to 4.00 to 1.00 but less than 5.00 to 1.00	1.750%	2.750%
4	Greater than or equal to 5.00 to 1.00 but less than 6.00 to 1.00	2.000%	3.000%
5	Greater than or equal to 6.00 to 1.00	2.500%	3.500%

The obligations under the credit agreement and the related loan documents are secured by liens on substantially all of the assets of Salem and its subsidiaries, other than certain exceptions set forth in the Security Agreement, dated as of March 14, 2013, among Salem, the subsidiary guarantors party thereto, and Wells Fargo, as Administrative Agent (the "Security Agreement") and such other related loan documents.

With respect to financial covenants, the credit agreement includes a minimum interest coverage ratio, which started at 1.50 to 1.0 and stepped up to 2.50 to 1.0 and a maximum leverage ratio, which started at 6.75 to 1.0 and steps down to 5.75 to 1.0 by 2017. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the credit agreement, restrict the ability of Salem and its subsidiary guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; or (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party. As of December 31, 2016, our leverage ratio was 4.96 to 1 compared to our compliance covenant of 6.00 and our interest coverage ratio was 3.57 compared to our compliance ratio of 2.50. We were in compliance with our debt covenants under the credit facility at December 31, 2016.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	December 31, 2015	December 31, 2016
	<i>(Dollars in thousands)</i>	
Term Loan B principal amount	\$ 274,000	\$ 263,000
Less unamortized discount and debt issuance costs based on imputed interest rate of 4.78%	(3,225)	(2,371)
Term Loan B net carrying value	270,775	260,629
Revolver	3,306	477
Capital leases and other loans	674	568
	274,755	261,674
Less current portion	(5,662)	(590)
	<u>\$ 269,093</u>	<u>\$ 261,084</u>

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of December 31, 2016:

- Outstanding borrowings of \$263.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%;
- Outstanding borrowings of \$0.5 million under the Revolver, with interest payments due at LIBOR plus 3.00% or at prime rate plus 2.00%;
- Commitment fees of 0.50% on any unused portion of the Revolver; and
- Quarterly interest payments on \$150.0 million notional amount interest rate swap agreement with Wells Fargo based on a LIBOR floor of 0.625% and a fixed rate of 1.645%.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2015 and 2016 represents the present value of future commitments under the capital lease agreements.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at December 31, 2016 for each of the next five years and thereafter are as follows:

For the Twelve Months Ending December 31,	Amount
	<i>(Dollars in thousands)</i>
2017	\$ 590
2018	3,105
2019	3,103
2020	254,735
2021	120
Thereafter	21
	<u>\$ 261,674</u>

Impairment Losses on Goodwill and Indefinite-Lived Intangible Assets

Under FASB ASC Topic 350 "Intangibles—Goodwill and Other," indefinite-lived intangibles, including broadcast licenses, goodwill and mastheads are not amortized but instead are tested for impairment at least annually, or more frequently if events or circumstances indicate that there may be an impairment. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year. Impairment is measured as the excess of the carrying value of the indefinite-lived intangible asset over its fair value. Intangible assets that have finite useful lives continue to be amortized over their useful lives and are measured for impairment if events or circumstances indicate that they may be impaired. Impairment losses are recorded as operating expenses. We have incurred significant impairment losses in prior years with regard to our indefinite-lived intangible assets as well as a \$7.8 million charge in the year ended December 31, 2016. We believe that the impairments are indicative of trends in the industry as a whole and are not unique to our company or operations.

While the impairment charges we have recognized are non-cash in nature and do not violate the covenants on our Revolver and Term Loan B, the potential for future impairment charges can be viewed as a negative factor with regard to forecasted future performance and cash flows. We believe that we have adequately considered the potential for an economic downturn in our valuation models and do not believe that the non-cash impairments in and of themselves are a liquidity risk.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2015 and 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

CONTRACTUAL OBLIGATIONS

We enter into various agreements in the normal course of business that contain minimum guarantees. The typical minimum guarantee is tied to future revenue amounts that exceed the contractual level. Accordingly, the estimated fair value of these arrangements is zero. We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses, expand our Internet offerings, improve our facilities and update our computer infrastructures. We expect to incur capital expenditures of approximately \$8.7 million throughout the twelve months ending December 31, 2017; the nature and timing of these upgrades and expenditures can be delayed or scaled back at the discretion of management.

The following table summarizes our aggregate contractual obligations at December 31, 2016, and the estimated timing and effect that such obligations are expected to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More Than 5 years
	<i>(Dollars in thousands)</i>				
Long-term debt, including current portion	\$ 261,106	\$ 477	\$ 6,000	\$ 254,629	\$ —
Interest payments on long-term debt (1)	38,288	11,793	23,539	2,956	—
Capital lease obligations and other loans	568	113	208	226	21
Operating leases	84,256	11,698	21,883	18,566	32,109
Deferred cash payments	316	316	—	—	—
Contingent earn-out consideration (2)	66	66	—	—	—
Talent Agreements (3)	6,619	2,503	3,396	720	—
Other Contracts (4)	1,562	362	1,200	—	—
Total contractual cash obligations	\$ 392,781	\$ 27,328	\$ 56,226	\$ 277,097	\$ 32,130

- (1) Interest payments on long-term debt are based on the outstanding debt and respective interest rates with interest rates on variable-rate debt held constant through maturity at the December 31, 2016 rates. Interest ultimately paid on these obligations will differ based on changes in interest rates for variable-rate debt, as well as any potential repayments or future refinancing. See Note 11 in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for additional information.
- (2) Maximum amount of contingent earn-out consideration payable over two years associated with our acquisitions of Turner Trends on September 13, 2016, Daily Bible Devotion on May 6, 2015 and Bryan Perry Newsletters on February 6, 2015. See Note 5 to the accompanying consolidated financial statements included in this annual report on Form 10-K for further details.
- (3) Talent agreements are typically one to three years in length with various renewal dates. The liability shown is based on agreements in effect as of December 31, 2016. Future payments will vary as the agreements are renewed.
- (4) Other contracts consist of purchase commitments, including APA's as of December 31, 2016.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

DERIVATIVE INSTRUMENTS

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

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

On March 27, 2013, we entered into an interest rate swap agreement with Wells Fargo Bank, N.A. that began on March 28, 2014 with a notional principal amount of \$150.0 million. The agreement was entered to offset risks associated with the variable interest rate on our Term Loan B. Payments on the swap are due on a quarterly basis with a LIBOR floor of 0.625%. The swap expires on March 28, 2019 at a fixed rate of 1.645%. The interest rate swap agreement was not designated as a cash flow hedge, and as a result, all changes in the fair value are recognized in the current period statement of operations rather than through other comprehensive income. We recorded a long-term liability of \$0.5 million as of December 31, 2016, representing the fair value of the interest rate swap agreement. The swap was valued based on observable inputs for similar assets and liabilities and other observable inputs for interest rates and yield curves, which are classified within Level 2 inputs in the fair value hierarchy described below and in Note 12 in the notes to our consolidated financial statements contained in Item 8 of this annual report on Form 10-K for additional information.

	<u>As of December 31, 2015</u>	<u>As of December 31, 2016</u>
	<i>(Dollars in thousands)</i>	
Fair value of interest rate swap liability	\$ 798	\$ 514

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Salem Media Group, Inc.
Camarillo, California

We have audited the accompanying consolidated balance sheet of Salem Media Group, Inc. (the "Company") as of December 31, 2016, and the related statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2016. In connection with our audit of the consolidated financial statements, we also have audited the consolidated financial statement schedule for the year ended December 31, 2016 as listed in Item 15(a)2. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2017, expressed an adverse opinion thereon.

/s/ Crowe Horwath LLP

Sherman Oaks, California
March 10, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Salem Media Group, Inc.

We have audited the accompanying consolidated balance sheet of Salem Media Group, Inc. and subsidiaries (collectively, the "Company") as of December 31, 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years ending December 31, 2015 and 2014. Our audit also included the financial statement schedule of the Company listed in Item 15(a) for each of these years. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and the results of its operations and its cash flows for the year ending December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ SingerLewak LLP
Los Angeles, California
March 11, 2016

SALEM MEDIA GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	December 31,	
	2015	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 98	\$ 130
Trade accounts receivable (net of allowances of \$13,479 in 2015 and \$10,420 in 2016)	37,181	37,260
Other receivables (net of allowances of \$371 in 2015 and \$260 in 2016)	1,981	751
Inventories (net of reserves of \$1,855 in 2015 and \$2,226 in 2016)	893	670
Prepaid expenses	6,285	6,287
Deferred income taxes	9,813	9,411
Land held for sale	1,700	1,000
Total current assets	<u>57,951</u>	<u>55,509</u>
Notes receivable (net of allowance of \$528 in 2015 and \$564 in 2016)	173	65
Property and equipment (net of accumulated depreciation of \$162,382 in 2015 and \$156,024 in 2016)	105,483	102,790
Broadcast licenses	393,031	388,517
Goodwill	24,563	25,613
Other indefinite-lived intangible assets	833	332
Amortizable intangible assets (net of accumulated amortization of \$39,454 in 2015 and \$44,488 in 2016)	11,481	14,408
Deferred financing costs	151	82
Other assets	2,500	2,952
Total assets	<u>\$ 596,166</u>	<u>\$ 590,268</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,177	\$ 4,968
Accrued expenses	14,032	15,658
Accrued compensation and related expenses	8,297	8,133
Accrued interest	16	77
Current portion of deferred revenue	11,549	9,491
Income taxes payable	73	223
Current portion of long-term debt and capital lease obligations	5,662	590
Total current liabilities	<u>44,806</u>	<u>39,140</u>
Long-term debt and capital lease obligations, less current portion	269,093	261,084
Fair value of interest rate swap	798	514
Deferred income taxes	57,082	60,769
Deferred rent expense	8,300	9,596
Deferred revenue less current portion	5,630	5,252
Other long-term liabilities	636	67
Total liabilities	<u>386,345</u>	<u>376,422</u>
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,246,134 and 22,593,130 issued and 19,928,484 and 20,275,480 outstanding at December 31, 2015 and 2016, respectively	223	226
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2015 and 2016, respectively	56	56
Additional paid-in capital	241,780	243,607
Accumulated earnings	1,768	3,963
Treasury stock, at cost (2,317,650 shares at December 31, 2015 and 2016)	(34,006)	(34,006)
Total stockholders' equity	<u>209,821</u>	<u>213,846</u>
Total liabilities and stockholders' equity	<u>\$ 596,166</u>	<u>\$ 590,268</u>

See accompanying notes

SALEM MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share and per share data)

	Year Ended December 31,		
	2014	2015	2016
Net broadcast revenue	\$ 194,094	\$ 197,184	\$ 202,016
Net digital media revenue	45,691	44,761	46,777
Net publishing revenue	26,751	23,842	25,528
Total net revenue	<u>266,536</u>	<u>265,787</u>	<u>274,321</u>
Operating expenses:			
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including \$1,454, \$1,509 and \$1,663 for the years ended December 31, 2014, 2015 and 2016, respectively, paid to related parties)	139,206	140,819	146,283
Digital media operating expenses, exclusive of depreciation and amortization shown below	35,590	35,380	36,290
Publishing operating expenses exclusive of depreciation and amortization shown below	26,143	24,774	26,209
Unallocated corporate expenses, exclusive of depreciation and amortization shown below (including \$274, \$133 and \$301 for the years ended December 31, 2014, 2015 and 2016, respectively, paid to related parties)	17,092	15,146	14,994
Depreciation	12,629	12,417	12,205
Amortization	6,196	5,324	5,071
Change in the estimated fair value of contingent earn-out consideration	734	(1,715)	(689)
Impairment of long-lived assets	—	—	700
Impairment of indefinite-lived long-term assets other than goodwill	34	—	7,041
Impairment of goodwill	45	439	32
Impairment of amortizable intangible assets	—	—	8
(Gain) loss on the sale or disposal of assets	251	181	(1,901)
Total operating expenses	<u>237,920</u>	<u>232,765</u>	<u>246,243</u>
Operating income	28,616	33,022	28,078
Other income (expense):			
Interest income	45	8	6
Interest expense, net of capitalized interest	(15,993)	(15,429)	(14,938)
Change in the fair value of interest rate swap	(2,702)	(1,273)	285
Gain on bargain purchase	—	1,357	95
Loss on early retirement of long-term debt	(391)	(41)	(87)
Net miscellaneous income and expenses	665	201	6
Income from operations before income taxes	<u>10,240</u>	<u>17,845</u>	<u>13,445</u>
Provision for income taxes	4,765	6,695	4,572
Net income	<u>\$ 5,475</u>	<u>\$ 11,150</u>	<u>\$ 8,873</u>

See accompanying notes

SALEM MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
(Dollars in thousands, except share and per share data)

	Year Ended December 31,		
	2014	2015	2016
Basic earnings per share data:			
Basic earnings per share Class A and Class B common stock	\$ 0.21	\$ 0.43	\$ 0.34
Diluted earnings per share data:			
Diluted earnings per share Class A and Class B common stock	\$ 0.21	\$ 0.43	\$ 0.34
Distributions per share Class A and Class B common stock	\$ 0.24	\$ 0.26	\$ 0.26
Basic weighted average Class A and Class B shares outstanding	<u>25,336,809</u>	<u>25,426,732</u>	<u>25,669,538</u>
Diluted weighted average Class A and Class B shares outstanding	<u>26,081,175</u>	<u>25,887,819</u>	<u>26,034,990</u>

See accompanying notes

SALEM MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total
	Shares	Amount	Shares	Amount				
Stockholders' equity, December 31, 2013	21,803,303	\$ 218	5,553,696	\$ 56	\$ 237,579	\$ (2,062)	\$ (34,006)	\$ 201,785
Stock-based compensation	—	—	—	—	1,576	—	—	1,576
Options exercised	278,837	3	—	—	1,218	—	—	1,221
Tax benefit related to stock options exercised	—	—	—	—	120	—	—	120
Cash distributions	—	—	—	—	—	(6,183)	—	(6,183)
Net income	—	—	—	—	—	5,475	—	5,475
Stockholders' equity, December 31, 2014	22,082,140	221	5,553,696	56	240,493	(2,770)	(34,006)	203,994
Stock-based compensation	—	—	—	—	771	—	—	771
Options exercised	163,994	2	—	—	383	—	—	385
Tax benefit related to stock options exercised	—	—	—	—	133	—	—	133
Cash distributions	—	—	—	—	—	(6,612)	—	(6,612)
Net income	—	—	—	—	—	11,150	—	11,150
Stockholders' equity, December 31, 2015	22,246,134	223	5,553,696	56	241,780	1,768	(34,006)	209,821
Stock-based compensation	—	—	—	—	582	—	—	582
Options exercised	336,996	3	—	—	990	—	—	993
Lapse of restricted shares	10,000	—	—	—	—	—	—	—
Tax benefit related to stock options exercised	—	—	—	—	255	—	—	255
Cash distributions	—	—	—	—	—	(6,678)	—	(6,678)
Net income	—	—	—	—	—	8,873	—	8,873
Stockholders' equity, December 31, 2016	<u>22,593,130</u>	<u>\$ 226</u>	<u>5,553,696</u>	<u>\$ 56</u>	<u>\$ 243,607</u>	<u>\$ 3,963</u>	<u>\$ (34,006)</u>	<u>\$ 213,846</u>

SALEM MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	2014	2015	2016
OPERATING ACTIVITIES			
Net income	\$ 5,475	\$ 11,150	\$ 8,873
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash stock-based compensation	1,576	771	582
Tax benefit related to stock options exercised	120	133	255
Depreciation and amortization	18,825	17,741	17,276
Amortization of deferred financing costs	643	628	631
Accretion of financing items	187	188	206
Accretion of acquisition-related deferred payments and contingent earn-out consideration	576	349	70
Provision for bad debts	3,026	1,733	941
Deferred income taxes	4,375	6,313	4,089
Impairment of long-lived assets	—	—	700
Impairment of indefinite-lived long-term assets other than goodwill	34	—	7,041
Impairment of goodwill	45	439	32
Impairment of amortizable intangible assets	—	—	8
Change in the fair value of interest rate swap	2,702	1,273	(285)
Change in the estimated fair value of contingent earn-out consideration	734	(1,715)	(689)
(Gain) loss on the sale or disposal of assets	251	181	(1,901)
Gain on bargain purchase	—	(1,357)	(95)
Loss on early retirement of debt	391	41	87
Changes in operating assets and liabilities:			
Accounts receivable	4,101	1,461	4,236
Inventories	(27)	(307)	223
Prepaid expenses and other current assets	237	(705)	(2)
Accounts payable and accrued expenses	538	(6,482)	(819)
Deferred rent	643	3,745	1,330
Deferred revenue	(1,414)	(72)	(4,106)
Other liabilities	(1,125)	703	33
Income taxes payable	12	(81)	150
Net cash provided by operating activities	<u>41,925</u>	<u>36,130</u>	<u>38,866</u>
INVESTING ACTIVITIES			
Cash paid for capital expenditures net of tenant improvement allowances	(9,363)	(8,833)	(9,414)
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(711)	(3,034)	(620)
Escrow deposits related to acquisitions	(65)	—	(36)
Deposit received under option agreement for radio station sales	—	—	450
Purchases of broadcast assets and radio stations	(6,195)	(12,411)	(1,758)
Purchases of digital media businesses and assets	(3,713)	(4,472)	(3,253)
Purchases of publishing businesses and assets	(2,774)	—	(3,403)
Proceeds from the sale of assets	1,370	10	3,147
Other	(283)	(443)	(606)
Net cash used in investing activities	<u>(21,734)</u>	<u>(29,183)</u>	<u>(15,493)</u>
FINANCING ACTIVITIES			
Payments under Term Loan B	(15,250)	(2,000)	(11,000)
Proceeds from borrowings under Revolver	56,510	60,219	43,909
Payments on Revolver	(54,726)	(58,698)	(46,738)
Payments of costs related to bank credit facility	(13)	—	—

See accompanying notes

SALEM MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in thousands)

	Year Ended December 31,		
	2014	2015	2016
Payments of acquisition-related contingent earn-out consideration	(300)	(1,204)	(111)
Payments of deferred installments due from acquisition activity	—	(935)	(3,621)
Proceeds from exercise of stock options	1,221	385	993
Payment of cash distribution on common stock	(6,183)	(6,612)	(6,678)
Payments on capital lease obligations	(130)	(112)	(107)
Book overdraft	(1,352)	2,075	12
Net cash used in financing activities	<u>(20,223)</u>	<u>(6,882)</u>	<u>(23,341)</u>
Net increase (decrease) in cash and cash equivalents	(32)	65	32
Cash and cash equivalents at beginning of year	65	33	98
Cash and cash equivalents at end of year	<u>\$ 33</u>	<u>\$ 98</u>	<u>\$ 130</u>

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Cash paid for interest net of capitalized interest	\$ 14,518	\$ 14,289	\$ 14,038
Cash paid for income taxes	\$ 257	\$ 330	\$ 78

Other supplemental disclosures of cash flow information:

Barter revenue	\$ 6,227	\$ 6,204	\$ 5,470
Barter expense	\$ 6,052	\$ 5,990	\$ 5,341

Non-cash investing and financing activities:

Capital expenditures reimbursable under tenant improvement allowances	\$ 670	\$ 2,998	\$ 620
Non-cash capital expenditures for property & equipment acquired trade agreements	\$ 41	\$ 36	\$ —
Estimated present value of contingent earn-out consideration	\$ 2,047	\$ 300	\$ 66
Current value of deferred cash payments (short-term)	\$ 600	\$ 21	\$ 1,640
Present value of deferred cash payments (due 2015)	\$ 893	\$ —	\$ —
Present value of deferred cash payments (due 2016)	\$ 2,289	\$ —	\$ —
Assets acquired under capital leases	\$ 64	\$ —	\$ —

See accompanying notes

SALEM MEDIA GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of Salem Media Group, Inc. (“Salem” “we,” “us,” “our” or the “company”) include the company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Description of Business

Salem is a domestic multimedia company with integrated operations including radio broadcasting, digital media, and publishing. Effective as of February 19, 2015, we changed our name from Salem Communications Corporation to Salem Media Group, Inc. to more accurately reflect our multimedia business. Salem was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Our content is intended for audiences interested in Christian and family-themed programming and conservative news talk. We maintain a website at www.salemmedia.com.

We have three operating segments, (1) Broadcast, (2) Digital Media, and (3) Publishing, which are discussed in Note 20 – Segment Data. Our foundational business is the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network® (“SRN”), SRN News Network (“SNN”), Today’s Christian Music (“TCM”), Singing News Network (formerly Solid Gospel Network) and Salem Media Representatives™ (“SMR”). SRN, SNN, and Singing News Network are networks that develop, produce and syndicate a broad range of programming specifically targeted to Christian and family-themed talk stations, music stations and general News Talk stations throughout the United States, including Salem-owned and operated stations. SMR, a national advertising sales firm with offices in nine U.S. cities, specializes in placing national advertising on religious and other commercial radio stations.

Our digital media based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Salem Web Network™ (“SWN”) websites include Christian content websites: OnePlace.com, Christianity.com, Crosswalk.com®, GodVine.com, CrossCards.com, LighSource.com, Jesus.org, BibleStudyTools.com, iBelieve.com, CCMmagazine.com and ChristianHeadlines.com,. Our conservative opinion websites, collectively known as Townhall Media, include Townhall.com™, HotAir.com, Twitchy.com, HumanEvents.com, RedState.com, and BearingArms.com. We also issue digital newsletters, including Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

Church product websites including WorshipHouseMedia.com, SermonSpice.com, SermonSearch.com, and ChurchStaffing.com offer downloads and service platforms to pastors and other educators. Our web content is accessible through all of our radio station websites that feature content of interest to local audiences throughout the United States.

Digital media includes our e-commerce sites, Eagle Wellness and Gene Smart Wellness. These e-commerce sites offer health advice and nutritional products.

Our publishing operating segment is comprised of three businesses: (1) Regnery Publishing is a traditional book publisher that has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, David Limbaugh, Ed Klein, Mark Steyn and Dinesh D’Souza; (2) Salem Author Services, our self-publishing services for authors through Xulon Press and Hillcrest Media; and (3) Salem Publishing™ which produces and distributes five print magazines and one digital magazine.

Cash and Cash Equivalents

We consider all highly liquid debt instruments, purchased with an initial maturity of three-months or less, to be cash equivalents. The carrying value of our cash and cash equivalents approximated fair value at each balance sheet date.

Trade Accounts Receivable

Trade accounts receivable represent receivables from customers for the sale of advertising, block program time, sponsorships and events, product sales, royalties, video and graphic downloads, subscriptions, and book sales. Our receivables are recorded as invoiced and represent claims that will be settled in cash. The carrying value of our receivables, net of the allowance for doubtful accounts and estimated sales returns, represents their estimated net realizable value. Trade accounts receivable for our self-publishing services represent contractual amounts due under individual payment plans. These contractual receivables are included in deferred revenue until the applicable earnings process is complete.

Allowance for Doubtful Accounts

We evaluate the balance reserved in our allowance for doubtful accounts on a quarterly basis based on our historical collection experience, the age of the receivables, specific customer information and current economic conditions. Past due balances are generally not written-off until all of our collection efforts have been unsuccessful, including use of a collections agency. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Inventory

Inventories consist of finished goods, including published books and wellness products. Inventory is recorded at the lower of cost or market as determined on a First-In First-Out (“FIFO”) cost method.

Inventory Reserves

We reviewed historical data associated with book and wellness product inventories held by Regnery Publishing and our e-commerce wellness entities, as well as our own experiences to estimate the fair value of inventory on hand. Our analysis includes a review of actual sales returns, our allowances, royalty reserves, overall economic conditions and product demand. We record a provision to expense the balance of unsold inventory that we believe to be unrecoverable. We regularly monitor actual performance to our estimates and make adjustments as necessary. Estimated inventory reserves may be adjusted, either favorably or unfavorably, if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or the market. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Cost represents the historical cost of acquiring the asset, including the costs necessarily incurred to bring it to the condition and location necessary for its intended use. For assets constructed for our own use, such as towers and buildings that are discrete projects for which costs are separately accumulated and for which construction takes considerable time, we record capitalized interest. The amount capitalized is the cost that could have been avoided had the asset not been constructed and is based on the average accumulated expenditures incurred over the capitalization period at the weighted average rate applicable to our outstanding variable rate debt. We capitalized interest of \$0.2 million and \$0.1 million during the years ended December 31, 2016 and 2015, respectively. Repair and maintenance costs are charged to expense as incurred. Improvements are capitalized if they extend the life of the asset or enhance the quality or ability of the asset to benefit operations. Depreciation is computed using the straight-line method over estimated useful lives as follows:

<u>Category</u>	<u>Estimated Life</u>
Buildings	40 years
Office furnishings and equipment	5 -10 years
Antennae, towers and transmitting equipment	10 - 20 years
Studio, production and mobile equipment	5 - 10 years
Computer software and website development costs	3 years
Record and tape libraries	3 years
Automobiles	5 years
Leasehold improvements	Lesser of useful life or remaining lease term

The carrying value of property and equipment is evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and business units for indicators of impairment. When indicators of impairment are present, and the cash flows estimated to be generated from these assets is less than the carrying value, an adjustment to reduce the carrying value to the fair market value of the assets is recorded. See Note 9 – Property and Equipment.

Internally Developed Software and Website Development Costs

We capitalize costs incurred during the application development stage related to the development of internal-use software as specified in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 350-40 “*Internal-Use Software*.” Capitalized costs are generally amortized over the estimated useful life of three years. Costs incurred related to the conceptual design and maintenance of internal-use software are expensed as incurred. Website development activities include planning, design and development of graphics and content for new websites and operation of existing sites. Costs incurred that involve providing additional functions and features to the website are capitalized. Costs associated with website planning, maintenance, content development and training are expensed as incurred. We capitalized \$2.3 million, \$2.2 million and \$3.9 million during the years ended December 31, 2016, 2015 and 2014, respectively, related to internally developed software and website development costs. Amortization expense of amounts capitalized was \$2.5 million, \$2.4 million and \$2.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Amortizable Intangible Assets

Intangible assets are recorded at cost less accumulated amortization. Typically, intangible assets are acquired in conjunction with the acquisition of broadcast entities, digital media entities and publishing entities. These intangibles are amortized using the straight-line method over the following estimated useful lives:

Category	Estimated Life
Customer lists and contracts	Lesser of 5 years or life of contract
Domain and brand names	5 -7 years
Favorable and assigned leases	Lease Term
Subscriber base and lists	3 - 7 years
Author relationships	1 - 7 years
Non-compete agreements	2 to 5 years

The carrying value of our amortizable intangible assets are evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and businesses for indicators of impairment. In accordance with FASB ASC Topic 360 "*Property, Plant and Equipment*," when indicators of impairment are present and the undiscounted cash flows estimated to be generated from these assets are less than the carrying amounts of these assets, an adjustment to reduce the carrying value to the fair market value of these assets is recorded, if necessary. During 2016, we recorded an impairment of approximately \$8,000 associated with amortizable assets within our wellness products business. See Note 2 – Impairment of Goodwill and Other Non-Amortizable Assets and Note 10 – Amortizable Intangible Assets. No adjustments to the carrying amounts of our amortizable intangible assets were necessary during the year's ended December 31, 2015 or 2014.

Broadcast Licenses

In the case of our broadcast radio stations, we would not be able to operate the properties without the related FCC broadcast license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal fee that is expensed as incurred. We continually monitor our stations' compliance with the various regulatory requirements that are necessary for FCC renewal and all of our broadcast licenses have been renewed at the end of their respective periods. We expect all of our broadcast licenses to be renewed in the future and therefore, we consider our broadcast licenses to be indefinite-lived intangible assets. The weighted-average period before the next renewal of our broadcasting licenses is 4.5 years.

We do not amortize broadcast licenses, but rather test for impairment annually or more frequently if events or circumstances indicate that the value may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

The unit of accounting we use to test broadcast licenses is the cluster level, which we define as a group of radio stations operating in the same geographic market, sharing the same building and equipment and managed by a single general manager. The cluster level is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results.

We perform a qualitative assessment for each of our broadcast market clusters. We review the significant assumptions and key estimates applicable to our prior year estimated fair value calculations to assess if events and circumstances have occurred that could affect these assumptions and key estimates. We also review internal benchmarks and the economic performance for each market cluster to assess if it is more likely than not that impairment exists.

The first step of our qualitative assessment is to calculate excess fair value, or the amount by which our prior year estimated fair value exceeds the current year carrying value. We believe based on our analysis and review, including the financial performance of each market, that a 25% excess fair value margin is a conservative and reasonable benchmark for our qualitative analysis. Markets with an excess fair value of 25% or more, which have had no significant changes in the prior year assumptions and key estimates, are not likely to be impaired.

The second step of our qualitative assessment consists of a review of the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income ("SOI") defined as net broadcast revenue less broadcast operating expenses. See Item 6 – Selected Financial Data within this annual report for information on SOI, a non-GAAP measure. Numerous trade organizations and analysts review these radio station sales to track SOI multiples applicable to each transaction. Based on published reports and analysis of market transactions, we believe industry benchmarks to be in the six to seven times cash flow range. We elected an SOI benchmark of four as a conservative indicator of fair value.

Goodwill and Other Indefinite-Lived Intangible Assets

We account for goodwill and other indefinite-lived intangible assets in accordance with FASB ASC Topic 350 *Intangibles—Goodwill and Other*. Approximately 70% of our total assets as of December 31, 2016, consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and mastheads account for the remaining 6%. We do not amortize goodwill and other indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

The unit of accounting we use to test goodwill associated with our radio stations is the cluster level, which we define as a group of radio stations operating in the same geographic market, sharing the same building and equipment and managed by a single general manager. Nineteen of our 34 market clusters have goodwill associated with them as of our annual testing period ending December 31, 2016.

The unit of accounting we use to test goodwill in our radio networks is the entity level, which includes Salem Radio Network® (“SRN”), SRN News Network (“SNN”), Today’s Christian Music (“TCM”) and Singing News Network (formerly Solid Gospel Network). The entity level is the level reviewed by management for which discreet financial information is available. One of our five networks has goodwill associated with it as of our annual testing period ending December 31, 2016.

The unit of accounting we use to test goodwill in our digital media segment is the entity level, which includes Salem Web Network, Townhall.com, Eagle Financial Publications and wellness products. The financial statements for Salem Web Network reflect the operating results and cash flows for all of our Internet sites and our church product sites exclusive of Townhall.com. The financial statements for Townhall.com reflect the operating results for each of our conservative opinion sites. Eagle Wellness includes only the results of the e-commerce site for nutritional products.

The unit of accounting we use to test goodwill in our publishing segment is the entity level, which includes Regnery Publishing, Xulon Press, and Hillcrest Media. Regnery Publishing is our book publishing entity based in Washington DC, with a stand-alone facility under one general manager, with operating results and cash flows of reported at the entity level. Xulon Press and Hillcrest Media also operate from a stand-alone facility in Orlando, Florida under one general manager who is responsible for the separately stated operating results and cash flows.

We perform a qualitative assessment to determine if events and circumstances have occurred that indicate it is more likely than not that the fair value of the assets in market cluster are less than their carrying values. We review the significant inputs used in our prior year fair value estimates to determine if any changes to those inputs should be made. We estimate fair value using a market approach and compare the estimated fair value of a market cluster to its carrying value, including goodwill. If the carrying amount, including goodwill, exceeds the estimated fair value of the market cluster, a potential indication exists that the amount of goodwill attributed to that market cluster may be impaired.

When performing Step 1 of our annual impairment testing of goodwill, the fair value of the entity is estimated using a discounted cash flow analysis, a form of the income approach. The discounted cash flow analysis utilizes a five to seven year projection period to derive operating cash flow projections from a market participant view. We make certain assumptions regarding future revenue growth based on industry market data, historical performance and expected future performance. We also make assumptions regarding working capital requirements and ongoing capital expenditures for fixed assets.

Future net free cash flows are calculated on a debt free basis and discounted to present value using a risk adjusted discount rate. The terminal year value is calculated using the Gordon constant growth method and long-term growth rate assumptions based on long-term industry growth and GDP inflation rates. The resulting fair value estimates, net of any interest bearing debt, are compared to the carrying value of each reporting units’ net assets.

We estimate the fair value using a market approach and compare the estimated fair value of each entity to its carrying value, including goodwill. Under the market approach, we apply a multiple of four to each entities operating income to estimate the fair value. We believe that a multiple of four is a conservative indicator of fair value as described above.

If the carrying amount, including goodwill, exceeds the estimated fair value of the reporting unit, an indication exists that the amount of goodwill attributed to that entity may be impaired. When we have indication of impairment, we engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value. If the results of Step 1 indicate that the carrying value of a reporting unit exceeds its fair value, Step 2 is required. Under Step 2, the implied fair value of the reporting unit, including goodwill, is calculated to determine the amount of the impairment.

Other Indefinite-Lived Intangible Assets

Mastheads consist of the graphic elements that identify our publications to readers and advertisers. These include customized typeset page headers, section headers, and column graphics as well as other name and identity stylized elements within the body of each publication. We test the value of mastheads as a single combined publishing entity as our print magazines operate from one shared facility under one general manager with operating results and cash flows reported on a combined basis for all publications. This is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results.

Business Acquisitions

We account for business acquisitions in accordance with the acquisition method of accounting as specified in FASB ASC Topic 805 *Business Combinations*. The total acquisition consideration is allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. The excess of consideration paid over the estimated fair values of the net assets acquired is recorded as goodwill and any excess of fair value of the net assets acquired over the consideration paid is recorded as a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. We underwent such a reassessment, and as a result, recorded a gain on bargain purchase of \$0.1 million for KXFN-AM in St. Louis, Missouri during the year ended December 31, 2016. During the year ended December 31, 2015 recorded a gain on bargain purchase of \$1.4 million, including \$0.8 million for WSDZ-AM in St. Louis, Missouri, \$0.3 million for KDIZ-AM in Minneapolis, Minnesota, and \$0.3 million for WWMI-AM in Tampa, Florida. We believe that these gains on bargain purchase resulted from various factors that may have impacted the acquisition price, including, without limitation, that Disney was eager to divest of their Radio Disney properties in 2015 and the seller of WSDZ-AM was under a receivership.

Acquisitions may include contingent earn-out consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts. See Note 4 – Acquisitions and Recent Transactions and Note 5 – Contingent Earn-Out Consideration.

A majority of our radio station acquisitions have consisted primarily of the FCC licenses to broadcast in a particular market. We often do not acquire the existing format, or we change the format upon acquisition when we find it beneficial. As a result, a substantial portion of the purchase price for the assets of a radio station is allocated to the broadcast license.

Property and equipment are recorded at their estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Costs associated with acquisitions, such as consulting and legal fees, are expensed as incurred in unallocated corporate operating expenses.

Contingent Earn-Out Consideration

Our acquisitions often include contingent earn-out consideration as part of the purchase price. The fair value of the contingent earn-out consideration is estimated as of the acquisition date based on the present value of the expected contingent payments to be made using a weighted probability of possible payments. The unobservable inputs used in the determination of the fair value of the contingent earn-out consideration include our own assumptions about the likelihood of payment based on the established benchmarks and discount rates based on our internal rate of return analysis. The fair value measurement includes inputs that are Level 3 measurements as discussed in Note 12 to our consolidated financial statements.

We review the probabilities of possible future payments to the estimated fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results increase or decrease as compared to the assumption used in our analysis, the fair value of the contingent earn-out consideration obligations will increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of the contingent earn-out consideration could cause a material impact and volatility in our operating results. See Note 5 – Contingent Earn-Out Consideration.

Discontinued Operations

We regularly review underperforming assets to determine if a sale or disposal might be a better way to monetize the assets. When a station, group of stations, or other asset group is considered for sale or disposal, we review the transaction to determine if or when the entity qualifies as a discontinued operation in accordance with the criteria of FASB ASC Topic 205-20 *Discontinued Operations*. In April 2014, the FASB issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under the new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity's operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. We elected to early-adopt the FASB guidance for discontinued operations issued in April 2014.

Revenue Recognition

Revenue is recognized as it is earned in accordance with applicable guidelines. We consider amounts to be earned once evidence of an arrangement has been obtained, services are performed, fees are fixed or determinable and collectability is reasonably assured.

We account for broadcast revenue from the sale of airtime for programs or spots as the program or advertisement is broadcast. Revenues are reported net of agency commissions, which are calculated as a stated percentage applied to gross billings. Digital revenue is recognized upon delivery of page-views, delivery of impressions as specified in the contract, delivery of the digital newsletter or email, or upon delivery of the advertisement or programming content via streaming. Revenues are reported net of agency commissions, which are calculated as a stated percentage applied to gross billings. Revenue from product sales and book sales are recognized upon shipment net of distribution fees and an allowance for sales returns. Revenues from advertisements in our print magazines are recognized upon delivery of the publication net of agency commissions, which are calculated as a stated percentage applied to gross billings. Subscription revenue from our print magazines and digital newsletters is recognized over the life of the related subscription.

Multiple-Deliverables

We enter bundled advertising agreements that may include cross-promotions such as advertisements on our radio stations, digital banners, print magazine placements, booth space at local events, or some combination thereof. The multiple deliverables contained in each agreement are accounted for separately over their respective delivery period provided that they are separate units of accounting. The selling price for each deliverable is based on vendor specific objective evidence, if available, or the estimated fair value of each deliverable. Objective evidence of the fair value includes the price charged for each element when sold separately or the price that we would transact if the deliverable is sold regularly on a standalone basis. Arrangement consideration is allocated at the inception of each agreement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

Sales Returns

We provide for estimated returns for products sold with the right of return, primarily book sales associated with Regnery Publishing and nutritional products sold through Eagle Wellness and Gene Smart. We record an estimate of these product returns as a reduction of revenue in the period of the sale. Our estimates are based upon historical sales returns, the amount of current period sales, economic trends and any changes in customer demand and acceptance of our products. We regularly monitor actual performance to estimated return rates and make adjustments as necessary. Estimated return rates utilized for establishing estimated returns reserves have approximated actual returns experience. However, actual returns may differ significantly, either favorably or unfavorably, from these estimates if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or the market. We have not modified our estimate methodology and we have not recognized significant losses from changes in our estimates

Barter Transactions

We may provide broadcast time or digital advertising placement to customers in exchange for certain products, supplies or services. The terms of these exchanges generally permit for the preemption of such broadcast time or digital placements in favor of customers who purchase these items for cash. We include the value of such exchanges in net revenues and operating expenses. The value recorded for barter revenue and barter expense is based upon management's estimate of the fair value of the products, supplies or services received. . We believe that our estimates and assumptions are reasonable and that our barter revenue and barter expense are accurately reflected.

We record barter revenue as it is earned, typically when the broadcast time is used or the digital advertisement is delivered. We record barter expense equal to the estimated fair value of the goods or services received upon receipt or usage of the items as applicable. Barter revenue included in broadcast revenue for the years ended December 31, 2016, 2015 and 2014 was approximately \$5.4 million, \$6.1 million and \$6.0 million, respectively. Barter expenses included in broadcast operating expense for the years ended December 31, 2016, 2015 and 2014 were approximately \$5.3 million, \$5.9 million and \$6.0 million, respectively. Barter revenue included in digital media revenue for the years ended December 31, 2016, 2015 and 2014 was approximately \$42,000, \$0.1 million and \$0.2 million, respectively. Barter expenses included in digital media operating expense for the years ended December 31, 2016, 2015 and 2014 were approximately \$34,000, \$0.1 million and \$0.1 million, respectively.

Stock-Based Compensation

We account for stock-based compensation under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, "Compensation—Stock Compensation." We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of our options using the Black-Scholes option-pricing model that requires the input of highly subjective assumptions, including the expected stock price volatility and expected term of the options granted. The exercise price for options is equal to the closing market price of Salem Media Group common stock as of the date of grant. We use the straight-line attribution method to recognize share-based compensation costs over the expected service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock awards, deferred tax assets for options and restricted stock awards with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. See Note 15 – Stock Incentive Plan.

Advertising and Promotional Cost

Costs of media advertising and associated production costs are expensed as incurred and amounted to approximately \$12.3 million, \$11.3 million and \$11.5 million for each of the years ending December 31, 2016, 2015 and 2014, respectively.

Leases

We lease broadcast towers, transmitter sites and office space throughout the United States. We review each lease agreement upon inception to determine the appropriate classification of the lease as a capital lease or operating lease based on the factors listed in FASB ASC Topic 840 "Leases." Our current lease terms generally range from one to twenty-five years with rent expense recorded on a straight-line basis for financial reporting purposes. Where leases include rent holidays, rent escalations, rent concessions and leasehold improvement incentives, the value of these incentives are amortized over the lease term including anticipated renewal periods. Rent expense, exclusive of intercompany leases eliminated during consolidation, was \$15.3 million, \$14.8 million and \$13.8 million, respectively, for each of the years ended December 31, 2016, 2015 and 2014.

Deferred rental revenue was \$4.3 million as of December 31, 2016 compared to \$4.4 million as of the prior year.

Leasehold Improvements

We may construct or otherwise invest in leasehold improvements to properties. The costs of these leasehold improvements are capitalized and depreciated over the shorter of the estimated useful life of the improvement or the lease term including anticipated renewal periods.

Partial Self-Insurance on Employee Health Plan

We provide health insurance benefits to eligible employees under a self-insured plan whereby the company pays actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Our estimates are based on historical data and probabilities that are subject to a high degree of variability due to unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was \$0.8 million and \$0.7 million at December 31, 2016 and 2015, respectively. Changes in the number and/or the amount of claims could cause a material impact and volatility in our operating results. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. While we had an unusually high level of claims in the third quarter of 2016 due to a larger than normal number of expensive claims, we believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Derivative Instruments

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

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

On March 27, 2013, we entered into an interest rate swap agreement with Wells Fargo Bank, N.A. that began on March 28, 2014 with a notional principal amount of \$150.0 million. The agreement was entered to offset risks associated with the variable interest rate on our Term Loan B. Payments on the swap are due on a quarterly basis with a LIBOR floor of 0.625%. The swap expires on March 28, 2019 at a fixed rate of 1.645%. The interest rate swap agreement was not designated as a cash flow hedge, and as a result, all changes in the fair value are recognized in the current period statement of operations rather than through other comprehensive income. We recorded a long-term liability of \$0.5 million as of December 31, 2016, representing the fair value of the interest rate swap agreement. The swap was valued based on observable inputs for similar assets and liabilities and other observable inputs for interest rates and yield curves, which are classified within Level 2 inputs in the fair value hierarchy described below and in Note 12 to our consolidated financial statements.

	<u>As of December 31, 2015</u>	<u>As of December 31, 2016</u>
	<i>(Dollars in thousands)</i>	
Fair value of interest rate swap liability	\$ 798	\$ 514

Fair Value Measurements and Disclosures

As of December 31, 2016, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the company. See Note 12 – Fair Value Measurements and Disclosures.

Long-term Debt and Debt Covenant Compliance

Our classification of outstanding borrowings on our Term Loan B as long-term debt on our balance sheet is based on our assessment that, under the terms of our Credit Agreement and after considering our projected operating results and cash flows for the coming year, no principal payments are required to be made within the next twelve months. The Term Loan B has a term of seven years, maturing in March 2020. We are required to make principal payments of \$750,000 per quarter, which began on September 30, 2013; however, repayments may be made against the outstanding balance. Each repayment of the Term Loan B is applied ratably to each of the next four principal installments thereof in the direct order of maturity and thereafter to the remaining principal balance in reverse order of maturity.

Our projections of operating results and cash flows for the coming year are estimates dependent upon a number of factors including but not limited to developments in the markets in which we are operating in and varying economic and political factors. Accordingly, these projections are inherently uncertain and our actual results could differ from these estimates.

Deferred Financing Costs

Deferred financing costs consists of underwriting and legal fees incurred in conjunction with entering our Term Loan B and Revolver. In April 2015, the FASB issued ASU 2015-03, “*Simplifying the Presentation of Debt Issuance Costs*,” that requires the cost of issuing debt to be recorded as a reduction of the debt proceeds or a reduction of the debt liability, similar to the presentation of debt discounts. Prior to this ASU, debt issue costs were recorded as deferred costs, or long-term intangible assets. In August 2015, the FASB issued ASU 2015-15, “*Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*” that amended ASU 2015-03 to reflect the SEC staff’s position that it would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings under that line-of-credit arrangement.

We adopted ASU 2015-03, as amended by ASU 2015-15, as of the effective date of January 1, 2016. Debt issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. We chose to continue presentation of debt issue costs associated with our Revolver as an asset in accordance with ASU 2015-15. We have retrospectively accounted for the implementation of ASU 2015-03 and ASU 2015-15 as a change in accounting principle. Costs of the Revolver are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%.

Income Tax Valuation Allowances (Deferred Taxes)

We account for income taxes in accordance with FASB ASC Topic 740 *Income Taxes*.” In preparing our consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the tax implications are known. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such a determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

For financial reporting purposes, we recorded a valuation allowance of \$4.5 million as of December 31, 2016 and \$2.8 million as of December 31, 2015, to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. During the third quarter of 2016, we identified an error in our estimated valuation allowance for certain deferred tax assets. We recorded an out-of-period adjustment to increase our valuation allowance by \$1.6 million for a portion of the deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Income Taxes and Uncertain Tax Positions

We are subject to audit and review by various taxing jurisdictions. We may recognize liabilities on our financial statements for positions taken on uncertain tax positions. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others may be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, we believe it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. It is inherently difficult and subjective to estimate such amounts, as this requires us to make estimates based on the various possible outcomes.

We review and reevaluate uncertain tax positions on a quarterly basis. Changes in assumptions may result in the recognition of a tax benefit or an additional charge to the tax provision. During 2016, we recognized a net decrease of \$0.1 million in liabilities associated with uncertain tax positions. Accordingly, we have no liabilities for uncertain tax positions recorded at December 31, 2016. The \$0.1 million balance at December 31, 2015 included approximately \$21,000 of accrued interest, net of federal income tax benefits, and \$6,000 for the related penalties previously recorded in income tax expense. Our evaluation was performed for all tax years that remain subject to examination, which range from 2012 through 2015. There are currently no tax examinations in process.

Effective Tax Rate

Our provision for income tax as a percentage of operating income before taxes, or our effective tax rate, may be impacted by:

- (1) changes in the level of income in any of our taxing jurisdictions;
- (2) changes in statutes and rules applicable to taxable income in the jurisdictions in which we operate;
- (3) changes in the expected outcome of income tax audits;
- (4) changes in the estimate of expenses that are not deductible for tax purposes;
- (5) income taxes in certain states where the states' current taxable income is dependent on factors other than consolidated net income;
- (6) the addition of operations in states that on average have different income tax rates from states in which we currently operate, and
- (7) the effect of previously reported temporary differences between the and financial reporting bases of assets and liabilities.

Our annual effective tax rate may also be materially impacted by tax expense associated with non-amortizable assets such as broadcast licenses and goodwill as well as changes in the deferred tax valuation allowance. An impairment loss for financial statement purposes will result in an income tax benefit during the period incurred as the amortization of broadcasting licenses and goodwill is deductible for income tax purposes.

Reserves for Royalty Advances

Royalties due to book authors are paid in advance and capitalized. Royalties are expensed as the related book revenues are earned or when we determine that future recovery of the royalty is not likely. We reviewed historical data associated with royalty advances, earnings and recoverability based on actual results of Regnery Publishing. Historically, the longer the unearned portion of an advance remains outstanding, the less likely it is that we will recover the advance through the sale of the book. We apply this historical experience to outstanding royalty advances to estimate the likelihood of recovery. A provision was established to expense the balance of any unearned advance which we believe is not recoverable. Our analysis also considers other discrete factors, such as death of an author, any decision to not pursue publication of a title, poor market demand or other relevant factors. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Contingency Reserves

In the ordinary course of business, we are involved in various legal proceedings, lawsuits, arbitration and other claims which are complex in nature and have outcomes that are difficult to predict. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters.

We record contingency reserves to the extent we conclude that it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. The establishment of the reserve is based on a review of all relevant factors, the advice of legal counsel, and the subjective judgment of management. The reserves we have recorded to date have not been material to our consolidated financial position, results of operations or cash flows. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

While we believe that the final resolution of any known matters, individually and in the aggregate, will not have a material adverse effect upon our consolidated financial position, results of operations or cash flows, it is possible that we could incur additional losses. We maintain insurance that may provide coverage for such matters. Future claims against us, whether meritorious or not, could have a material adverse effect upon our consolidated financial position, results of operations or cash flows, including losses due to costly litigation and losses due to matters that require significant amounts of management time that can result in the diversion of significant operational resources. See Note 14 – Commitments and Contingencies.

Gain or Loss on the Sale or Disposal of Assets

We record gains or losses on the sale or disposal of assets equal to the proceeds, if any, as compared to the net book value. Exchange transactions are accounted for in accordance with FASB ASC Topic 845 “Non-Monetary Transactions.” During the year ended December 31, 2016, we recorded a \$1.9 million pre-tax gain which included a \$1.9 million gain on the sale of our Miami tower site and a \$0.7 million gain from a land easement in our South Carolina market offset by a \$0.4 million charge associated with leasehold improvements that were abandoned during the relocation of our offices in Washington D.C. market and various fixed asset disposals. During the year ended December 31, 2015, we recorded a \$0.2 million pre-tax loss which included a \$0.2 million charge associated with the relocation of our office and studio in our Seattle, Washington market offset by proceeds from various fixed asset and equipment disposals. During the year ended December 31, 2014, we recorded a \$0.3 million pre-tax loss which included a \$0.2 million loss associated with the write-off of a receivable from a prior station sale, a \$0.2 million loss from the sale of land and building in our Miami market, a \$0.1 million loss due to the relocation of our office and studio facility in our San Francisco market offset by \$0.1 million of insurance proceeds from a claim associated with one of our markets as well as other various fixed asset and equipment disposals.

Basic and Diluted Net Earnings Per Share

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

Options to purchase 1,720,000, 1,581,123 and 1,816,204 shares of Class A common stock were outstanding at December 31, 2016, 2015 and 2014, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company’s stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. The number of anti-dilutive shares as of December 31, 2016, 2015 and 2014 was 795,378, 589,437, and 705,163, respectively.

The following table sets forth the shares used to compute basic and diluted net earnings per share for the periods indicated:

	Year Ended December 31,		
	2014	2015	2016
Weighted average shares	25,336,809	25,426,732	25,669,538
Effect of dilutive securities - stock options	744,366	461,087	365,452
Weighted average shares adjusted for dilutive securities	26,081,175	25,887,819	26,034,990

Segments

We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which also qualify as reportable segments. Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assesses the performance of each operating segment and determines the appropriate allocations of resources to each segment. We continually review our operating segment classifications to align with operational changes in our business and may make changes as necessary.

We measure and evaluate our operating segments based on operating income and operating expenses that do not include allocations of costs related to corporate functions, such as accounting and finance, human resources, legal, tax and treasury, which are reported as unallocated corporate expenses in our consolidated statements of operations included in this annual report on Form 10-K. We also exclude costs such as amortization, depreciation, taxes and interest expense.

During the third quarter of 2016, we reclassified Salem Consumer Products, our e-commerce business that sells books, DVD's and editorial content developed by our on-air personalities, from our Digital Media segment to our Broadcast segment. This reclassification was to consolidate all revenue and expenses generated by on-air hosts, which includes broadcast programs and e-commerce product sales to better assess the financial performance of each network program. This reclassification did not impact the reporting units used to test non-amortizable assets for impairment. All prior periods presented are updated to reflect this new composition of our operating segments. Refer to Note 20 – Segment Data in the notes to our consolidated financial statements.

Variable Interest Entities

We may enter into agreements or investments with other entities that could qualify as variable interest entities (“VIEs”) in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 “*Consolidation*.” A VIE is consolidated in the financial statements if we are deemed to be the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE, either explicitly or implicitly. A VIE is an entity for which the primary beneficiary’s interest in the entity can change with variations in factors other than the amount of investment in the entity. We perform our evaluation for VIE’s upon entry into the agreement or investment. We re-evaluate the VIE when or if events occur that could change the status of the VIE.

We may enter into lease arrangements with entities controlled by our principal stockholders or other related parties. We believe that the requirements of FASB ASC Topic 810 do not apply to these entities because the lease arrangements do not contain explicit guarantees of the residual value of the real estate, do not contain purchase options or similar provisions and the leases are at terms that do not vary materially from leases that would have been available with unaffiliated parties. Additionally, we do not have an equity interest in the entities controlled by our principal stockholders or other related parties and we do not guarantee debt of the entities controlled by our principal stockholders or other related parties.

We also enter into Local Marketing Agreements (“LMAs”) or Time Brokerage Agreements (“TBAs”) contemporaneously with entering into an Asset Purchase Agreement (“APA”) to acquire or sell a radio station. Typically, both LMAs and TBAs are contractual agreements under which the station owner/licensee makes airtime available to a programmer/licensee in exchange for a fee and reimbursement of certain expenses. LMAs and TBAs are subject to compliance with the antitrust laws and the communications laws, including the requirement that the licensee must maintain independent control over the station and, in particular, its personnel, programming, and finances. The FCC has held that such agreements do not violate the communications laws as long as the licensee of the station receiving programming from another station maintains ultimate responsibility for, and control over, station operations and otherwise ensures compliance with the communications laws.

The requirements of FASB ASC Topic 810 may apply to entities under LMAs or TBAs, depending on the facts and circumstances related to each transaction. As of December 31, 2016, we did not have implicit or explicit arrangements that required consolidation under the guidance in FASB ASC Topic 810.

Concentrations of Business Risks

We derive a substantial part of our total revenues from the sale of advertising. For the years ended December 31, 2016, 2015 and 2014, 38.3%, 39.2% and 40.0% of our total broadcast revenues, respectively, were generated from the sale of broadcast advertising. We are particularly dependent on revenue from stations in the Los Angeles and Dallas markets, which generated 15.1% and 20.8% for the year ended December 31, 2016, 14.7% and 24.5% for the year ended December 31, 2015, and 14.3% and 24.0% for the year ended December 31, 2014. Because substantial portions of our revenues are derived from local advertisers in these key markets, our ability to generate revenues in those markets could be adversely affected by local or regional economic downturns.

Concentrations of Credit Risks

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents; trade accounts receivable and derivative instruments. We place our cash and cash equivalents with high quality financial institutions. Such balances may be in excess of the Federal Deposit Insurance Corporation insured limits. To manage the related credit exposure, we continually monitor the credit worthiness of the financial institutions where we have deposits. Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of customers and markets in which we provide services, as well as the dispersion of our operations across many geographic areas. We perform ongoing credit evaluations of our customers, but generally do not require collateral to support customer receivables. We establish an allowance for doubtful accounts based on various factors including the credit risk of specific customers, age of receivables outstanding, historical trends, economic conditions and other information. Historically, our bad debt expense has been within management’s expectations.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant areas for which management uses estimates include:

- asset impairments, including goodwill, broadcasting licenses, other indefinite-lived intangible assets, and assets held for sale;
- probabilities associated with the potential for contingent earn-out consideration;
- fair value measurements;
- contingency reserves;
- allowance for doubtful accounts;
- sales returns and allowances;
- barter transactions;
- inventory reserves;
- reserves for royalty advances;
- fair value of equity awards;
- self-insurance reserves;
- estimated lives for tangible and intangible assets;
- income tax valuation allowances; and
- uncertain tax positions.

These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications include the adoption of FASB Accounting Standards Update (“ASU”) 2015-03 and ASU 2015-15 and the reclassification of Salem Consumer Products from e-commerce (digital) to broadcast. Under ASU 2015-03 and 2015-15, debt issuance costs, with the exception of costs associated with obtaining line-of-credit arrangements, are reported as a reduction of the debt liability rather than as a deferred cost asset. The adoption of ASU 2015-03 and ASU 2015-15 is reported as a change in accounting principle and discussed in detail in Note 11 – Notes Payable. The reclassification of Salem Consumer Products, our e-commerce business that sells books, DVD’s and editorial content developed by our on-air personalities, was made to assess the performance of each network program based on all revenue sources. Refer to Note 20 – Segment Data for an explanation of this reclassification.

Out-of-Period Adjustment

During the third quarter of 2016, we identified an error in our valuation allowance for certain deferred tax assets. We recorded an adjustment to increase our estimated deferred tax valuation allowance by \$1.6 million for a portion of the deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized.

In evaluating the adjustment, we referred to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 99, including SAB Topic 1.M, which provides guidance on the assessment of materiality and states that “the omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.” We also referred to SAB 108 for guidance on considering the effects of prior year misstatements when quantifying misstatements in current year financial statements and the assessment of materiality.

Our analysis of the materiality of the adjustment was performed by reviewing quantitative and qualitative factors. We determined based on this analysis that the adjustment was not material to the current period and any prior periods.

Recent Accounting Pronouncements

Changes to accounting principles are established by the FASB in the form of ASUs to the FASB’s Codification. We consider the applicability and impact of all ASUs on our financial position, results of operations, cash flows, or presentation thereof. Described below are ASUs that are not yet effective, but may be applicable to our financial position, results of operations, cash flows, or presentation thereof. ASUs not listed below were assessed and determined to not be applicable to our financial position, results of operations, cash flows, or presentation thereof.

In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20)*, which clarifies the scope and application of ASC Topic 610-20 on accounting for the sale or transfer of nonfinancial assets, that is an asset with physical value such as real estate, equipment, intangibles or similar property. ASU 2017-05 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill in Step 2 of the goodwill impairment test. Under ASU 2017-04, goodwill impairment charges will be based on the excess of a reporting unit's carrying amount over its fair value as determined in Step 1 of the testing. ASU 2017-04 is effective for interim and annual testing dates after January 1, 2019, with early adoption permitted for interim and annual goodwill impairment testing dates after January 1, 2017. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323)* which amends the Codification to incorporate SEC staff views regarding recently issued accounting standards and investments in qualified affordable housing projects. The guidance requires registrants to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. ASU 2017-03 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years with early adoption permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We do not expect the adoption of ASU 2017-03 to impact our financial position, results of operations, cash flows, or presentation thereof.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations – Clarifying the Definition of a Business*, which clarifies the definition of a business for determining whether transactions should be accounted for as acquisitions or disposals of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2017-01 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In December 2016, the FASB issued ASU 2016-19 *Technical Corrections and Improvements*, which covers a wide range of topics in the Codification. The amendments in this update represent changes to clarify, correct errors, or make minor improvements to the Accounting Standards Codification. ASU 2016-19 is effective upon issuance for amendments that do not have transition guidance, and for fiscal years beginning after December 15, 2016, and interim periods within those years for all other amendments with early adoption permitted. The adoption of ASU 2016-19 did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In November 2016, the FASB issued ASU 2016-18, *Statements of Cash Flows (Topic 230): Restricted Cash* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We do not expect the adoption of ASU 2016-18 to have a material impact on our cash flows or presentation thereof.

In October 2016, the FASB issued ASU 2016-17, *Interests Held through Related Parties That Are under Common Control*, which amends the consolidation guidance in ASU 2015-02 regarding the treatment of indirect interests held through related parties that are under common control. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2016-17 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In October 2016, the FASB issued ASU 2016-16 *Intra-Entity Transfers of Assets Other Than Inventory*, which modifies existing guidance for the accounting for income tax consequences of intra-entity transfers of assets. This ASU requires entities to immediately recognize the tax consequences on intercompany asset transfers (excluding inventory) at the transaction date, rather than deferring the tax consequences under current GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, and interim reports within those fiscal years, with early adoption permitted only as of the first quarter of a fiscal year. We do not expect the adoption of ASU 2016-16 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing diversity in practice related to eight specific types of transactions. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2016-15 to have a material impact on our financial cash flows or presentation thereof.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*, which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today’s “incurred loss” model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption is permitted. We do not expect the adoption of ASU 2016-09 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires that lessees recognize a right-of-use asset and a lease liability for all leases with lease terms greater than twelve months in the balance sheet. ASU 2016-02 requires additional disclosures including the significant judgments made by management to provide insight into the revenue and expense to be recognized from existing contracts and the timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We have not yet determined the dollar impact of recording operating leases on our statement of financial position. The adoption of ASU 2016-02 will have a material impact on our financial position and the presentation thereof. Our existing credit facility stipulates that our covenants are based on GAAP as of the agreement date. Therefore, the material impact of recording right-to-use assets and lease liabilities on our statement of financial position is not expected to impact the compliance status for any covenant.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides updated guidance that enhances the reporting model for financial instruments, including amendments, to address aspects of recognition, measurement, presentation and disclosure. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. With the exception of the early application guidance applicable to certain entities, early adoption of the amendments is not permitted. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position, results of operations, cash flows, or presentation thereof.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption is permitted. The adoption of ASU 2015-17 is not expected to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, to reduce the complexity in accounting for inventory. This ASU requires entities to measure inventory at the lower of cost or net realizable value, replacing the market value approach that required floor and ceiling considerations. This guidance for public entities is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of ASU 2015-11 to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016, within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 respectively (ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 collectively, "Topic 606"). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. These estimates include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. The guidance is effective for us as of January 2018, the first interim period within fiscal years beginning on or after December 15, 2017, using either of two methods: (1) retrospective application of Topic 606 to each prior reporting period presented with the option to elect certain practical expedients as defined within Topic 606 or (2) retrospective application of Topic 606 with the cumulative effect of initially applying Topic 606 recognized at the date of initial application and providing certain additional disclosures as defined per Topic 606. We have developed a project plan for the implementation of ASC 606 and all related ASU's as of the effective date with further analysis planned during 2017 to complete the implementation plan. Based on our evaluation of a sample of revenue contracts with customers against the requirements of the standard, we believe that the reporting of revenue as principal (gross) or agent (net) will impact our consolidated financial statements. We may sell advertising that includes placement on third party websites that we currently report on a gross basis as principal due to having latitude in establishing the sales price and bearing credit risk. Under new guidance, we will report this revenue net as agent because the third party is primarily responsible for fulfilling the service. Preliminarily, we plan to adopt Topic 606 pursuant to the (1) retrospective application method of Topic 606 and we do not currently believe that there will be a material impact to our revenues upon adoption. We continue to evaluate the impact of our pending adoption of Topic 606 and our preliminary assessments are subject to change.

NOTE 2. IMPAIRMENT OF GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

We account for goodwill and other indefinite-lived intangible assets in accordance with FASB ASC Topic 350 *Intangibles—Goodwill and Other* that requires that we test for impairment at least annually or when events or circumstances indicates that they may be impaired. We do not amortize broadcast licenses, but rather test for impairment annually or more frequently if events or circumstances indicate that the value may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

Broadcast Licenses

We perform a qualitative assessment for each of our broadcast market clusters annually. We review the significant assumptions and key estimates applicable to our prior year estimated fair value calculations to assess if events and circumstances have occurred that could affect these assumptions and key estimates. We also review internal benchmarks and the economic performance for each market cluster to assess if it is more likely than not that impairment exists.

The first step of our qualitative assessment is to calculate excess fair value, or the amount by which our prior year estimated fair value exceeds the current year carrying value. We believe based on our analysis and review, including the financial performance of each market, that a 25% excess fair value margin is a conservative and reasonable benchmark for our qualitative analysis. Markets with an excess fair value of 25% or more, which have had no significant changes in the prior year assumptions and key estimates, are not likely to be impaired.

Of the eleven markets for which an independent third party fair value appraisal was obtained in the prior year, three markets were subject to testing in the current year. The table below presents the percentage within a range by which our prior year start-up income estimated fair value exceeds the current year carrying value of our broadcasting licenses:

	Geographic Market Clusters as of December 31, 2016			
	Percentage Range By Which 2015 Estimated Fair Value Exceeds 2016 Carrying Value			
	≤ 25%	>26%-50%	>50% to 75%	> than 75%
Number of accounting units	3	4	1	3
Broadcast license carrying value (in thousands)	\$ 108,374	\$ 49,738	\$ 27,878	\$ 15,650

We performed a quantitative analysis for 22 of our market clusters for which we did not obtain an independent third party fair value appraisal during our prior year annual testing period and 1 newly acquired market for which the fair value had been previously estimated as of the acquisition date during the prior year.

The second step of our qualitative assessment consists of a review of the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income ("SOI") defined as net broadcast revenue less broadcast operating expenses. See Item 6 – Selected Financial Data within this annual report for information on SOI, a non-GAAP measure. Numerous trade organizations and analysts review these radio station sales to track SOI multiples applicable to each transaction. Based on published reports and analysis of market transactions, we believe industry benchmarks to be in the six to seven times cash flow range. We elected an SOI benchmark of four as a conservative indicator of fair value. Using an SOI multiple to estimate fair value, we did not identify additional markets for further testing.

The table below shows the percentage within a range by which our estimated fair value exceeded the carrying value of our broadcasting licenses for these twenty three market clusters:

	Geographic Market Clusters as of December 31, 2016			
	Tested due to length of time from prior valuation – Percentage Range by Which Prior Valuation Exceeds 2016 Carrying Value			
	≤ 25%	>26%-50%	>50% to 100%	> than 100%
Number of accounting units	13	4	2	4
Broadcast license carrying value (in thousands)	\$ 166,107	\$ 10,635	\$ 9,904	\$ 6,771

We engaged Noble Financial, an independent third-party appraisal and valuation firm, to assist us in estimating the fair value of broadcast licenses in 25 of our market clusters. The estimated fair value of each market cluster was determined using the Greenfield Method, a form of the income approach. The premise of the Greenfield Method is that the value of an FCC license is equivalent to a hypothetical start-up in which the only asset owned by the station as of the valuation date is the FCC license. This approach eliminates factors that are unique to the operation of the station, including its format and historical financial performance. The method then assumes the entity has to purchase, build, or rent all of the other assets needed to operate a comparable station to the one in which the FCC license is being utilized as of the valuation date. Cash flows are estimated and netted against all start-up costs, expenses and investments necessary to achieve a normalized and mature state of operations, thus reflecting only the cash flows directly attributable to the FCC License. A multi-year discounted cash flow approach is then used to determine the net present value of these cash flows to derive an indication of fair value. For cash flows beyond the projection period, a terminal value is calculated using the Gordon constant growth model and long-term industry growth rate assumptions based on long-term industry growth and Gross Domestic Product (“GDP”) inflation rates.

The primary assumptions used in the Greenfield Method are:

- (1) gross operating revenue in the station’s designated market area,
- (2) normalized market share,
- (3) normalized profit margin,
- (4) duration of the “ramp-up” period to reach normalized operations, (which was assumed to be three years),
- (5) estimated start-up costs (based on market size),
- (6) ongoing replacement costs of fixed assets and working capital,
- (7) the calculations of yearly net free cash flows to invested capital; and
- (8) amortization of the intangible asset, the FCC license.

The assumptions used reflect those of a hypothetical market participant and not necessarily the actual or projected results of Salem. The key estimates and assumptions used in the start-up income valuation for our broadcast licenses were as follows:

Broadcast Licenses	December 31, 2014	December 31, 2015	December 31, 2016
Risk-adjusted discount rate	8.0%	8.0%	8.5%
Operating profit margin ranges	(13.9%) - 30.8%	(13.9%) - 30.8%	(13.9%) - 30.8%
Long-term market revenue growth rate ranges	1.5% - 2.5%	2.0%	1.9%

The risk-adjusted discount rate reflects the Weighted Average Cost of Capital (“WACC”) developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis, we determined that the carrying value of broadcast licenses in four of our market clusters were deemed to be impaired as of the annual testing period ending December 31, 2016. We recorded an impairment charge of \$6.5 million to the value of broadcast licenses in Cleveland, Dallas-Ft Worth, Detroit and Portland. There were no impairment charges during the testing periods ending December 31, 2015 or 2014. The impairment charge was driven by an increase in the WACC during the year ended December 31, 2016 as compared to the prior year. We believe that these trends are indicative of trends in the industry as a whole and not unique to our company or operations.

The table below presents the results of our impairment testing under the income approach for the 2016 annual testing period. Markets with a negative excess fair value were impaired as of the balance sheet date with corresponding adjustments to the FCC license value recorded.

Market Cluster	Excess Fair Value 2016 Estimate
Atlanta, GA	6.6%
Cleveland, OH	(6.4%)
Columbus, OH	47.1%
Dallas, TX	(1.0%)
Denver, CO	765.2
Detroit, MI	(3.3%)
Honolulu, HI	146.40%
Houston, TX	1,103.4%
Little Rock	345.4%
Los Angeles, CA	390.7%
Louisville, KY	14.6%
Miami FL	29.1%
Nashville, TN	193.0%

New York, NY	466.5%
Omaha NE	22.5%
Philadelphia, PA	86.3%
Phoenix, AZ	83.4%
Pittsburgh, PA	348.4%
Portland, OR	(9.6%)
San Antonio, TX	257.2%
San Diego, CA	37.8%
San Francisco, CA	21.8%
Seattle, WA	309.6%
St Louis	261.2%
Washington, D.C.	107.2%

Mastheads

We regularly perform quantitative reviews of our mastheads due to the low margin by which our estimated fair values have exceeded our carrying value, and ongoing operating results that have not met or exceeded our expectations. We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the fair value of our mastheads using a Relief from Royalty method, a form of the income approach.

The Relief from Royalty method estimates the fair value of mastheads through use of a discounted cash flow model that incorporates a hypothetical “royalty rate” that a third-party owner would be willing to pay in lieu of owning the asset. The royalty rate is based on observed royalty rates for comparable assets as of the measurement date. We adjust the selected royalty rate to account for a percentage of the royalty fee that could be attributed to the use of other intangibles, such as goodwill, time in existence, trade secrets and industry expertise. The adjusted royalty rate represents the royalty fee remaining that could be attributed to the use of the masthead only.

Pre-tax royalty income is based on a 10-year revenue forecast and assumed to carry on into perpetuity. Revenue beyond the projection period (terminal year) is based on estimated long-term industry growth rates. The analysis also incorporated the present value of the tax amortization benefit associated with the mastheads. The key estimates and assumptions are as follows:

Mastheads	December 31, 2014	December 31, 2015	December 31, 2016
Risk-adjusted discount rate	8.0%	8.0%	9.5%
Projected revenue growth ranges	(4.8%) – 1.4%	2.1% – 2.9%	(4.3%) – 1.2%
Royalty rate	3.0%	3.0%	3.0%

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis as of the December 2016 annual testing period, we recorded an impairment charge of \$0.5 million associated with the carrying value of mastheads. This impairment was driven by an increase in the WACC associated with the print magazine publishing business and declines in our forecasted revenue growth rates based on a continual erosion of operating results. The print magazine industry as a whole is impacted by the growth of digital-only publications, which are often free to readers or available at a significantly reduced cost to readers. We believe that the impairment is indicative of trends in the magazine publishing industry as a whole and is not unique to our company or publications.

Goodwill – Broadcast Radio Stations

Nineteen of our broadcast markets had goodwill associated with them as of December 31, 2016. Based on our review, we tested eight of these market clusters for impairment of goodwill during the annual testing period ending December 31, 2016. We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the enterprise value of our market clusters for the purpose of testing goodwill for impairment.

The key estimates and assumptions used for our enterprise valuations are as follows:

Enterprise Valuations	December 31, 2014 Broadcast Markets	December 31, 2015 Broadcast Markets	December 31, 2016 Broadcast Markets
Risk-adjusted discount rate	8.0%	8.0%	8.5%
Operating profit margin ranges	8.4% - 46.1%	49.7%	(18.5%) – 43.3%
Long-term revenue market growth rate ranges	1.0% - 5.0%	2.0%	1.9%

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis, we determined that no impairment charges were necessary to the carrying value of our broadcast market goodwill as of the annual testing period ending December 31, 2016, December 31, 2015, and December 31, 2014, respectively and that Step 2 was not necessary.

The tables below present the percentage within a range by which the estimated fair value exceeded the carrying value of each of our market clusters, including goodwill:

Broadcast Market Clusters as of December 31, 2016				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	<u>< 10%</u>	<u>>10% to 20%</u>	<u>>20% to 50%</u>	<u>> than 50%</u>
Number of accounting units	3	3	6	7
Carrying value including goodwill (<i>in thousands</i>)	93,978	\$ 27,714	\$ 124,464	\$ 71,270
Broadcast Market Clusters as of December 31, 2015				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	<u>< 10%</u>	<u>>10% to 20%</u>	<u>>20% to 50%</u>	<u>> than 50%</u>
Number of accounting units	3	3	2	11
Carrying value including goodwill (<i>in thousands</i>)	\$ 56,179	\$ 52,164	\$ 37,570	\$ 169,907
Broadcast Market Clusters as of December 31, 2014				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	<u>< 10%</u>	<u>>10% to 20%</u>	<u>>20% to 50%</u>	<u>> than 50%</u>
Number of accounting units	5	---	2	7
Carrying value including goodwill (<i>in thousands</i>)	\$ 81,507	\$ ---	\$ 27,636	\$ 84,693

Goodwill – Broadcast Networks

TCM, one of our five networks has goodwill associated with it as of our annual testing period ending December 31, 2016. We identified operating losses within TCM that indicated that the value of goodwill may be impaired. We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the enterprise of value our networks for the purpose of testing goodwill for impairment.

The key estimates and assumptions used for our enterprise valuations for each period tested are as follows:

Enterprise Valuations	December 31, 2015 Broadcast Networks	December 31, 2016 Broadcast Networks
Risk-adjusted discount rate	9.0%	9.5%
Operating profit margin ranges	(74.1) – (97.5%)	1.0% – 24.4%
Long-term revenue market growth rates	2.0%	1.9%

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on this review and analysis, we determined that the fair value of the reporting unit was more than the carrying value. No impairment charges were recorded and Step 2 was not necessary based on the results. We did not perform a sensitivity analysis for the current year certain key assumptions, as such changes in assumptions would have no impact on the carrying value of goodwill associated with our broadcast networks.

Goodwill – Digital Media

Five of our digital media businesses had goodwill associated with them as of our annual testing period ending December 31, 2016. We tested two of these entities for impairment based on an excess carrying value of less than 25%. The key estimates and assumptions used in the valuation of our digital media entities for each testing period are as follows:

Enterprise Valuation	December 31, 2014	December 31, 2015	December 31, 2016
Risk adjusted discount rate	8.0%	8.0% - 9.0%	8.5% - 9.5%
Operating profit margin ranges	(7.4%) - 34.9%	(8.9%) - 13.8%	(20.3%) - 8.2%
Long-term revenue market growth rate ranges	2.50%	2.0 - 3.0%	1.9% - 2.5%

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in the risk free rate and corporate borrowing interest rates during 2016 as compared to the prior year.

We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the enterprise of value these digital media businesses for the purpose of testing goodwill for impairment. Based on our review and analysis, we determined that the carrying value of our wellness business exceeded its fair value and Step 2 was necessary. Under Step 2, the implied fair value of the reporting unit, including goodwill, was estimated to determine the amount of the impairment. We recorded an impairment charge of \$32,000 to the carrying value of goodwill and an impairment charge of approximately \$8,000 to amortizable intangible assets. These impairment charges resulted from reductions in revenue forecasts for this business unit due to actual operating results to date that have not met expectations.

The table below presents the percentage within a range by which the estimated fair value exceeded the carrying value of our accounting units, including goodwill.

Digital Media Entities as of December 31, 2016				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	2	1	1	1
Carrying value including goodwill (<i>in thousands</i>)	\$ 811	\$ 3,910	\$ 28,285	\$ 941

Digital Media Entities as of December 31, 2015				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	1	–	–	4
Carrying value including goodwill (<i>in thousands</i>)	\$ 4,488	\$ –	\$ –	\$ 29,126

Digital Media Entities as of December 31, 2014				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	1	1	1	1
Carrying value including goodwill (<i>in thousands</i>)	\$ 4,649	\$ 6,118	\$ 385	\$ 26,101

Goodwill – Publishing

Two of our publishing entities had goodwill associated with them as of the annual testing period ending December 31, 2016. Based on actual operating results that did not meet our annual projections, we engaged Noble Financial, an independent third-party appraisal firm to assist us with estimating the enterprise value of one of these entities for the purpose of testing goodwill for impairment. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up. The key estimates and assumptions used for our enterprise valuations are as follows:

Enterprise Valuation	December 31, 2014	December 31, 2014	December 31, 2016
Risk adjusted discount rate	8.0%	8.0%	8.5%
Operating margin ranges	2.4% - 5.9%	4.2% - 6.2%	3.5% - 5.7%
Long-term revenue market growth rates	1.5%	2.0%	1.9%

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis of the enterprise estimated fair value, we determined that no impairment charges were necessary to the carrying value of goodwill associated with our publishing entities as of the annual testing period ending December 31, 2016 and that Step 2 was not necessary.

The table below presents the percentage within a range by which the estimated fair value exceeded the carrying value of our accounting units, including goodwill.

Publishing Accounting units as of December 31, 2016				
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill				
	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	2	–	–	–
Carrying value including goodwill (<i>in thousands</i>)	\$ 1,360	\$ –	\$ –	\$ –

Publishing Accounting units as of December 31, 2015
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value
Including Goodwill

	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	1	–	–	1
Carrying value including goodwill (<i>in thousands</i>)	\$ 854	\$ –	\$ –	\$ 2,453

Publishing Accounting units as of December 31, 2014
Percentage Range By Which Estimated Fair Value Exceeds Carrying Value
Including Goodwill

	< 10%	>10% to 20%	>20% to 50%	> than 50%
Number of accounting units	2	–	–	1
Carrying value including goodwill (<i>in thousands</i>)	\$ 3,417	\$ –	\$ –	\$ 2,314

We believe that we have made reasonable estimates and assumptions to calculate the estimated fair value of our indefinite-lived intangible assets, however, these estimates and assumptions are highly judgmental in nature. Actual results can be materially different from estimates and assumptions. If actual market conditions are less favorable than those projected by the industry or by us, or if events occur or circumstances change that would reduce the estimated fair value of our indefinite-lived intangible assets below the amounts reflected on our balance sheet, we may recognize future impairment charges, the amount of which may be material.

NOTE 3. IMPAIRMENT OF LONG-LIVED ASSETS

We account for property and equipment in accordance with FASB ASC Topic 360-10, *Property, Plant and Equipment*. We periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. Our review requires us to estimate the fair value of assets when events or circumstances indicate that they may be impaired. The fair value measurements for our long-lived assets use significant observable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material.

Based on changes in management's planned usage, we classified land in Covina, California as held for sale as of June 2012. At that time, we evaluated the land for impairment in accordance with guidance for impairment of long-lived assets held for sale. We determined that the carrying value of the land exceeded the estimated fair value less costs to sell and recorded an impairment charge of \$5.6 million associated with the land based on our estimated sale price at that time. In December 2012, after several purchase offers for the land were terminated, we obtained a third-party valuation for the land. Based on the fair value determined by the third-party, we recorded an additional impairment charge of \$1.2 million associated with the land. While we continue to market the land for sale and have no intention to use the land in our operations, we have not received successful offers. Based on the amount of time that the land has been held for sale, we obtained a third-party valuation for the land as of June 2016. Based on this fair value appraisal, we recorded an additional \$0.7 million impairment charge associated with the land during the period ending June 30, 2016.

The table below presents the fair value measurements used to value this asset.

Description	As of December 31, 2016	Fair Value Measurements Using:			Total Loss
		Quoted prices in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-Lived Asset Held for Sale	\$ 1,000			\$ 1,000	\$ (700)

NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

During the year ended December 31, 2016, we completed or entered into the following transactions:

Debt

On December 30, 2016, we paid \$5.0 million in principal on our term loan of \$300.0 million ("Term Loan B"), and paid interest due as of that date. We recorded a \$12,000 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$33,000 in bank loan fees associated with this principal prepayment.

On November 30, 2016, we paid \$1.0 million in principal on our Term Loan B, and paid interest due as of that date. We recorded a \$2,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$6,900 in bank loan fees associated with this principal prepayment.

On September 30, 2016, we paid \$2.3 million in principal on our Term Loan B, of which \$1.5 million was an early prepayment of principal, and paid interest due as of that date. We recorded a \$3,900 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$14,000 in bank loan fees associated with this principal prepayment.

On June 30, 2016, we paid \$1.2 million in principal on our Term Loan B, of which \$0.4 million was an early prepayment of principal, and paid interest due as of that date. We recorded a \$1,300 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$3,400 in bank loan fees associated with this principal prepayment.

On March 31, 2016, we paid the quarterly installment due of \$0.8 million in principal on our Term Loan B and paid interest due as of that date.

On March 17, 2016, we paid \$0.8 million in principal on our Term Loan B and paid interest due as of that date. We recorded a \$2,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$6,700 in bank loan fees associated with this principal repayment.

Equity

On December 7, 2016, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on December 31, 2016 to all Class A and Class B common stockholders of record as of December 19, 2016.

On September 9, 2016, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on September 30, 2016 to all Class A and Class B common stockholders of record as of September 19, 2016.

On June 2, 2016, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.6 million was paid on June 30, 2016 to all Class A and Class B common stockholders of record as of June 16, 2016.

On March 10, 2016, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on April 5, 2016 to all Class A and Class B common stockholders of record as of March 22, 2016.

Acquisitions — Broadcast

We acquired or entered agreements to acquire several FM Translators or FM Translator construction permits during the year. The FCC permits AM and FM radio stations to operate FM Translators. The FCC began an AM Revitalization program, or “AMR,” that included several initiatives intended to benefit AM broadcasters. One of these benefits, intended to promote the use of FM Translators by AM broadcasters, allows an AM station to relocate one FM translator up to 250 miles from its authorized site and operate the translator on any non-reserved band FM channel in the AM station’s market, subject to coverage and interference rules (“250 Mile Window”). On February 23, 2017, the FCC amended its rules to allow an AM station using a rebroadcasting FM translator to locate the FM translator anywhere within the AM station’s daytime service contour or anywhere within a 25-mile radius of the transmitter, even if the contour extends farther than 25 miles from the transmitter. This rule change, when it becomes effective, will be particularly useful for finding a location for these translators.

On January 29, 2016, the FCC opened a one-time only 250 Mile Window during which only Class C and Class D AM broadcast stations could participate. This window closed on July 28, 2016. A second window opened on July 29, 2016, allowing Class A and Class B AM broadcast stations to participate in addition to any Class C and Class D AM broadcast station that did not participate in the first 250 Mile Window. The second 250 Mile Window closed on October 31, 2016. During these filing windows, qualifying AM stations were able to apply for one new FM translator station, in the non-reserved FM band to be used solely to re-broadcast the AM station’s AM signal to provide fill-in and/or nighttime service. The FM translator must rebroadcast the related AM station for at least four years, not counting any periods of silence.

Construction permits provide authority to construct new FM Translators or make changes in existing facilities. We believe that securing these FM Translators allows us to increase our listening audience by providing enhanced coverage and reach of our existing AM broadcasts that can be heard on FM or expand the listenership of FM HD channels with the potential to create new stations using the HD-2, HD-3 and HD-4 channel capacity.

Our 2016 broadcast acquisitions include the following:

On December 31, 2016, we closed on the acquisition of an FM translator in Aurora, Florida for \$50,000 in cash. The FM translator will be used by our WHIM-AM radio station in Miami, Florida.

On December 31, 2016, we closed on the acquisition of an FM translator in Port St. Lucie, Florida for \$50,000 in cash. The FM translator will be used by our WLCC-AM radio station in Tampa, Florida.

On December 14, 2016, we closed on the acquisition of an FM translator in Rhinelander, Wisconsin for \$50,000 in cash. The FM translator will be used by our WWTC-AM radio station in Minneapolis, Minnesota.

On December 8, 2016, we closed on the acquisition of an FM translator in Little Fish Lake Valley, California for \$44,000 in cash. The FM translator will be used by our KFIA-AM radio station in Sacramento, California.

On December 1, 2016, we closed on the acquisition of an FM translator in Lake Placid, Florida for \$35,000 in cash. The FM translator will be used by our WTLN-AM radio station in Orlando, Florida.

On November 22, 2016, we closed on the acquisition of two FM translator construction permits in Lahaina, Hawaii and Kihei, Hawaii for \$110,000 in cash. The FM translators will be used by our KHNR-AM and KGU-AM radio stations in Honolulu, Hawaii.

On November 22, 2016, we closed on the acquisition of an FM translator in Crested Butte, Colorado for \$38,500 in cash. The FM translator will be used by our KZNT-AM radio station in Colorado Springs, Colorado.

On November 21, 2016, we closed on the acquisition of an FM translator in Dansville, New York for \$75,000 in cash. The FM translator will be used by our WMCA-AM radio station in New York, New York.

On November 21, 2016, we closed on the acquisition of an FM translator in Carbondale, Pennsylvania for \$75,000 in cash. The FM translator will be used by our WPGP-AM radio station in Pittsburgh, Pennsylvania.

On November 11, 2016, we closed on the acquisition of an FM translator construction permit in Kingsville, Texas for \$50,000 in cash. The FM translator will be used by our KNTH-AM radio station in Houston, Texas.

On November 7, 2016, we closed on the acquisition of an FM translator in Sebring, Florida for \$77,000 in cash. The FM translator will be used by our WKAT-AM radio station in Miami, Florida.

On October 20, 2016, we closed on the acquisition of radio station KXFN-AM in St. Louis, Missouri for \$190,000 in cash. The station was dark upon closing and launched on December 29, 2016. The accompanying consolidated statements of operations included in this annual report on Form 10-K reflect the operating results of this entity as of the closing date and launch date, respectively.

On October 20, 2016, we closed on the acquisition of three FM translator construction permits for \$155,000 in cash. The FM translator construction permits were based in Angola, Indiana, Cofax, Indiana and Battle Creek, Michigan and will be used by WHK-AM and WHKW-AM, our radio stations in Cleveland, Ohio and WSDZ-AM our radio station in St. Louis, Missouri.

On October 19, 2016, we closed on the acquisition of an FM translator construction permit in Palm Coast, Florida for \$65,000 in cash from a related party. The FM translator will be used by our WTWD-AM radio station in Tampa, Florida.

On October 12, 2016, we closed on the acquisition of an FM translator in Lake City, Florida for \$65,000 in cash from a related party. The FM translator will be used by our WBZW-AM radio station in Orlando, Florida.

On June 24, 2016, we entered into an LMA to operate radio station KTRB-AM in San Francisco, California beginning on July 1, 2016. The accompanying consolidated statements of operations included in this annual report on Form 10-K reflect the operating results of this entity as of the LMA date. On December 15, 2016, we entered into a new LMA to operate this station with East Bay Broadcasting, LLC, a related party.

On June 20, 2016, we closed on the acquisition of an FM translator in Columbus, Ohio market for \$0.3 million in cash. The FM translator is used in our Columbus, Ohio market.

On June 10, 2016, we closed on the acquisition of an FM translator in Amherst, New York for \$60,000 in cash. The FM translator is used in our Pittsburgh, Pennsylvania market.

On June 8, 2016, we closed on the acquisition of a construction permit for an FM translator construction permit in Charlotte, Michigan for \$50,000 in cash. The FM translator will be used in our Detroit, Michigan market.

On June 3, 2016, we closed on the acquisition of a construction permit for an FM translator in Atwood, Kentucky for \$88,000 in cash. The FM translator will be used in our Columbus, Ohio market.

On May 13, 2016, we closed on the acquisition of a construction permit for an FM translator in Kerrville, Texas for \$50,000 in cash. The FM translator will be used in our Houston, Texas market.

On May 2, 2016, we closed on the acquisition of an FM translator in Lincoln, Maine for \$100,000 in cash. The FM translator is used in our Boston, Massachusetts market.

On April 29, 2016, we closed on the acquisition of a construction permit for an FM translator in Emporia, Kansas for \$25,000 in cash. The FM translator will be relocated to Omaha, Nebraska, for use by our KCRO-AM radio station.

Acquisitions — Digital Media

On December 1, 2016, we acquired ChristianConcertAlerts.com for \$0.2 million, of which \$0.1 million was paid in cash upon close with the remaining \$50,000 being due in two installments within the next year. ChristianConcertAlerts.com provides Christian artists' tour dates and events across the United States. The website features a location-based calendar that includes over 300 artists and 4,000 venues created by editors and user submissions, as well as artist reviews and album news.

On October 17, 2016, we purchased Historyonthenet.com and Authentichistory.com for \$0.1 million. These websites and related social media accounts are operated within our Salem Web Network platform.

On September 13, 2016, we acquired Mike Turner's line of investment products, including TurnerTrends.com, other domain names and related assets for \$0.4 million in cash and the assumption of \$0.1 million in deferred subscription liabilities. As part of the purchase agreement, we may pay up to an additional \$0.1 million in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Turner's investment products to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$66,000, which approximates the discounted present value due to the earn-out of less than one year. Turner's investment products offer stock trading advisory newsletters to individual subscribers. We recorded goodwill of approximately \$7,200 associated with the expected synergies to be realized upon combining the operations of Turner's line of investment products into our digital media platform with Eagle Financial Publications and from brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

On April 1, 2016, we acquired the Retirement Watch newsletter and websites for \$0.1 million in cash and the assumption of \$0.6 million in deferred subscription liabilities. Retirement Watch offers non-individualized research and strategies associated with retirement planning. We recorded goodwill of approximately \$8,600 associated with the expected synergies to be realized upon combining the operations of Retirement Watch into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

On March 8, 2016, we acquired King James Bible mobile applications for \$4.0 million, of which \$2.7 million was paid in cash upon close and \$1.3 million is due in deferred installments within one year from the closing date. The deferred installments were amended on May 17, 2016 to include the \$0.3 million that was due upon finalization of banking arrangements with the deferred installments. The amended deferred payments of \$1.3 million now consist of \$0.6 million due within 90 days, \$0.3 million due within 180 days and two deferred payments of \$0.2 million each due 270 and 360 days from the closing date, respectively. During the year ended December 31, 2016, we have paid \$1.1 million in installments. We recorded goodwill of \$0.2 million associated with the expected synergies to be realized from combining the operations of these applications into our existing digital media platform. The accompanying consolidated statement of operations reflects the operating results of King James Bible mobile applications as of the closing date within our digital media operating segment.

Throughout the year ended December 31, 2016, we acquired other domain names and assets associated within our digital media operating segment for approximately \$3,000 in cash.

Acquisitions — Publishing

On August 1, 2016, we acquired the assets of Hillcrest Media Group, Inc. for \$3.5 million and the assumption of \$1.0 million in deferred revenue liabilities. We paid \$3.3 million in cash upon close with the remaining \$0.2 million due within 90 days upon the finalization of deferred revenue obligations. Hillcrest Media provides self-publishing services for general market authors and will be operated within our existing Xulon Press business. We recorded goodwill of approximately \$0.8 million associated with the expected synergies to be realized upon combining the operations of Hillcrest Media into our existing publishing platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

Throughout the year ended December 31, 2016, we acquired other domain names and assets associated within our publishing operating segment for approximately \$3,000 in cash.

A summary of our business acquisitions and asset purchases during the year ended December 31, 2016, none of which were individually or in the aggregate material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Consideration (Dollars in thousands)
December 31, 2016	FM translator, Aurora, Florida (asset purchase)	\$ 50
December 31, 2016	FM translator, Port St. Lucie, Florida (asset purchase)	50
December 14, 2016	FM translator, Rhinelander, Wisconsin (asset purchase)	50
December 8, 2016	FM translator, Little Fish Lake Valley, California (asset purchase)	44
December 1, 2016	FM translator, Lake Placid, Florida (asset purchase)	35
December 1, 2016	Christian Concerts Alerts, LLC (asset purchase)	150
November 22, 2016	FM translator construction permit, Kihei, Hawaii (asset purchase)	55
November 22, 2016	FM translator construction permit, Lahaina, Hawaii (asset purchase)	55
November 22, 2016	FM translator, Crested Butte, Colorado (asset purchase)	39
November 21, 2016	FM translator, Dansville, New York (asset purchase)	75
November 21, 2016	FM translator, Carbondale, Pennsylvania (asset purchase)	75
November 11, 2016	FM translator construction permit, Kingsville, Texas (asset purchase)	50
November 7, 2016	FM translator, Sebring, Florida (asset purchase)	77
October 20, 2016	KXFN-AM, St. Louis, Missouri (business acquisition)	190
October 20, 2016	FM translator construction permit, Angola, Indiana (asset purchase)	50
October 20, 2016	FM translator construction permit, Cofax, Indiana (asset purchase)	55
October 20, 2016	FM translator construction permit, Battle Creek, Michigan (asset purchase)	50
October 19, 2016	FM translator construction permit Palm Coast, Florida purchased from a related party (asset purchase)	65
October 17, 2016	Historyonthenet.com and Authenticistory.com (asset purchase)	85
October 12, 2016	FM translator Lake City, Florida purchased from a related party (asset purchase)	65
September 13, 2016	Mike Turner's investment products and domain names (business acquisition)	416
August 1, 2016	Hillcrest Media Group, Inc. (business acquisition)	3,515
June 20, 2016	FM translator, Columbus, Ohio (asset purchase)	345
June 10, 2016	FM translator, Amherst, New York (asset purchase)	60
June 8, 2016	FM translator construction permit, Charlotte, Michigan (asset purchase)	50
June 3, 2016	FM translator construction permit, Atwood, Kentucky (asset purchase)	88
May 13, 2016	FM translator construction permit, Kerrville, Texas (asset purchase)	50
May 2, 2016	FM translator, Lincoln, Maine (asset purchase)	100
April 29, 2016	FM translator construction permit, Emporia, Kansas (asset purchase)	25
April 1, 2016	Retirement Watch (business acquisition)	100
March 8, 2016	King James Bible mobile applications (business acquisition)	4,000
Various	Purchase of other domain names and assets (asset purchases)	6
		\$ 10,120

The operating results of our business acquisitions and asset purchases are included in our consolidated results of operations from their respective closing date or the date that we began operating them under an LMA or TBA. Under the acquisition method of accounting as specified in FASB ASC Topic 805, "Business Combinations," the total acquisition consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction.

Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. Acquisitions may include contingent consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts. We may retain a third-party appraiser to estimate the fair value of the acquired net assets as of the acquisition date. As part of the valuation and appraisal process, the third-party appraiser prepares a report assigning estimated fair values to the various asset categories in our financial statements. These fair value estimates are subjective in nature and require careful consideration and judgment. Management reviews the third party reports for reasonableness of the assigned values.

We believe that these valuations and analysis provide appropriate estimates of the fair value for the net assets acquired as of the acquisition date. These initial valuations are subject to refinement during the measurement period, which may be up to one year from the acquisition date. During this measurement period we may retroactively record adjustments to the net assets acquired based on additional information obtained for items that existed as of the acquisition date. Upon the conclusion of the measurement period any adjustments are reflected in our consolidated statements of operations. We have not to date recorded adjustments to our estimated fair values used in our acquisition consideration during or after the measurement period.

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment. Costs associated with acquisitions, such as consulting and legal fees, are expensed as incurred in corporate operating expenses. We recognized total costs associated with acquisitions of \$0.5 million during the year ended December 31, 2016 compared to \$0.3 million during the prior year, which are included in unallocated corporate expenses in the accompanying consolidated statements of operations.

The total acquisition consideration is equal to the sum of all cash payments, the fair value of any deferred payments and promissory notes, and the present value of any estimated contingent earn-out consideration. We estimate the fair value of contingent earn-out consideration using a probability-weighted discounted cash flow model. The fair value measurement is based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Note 12 - Fair Value Measurements.

The following table summarizes the total acquisition consideration for the year ended December 31, 2016:

Description	Total Consideration
	<i>(Dollars in thousands)</i>
Cash payments made upon closing	\$ 8,414
Deferred payments	1,640
Present value of estimated fair value of contingent earn-out consideration	66
Total acquisition consideration	\$ 10,120
Gain on bargain purchase	95
Fair value of net assets acquired	\$ 10,215

The fair value of the net assets acquired was allocated as follows:

	Net Broadcast Assets Acquired	Net Digital Media Assets Acquired	Net Publishing Assets Acquired	Net Total Assets Acquired
	<i>(Dollars in thousands)</i>			
Assets				
Trade accounts receivable, net of allowances of \$42	\$ —	\$ —	\$ 166	\$ 166
Property and equipment	224	405	271	900
Broadcast licenses	1,719	—	—	1,719
Goodwill	—	237	845	1,082
Domain and brand names	—	1,129	2,121	3,250
Customer lists and contracts	—	2,576	—	2,576
Subscriber base and lists	—	675	—	675
Author relationships	—	—	526	526
Non-compete agreements	—	289	716	1,005
Liabilities				
Deferred revenue	—	(642)	(1,042)	(1,684)
	<u>\$ 1,943</u>	<u>\$ 4,669</u>	<u>\$ 3,603</u>	<u>\$ 10,215</u>

Divestitures

In November 2016, we entered into an agreement with Word Broadcasting Network to transfer the operation of our Louisville radio stations (WFIA-AM; WFIA-FM; WGTK-AM) under a twenty-four month Time Brokerage Agreement (“TBA”) effective as of January 3, 2017. We collected \$0.5 million of cash from Word Broadcasting Network associated with an option for them to purchase these stations.

On September 1, 2016, we received \$0.7 million in cash associated with a land easement granted in our South Carolina market.

On June 10, 2016, we received \$2.5 million in cash from the National Park Service in exchange for its claim under eminent domain for our tower site in Miami, Florida. We recognized a pre-tax gain of \$1.9 million from this claim that is reported in (gain) loss on the sale or disposal of assets and we entered a limited terms of use agreement with the National Park Service to broadcast from the tower site for the next twenty years for a nominal fee.

Pending Transactions

We are programming radio station KHTE-FM, Little Rock, Arkansas, under a 36 month TBA that began on April 1, 2015. The TBA is extendable for up to 48 months. We have the option to acquire the station for \$1.2 million in cash during the TBA period. The accompanying consolidated statements of operations included in this annual report on Form 10-K reflect the operating results of this entity as of the TBA date.

FM translators or FM translator construction permits purchase agreements pending as of the year ended December 31, 2016, include the following:

Date APA Entered	Permit or ID	Authorized Site - Current	Purchase Price	Escrow Deposits	Date Closed	Market
<i>(Dollars in thousands)</i>						
7/25/2016	K283CA	Festus, Missouri *	40	8	-	St. Louis, Missouri
7/26/2016	K294CP	Roseburg, Oregon *	45	9	3/01/2017	Portland, Oregon
7/26/2016	K276FZ	Eaglemount, Washington *	40	8	-	Portland, Oregon
8/25/2016	K278BH	Astoria, Oregon	33	7	1/16/2017	Seattle, Washington
9/22/2016	K260CG	Mohave Valley, Arizona*	20	2	1/6/2017	Phoenix, Arizona
10/07/2016	K279CM	Quartz Site, Arizona *	20	2	-	To be determined

* Indicates that the purchase is for an FM translator construction permit.

During the year ended December 31, 2015, we completed or entered into the following transactions:

Debt

On January 30, 2015, we repaid \$2.0 million in principal on our current senior secured credit facility, consisting of a term loan of \$300.0 million (“Term Loan B”) and paid interest due as of that date. We recorded a \$15,000 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$27,000 in bank loan fees associated with the principal repayment.

Equity

On December 1, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on December 29, 2015 to all Class A and Class B common stockholders of record as of December 15, 2015.

On September 1, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on September 30, 2015 to all Class A and Class B common stockholders of record as of September 16, 2015.

On June 2, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on June 30, 2015 to all Class A and Class B common stockholders of record as of June 16, 2015.

On March 5, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.6 million was paid on March 31, 2015 to all Class A and Class B common stockholders of record as of March 17, 2015.

Acquisitions

On December 18, 2015, we acquired radio station WSDZ-AM in St. Louis, Missouri, for \$0.3 million in cash. We recorded a gain on bargain purchase of approximately \$0.8 million associated with this acquisition based on the estimated fair value of the net assets acquired as compared to our purchase price consideration. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 15, 2015, we acquired radio station KDIZ-AM in Minneapolis, Minnesota, for \$0.4 million in cash. We recorded a gain on bargain purchase of approximately \$0.3 million associated with this acquisition based on the estimated fair value of the net assets acquired as compared to our purchase price consideration. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 11, 2015, we acquired radio station WWMI-AM in Tampa, Florida, for \$0.8 million in cash. We recorded a gain on bargain purchase of approximately \$0.3 million associated with this acquisition based on the estimated fair value of the net assets acquired as compared to our purchase price consideration. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 8, 2015, we acquired radio station KDDZ-AM in Denver, Colorado, for \$0.6 million in cash. We recorded goodwill of approximately \$9,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 7, 2015, we acquired the Instapray mobile applications and a related website for \$0.1 million in cash.

On December 4, 2015, we acquired radio station KDZR-AM in Portland, Oregon, for \$0.3 million in cash. We recorded goodwill of approximately \$9,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On October 29, 2015, we acquired DividendYieldHunter.com for \$42,500 in cash, with \$21,250 paid at closing and \$21,250 payable in January 2016. DividendYieldHunter.com provides individuals with information about different classes of dividend-paying stocks including preferred stocks, bonds, Master Limited Partnerships (MLPs), Real Estate Investment Trusts (REITs) and more.

On October 1, 2015, we acquired radio station KKSP-FM in Little Rock, Arkansas for \$1.5 million in cash. We recorded goodwill of approximately \$16,000 associated with the going concern value of this radio station and expected synergies to be realized from combining the operations of this station into our existing cluster in this market. We began programming this station under a TBA as of April 1, 2015. The accompanying consolidated statements of operations reflect the operating results of this station as of TBA date within the broadcast operating segment.

On September 15, 2015, we acquired radio station KEXB-AM (formerly KMKI-AM) in Dallas, Texas, for \$3.0 million in cash. We recorded goodwill of approximately \$12,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On September 10, 2015, we acquired radio station WBIX-AM (formerly WMKI-AM) in Boston, Massachusetts, for \$0.5 million in cash. We recorded goodwill of approximately \$5,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On September 3, 2015, we acquired a Spanish Bible mobile applications and its related website and Facebook properties for \$0.5 million in cash. We recorded goodwill of approximately \$10,000 associated with the expected synergies to be realized from combining the operations of the Spanish Bible mobile applications into our digital media platform. The accompanying consolidated statements of operations reflect the operating results of these applications as of the closing date within the digital media operating segment.

On September 1, 2015, we acquired the DailyBible mobile applications, including all content, code and functionality, for \$1.5 million in cash. We recorded goodwill of approximately \$45,000 associated with the expected synergies to be realized from combining the operations of the DailyBible mobile applications into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying consolidated statements of operations reflect the operating results of these applications as of the closing date within the digital media operating segment.

On July 1, 2015, we acquired DividendInvestor.com for \$1.0 million in cash and the assumption of \$70,000 in deferred subscription liabilities. DividendInvestor.com is a website offering stock screening tools and dividend information for individual subscribers to obtain dividend information and data. We recorded goodwill of approximately \$82,000 associated with the expected synergies to be realized from combining the operations of DividendInvestor.com into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying consolidated statements of operations reflect the operating results of this business as of the closing date within the digital media operating segment.

On June 4, 2015, we acquired the Gene Smart Wellness e-commerce website for \$0.1 million in cash. Gene Smart Wellness products are complementary to our Eagle Wellness Products and are reported as digital revenue in our operating results as of the date of acquisition.

On May 12, 2015, we acquired radio station WPGP-AM (formerly WDDZ-AM) in Pittsburgh, Pennsylvania, for \$1.0 million in cash. We recorded goodwill of approximately \$5,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On May 7, 2015, we acquired radio station WDWD-AM in Atlanta, Georgia, for \$2.8 million in cash. We recorded goodwill of approximately \$5,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On May 6, 2015, we acquired domain names, mobile applications and code functionality for the Daily Bible Devotion for \$1.1 million in cash. Under terms of the APA, we may pay up to an additional \$0.3 million in contingent earn-out consideration payable over the next two years based upon on the achievement of certain benchmarks. The estimated fair value of the contingent earn-out consideration was recorded at the present value of \$0.1 million and is discussed in more detail in Note 5. We recorded goodwill of \$0.1 million associated with the expected synergies to be realized from combining the operations of the Daily Bible Devotional into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying consolidated statements of operations reflect the operating results of the Daily Bible Devotional as of the closing date within our digital media operating segment.

On April 7, 2015, we acquired land and real estate in Greenville, South Carolina, for \$0.2 million in cash.

On March 27, 2015, we acquired radio station WDYZ-AM in Orlando, Florida, for \$1.3 million in cash. We began operating this station under an APA as of December 10, 2014. We recorded goodwill of approximately \$3,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the APA date within the broadcast operating segment.

On February 6, 2015, we acquired Bryan Perry's Cash Machine and Bryan Perry's Premium Income financial publications ("Bryan Perry Newsletters") with assets valued at \$0.6 million and we assumed deferred subscription liabilities of \$0.4 million. We paid no cash to the seller upon closing. We recorded goodwill of approximately \$3,000 associated with the expected synergies to be realized from combining the operations of Bryan Perry Newsletters into our digital media platform. Future amounts payable to the seller are contingent upon net subscriber revenues over a two year period from the closing date, of which we will pay the seller 50%. There is no minimum or maximum contractual amount. The estimated fair value of the contingent earn-out consideration was recorded at the present value of \$0.2 million and is discussed in more detail in Note 5. The accompanying consolidated statements of operations reflect the operating results of the Bryan Perry newsletters as of the closing date within our digital media operating segment.

Throughout the year ended December 31, 2015, we acquired other domain names and assets associated with our digital media operating segment for approximately \$0.1 million in cash.

A summary of our business acquisitions and asset purchases for the year ended December 31, 2015, none of which were individually or in the aggregate material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Consideration <i>(Dollars in thousands)</i>
December 18, 2015	WSDZ-AM, St. Louis, Missouri (business acquisition)	\$ 275
December 15, 2015	KDIZ-AM, Minneapolis, Minnesota (business acquisition)	375
December 11, 2015	WWMI-AM, Tampa, Florida (business acquisition)	750
December 8, 2015	KDDZ-AM, Denver, Colorado (business acquisition)	550
December 7, 2015	Instapray mobile applications (asset acquisition)	118
December 4, 2015	KDZR-AM, Portland, Oregon (business acquisition)	275
October 29, 2015	DividendYieldHunter.com (asset acquisition)	43
October 1, 2015	KKSP-FM, Little Rock, Arkansas (business acquisition)	1,500
September 15, 2015	KEXB-AM (formerly KMKI-AM) Dallas, Texas (business acquisition)	3,000
September 10, 2015	WBIX-AM (formerly WMKI-AM), Boston, Massachusetts (business acquisition)	500
September 3, 2015	Spanish Bible mobile applications (business acquisition)	500
September 1, 2015	DailyBible mobile applications (business acquisition)	1,500
July 1, 2015	DividendInvestor.com (business acquisition)	1,000
June 4, 2015	Gene Smart Wellness (asset acquisition)	100
May 12, 2015	WPGP-AM (formerly WDDZ-AM), Pittsburgh, Pennsylvania (business acquisition)	1,000
May 7, 2015	WDWD-AM, Atlanta, Georgia (business acquisition)	2,750
May 6, 2015	Daily Bible Devotion mobile applications (business acquisition)	1,242
April 7, 2015	Land and Studio Building, Greenville, South Carolina (asset purchase)	201
March 27, 2015	WDYZ-AM, Orlando, Florida (business acquisition)	1,300
February 6, 2015	Bryan Perry Newsletters (business acquisition)	158
Various	Purchase of domain names and digital media assets (asset purchases)	134
		\$ 17,271

The following table summarizes the total acquisition consideration for the year ended December 31, 2015:

Description	Total Consideration <i>(Dollars in thousands)</i>
Cash payments	\$ 16,885
Escrow deposits paid in prior years	65
Cash payment due January 2016	21
Present value of estimated fair value contingent earn out consideration due 2016	176
Present value of estimated fair value contingent earn out consideration due 2017	124
Total acquisition consideration	<u>\$ 17,271</u>
Gain on bargain purchase	1,357
Fair value of net assets acquired	<u>\$ 18,628</u>

The fair value of the net assets acquired was allocated as follows:

	Net Broadcast Assets Acquired	Net Digital Media Assets Acquired	Net Assets Acquired
	<i>(Dollars in thousands)</i>		
Assets			
Property and equipment	\$ 7,845	649	8,494
Broadcast licenses	5,923	—	5,923
Goodwill	64	254	318
Customer lists and contracts	—	99	99
Domain and brand names	—	1,154	1,154
Subscriber base and lists	—	3,011	3,011
Non-compete agreements	—	146	146
Liabilities			
Deferred revenue liabilities assumed	—	(517)	(517)
	<u>\$ 13,832</u>	<u>4,796</u>	<u>18,628</u>

NOTE 5. CONTINGENT EARN-OUT CONSIDERATION

Our acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. The fair value of the contingent earn-out consideration is estimated as of the acquisition date at the present value of the expected contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments. The present value of the expected future payouts is accreted to interest expense over the earn-out period. The fair value estimates use unobservable inputs that reflect our own assumptions as to the ability of the acquired business to meet the targeted benchmarks and discount rates used in the calculations. The unobservable inputs are defined in FASB ASC Topic 820, "Fair Value Measurements and Disclosures," as Level 3 inputs discussed in detail in Note 12.

We review the probabilities of possible future payments to the estimated fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable. Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

Turner Investment Products

We acquired Mike Turner's line of investment products, including TurnerTrends.com and other domain names and related assets on September 13, 2016. We paid \$0.4 million in cash upon closing and may pay up to an additional \$0.1 million in contingent earn-out consideration payable over the next twelve months based on the achievement of certain revenue benchmarks. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Turner's investment products to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$66,000, which approximates the discounted present value due to the earn-out of less than one year. The discount is being accreted to interest expense over the one-year earn-out period. We believe that our experience with digital subscriptions and websites provides a reasonable basis for our estimates.

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual subscriber revenues achieved and projected to the estimated subscriber revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of \$0.1 million. During the period ending December 31, 2016, we recorded a net decrease of \$18,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

Daily Bible Devotion

We acquired Daily Bible Devotion mobile applications on May 6, 2015. We paid \$1.1 million in cash upon closing and may pay up to an additional \$0.3 million in contingent earn-out consideration payable over the next two years based upon on the achievement of cumulative session benchmarks for each mobile application. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Bible Devotional Applications to achieve the session benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$165,000, which was recorded at the discounted present value of \$142,000. The discount is being accreted to interest expense over the two-year earn-out period. We believe that our experience with digital mobile applications and websites provides a reasonable basis for our estimates.

We review the fair value of the contingent earn-out consideration quarterly over the two-year earn-out period to compare actual cumulative sessions achieved to the estimated cumulative sessions used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract, or \$0.3 million less amounts paid or expired to date. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the year ended December 31, 2016, we paid a total of \$75,000 to the seller as contingent earn-out consideration for achieving benchmarks during the earn-out period to date, which was less than our original estimates. Due to declines in the cumulative sessions achieved during the year ended December 31, 2016, we recorded a net decrease of \$114,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

Bryan Perry Newsletters

On February 6, 2015, we acquired the assets and assumed the deferred subscription liabilities for Bryan Perry Newsletters, paying no cash to the seller upon closing. Future contingent earn-out consideration due to the seller is based upon net subscriber revenues achieved over a two-year period from date of close, of which we will pay the seller 50%. There is no minimum or maximum contractual amount due. Using a probability-weighted discounted cash flow model based on our revenue projections at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$171,000, which we recorded at the discounted present value of \$158,000. The discount is being accreted to interest expense over the two-year earn-out period. We believe that our experience with digital publications and renewals provides a reasonable basis for our estimates.

We review the fair value of the contingent earn-out consideration quarterly over the two year earn-out period to compare actual subscription revenue earned to the estimated subscription revenue used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the year ended December 31, 2016, we paid a total of \$36,000 to the seller as contingent earn-out consideration for amounts earned, which was less than our original estimates. Due to declines in the number of subscriptions renewed during the year ended December 31, 2016, we recorded a net decrease of \$14,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

Eagle Publishing

On January 10, 2014, we acquired the entities of Eagle Publishing, including Regnery Publishing, HumanEvents.com, RedState.com, Eagle Financial Publications and Eagle Wellness. The base purchase price was \$8.5 million, with \$3.5 million paid in cash upon closing, and deferred payments of \$2.5 million each due January 2015 and January 2016. As part of the purchase agreement, we may pay up to an additional \$8.5 million of contingent earn-out consideration during the three year period from the closing date based upon the achievement of certain revenue benchmarks established for calendar years 2014, 2015 and 2016 for each of the Eagle entities. Using a probability-weighted discounted cash flow model based on the likelihood of achievement of the benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$2.4 million, which was recorded at the discounted present value of \$2.0 million. The discount was accreted to interest expense over the three-year earn-out period. We paid a total of \$0.9 million in cash for amounts due under the contingent earn-out over the three year earn out period and recognized a \$1.4 million net decrease in the contingent earn-out estimates over the term.

Twitchy.com

On December 10, 2013, we acquired Twitchy.com for \$0.9 million in cash paid upon closing and up to \$1.3 million in contingent earn-out consideration payable over a two-year period based upon the achievement of future page view targets. Using a probability-weighted discounted cash flow model based on the likelihood of achievement of the benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$0.8 million, which was recorded at the discounted present value of \$0.6 million. The discount was accreted to interest expense over the two-year earn out period ending December 31, 2015. We believe that our experience with digital content and websites provided a reasonable basis for our estimates.

The fair value of the contingent earn-out consideration was reviewed quarterly over the two year earn-out period. Changes in the estimated fair value of the contingent earn-out consideration were reflected in our results of operations in the period they were identified. Our results of operations for the years ending December 31, 2014 and 2015 reflect an increase of \$0.3 million and a decrease of \$0.5 million, respectively, for changes in the estimated fair value of the contingent earn-out consideration based upon actual page views that differed from those estimated in our forecasts. Declines in page views during the second half of 2015 were greater than in other periods which we believe resulted from changes in the Facebook algorithm that drives traffic to our sites. We paid a total of \$0.6 million in cash for amounts due under the contingent earn-out over the two-year period.

The following table reflects the changes in the present value of our acquisition-related estimated contingent earn-out consideration for the years ending December 31, 2016 and 2015.

	Twelve Months Ended December 31, 2016		
	Short-Term	Long-Term	Total
	Accrued Expenses	Other Liabilities	
	<i>(Dollars in thousands)</i>		
Beginning Balance as of January 1, 2016	\$ 173	\$ 602	\$ 775
Acquisitions	66	—	66
Accretion of acquisition-related contingent earn-out consideration	17	8	25
Change in the estimated fair value of contingent earn-out consideration	(635)	(54)	(689)
Reclassification of payments due in next 12 months to short-term	556	(556)	—
Payments	(111)	—	(111)
Ending Balance as of December 31, 2016	<u>\$ 66</u>	<u>\$ —</u>	<u>\$ 66</u>

	Twelve Months Ended December 31, 2015		
	Short-Term	Long-Term	Total
	Accrued Expenses	Other Liabilities	
	<i>(Dollars in thousands)</i>		
Beginning Balance as of January 1, 2015	\$ 1,575	\$ 1,710	\$ 3,285
Acquisitions	176	124	300
Accretion of acquisition-related contingent earn-out consideration	60	49	109
Change in the estimated fair value of contingent earn-out consideration	(1,269)	(446)	(1,715)
Reclassification of payments due in next 12 months to short-term	835	(835)	—
Payments	(1,204)	—	(1,204)
Ending Balance as of December 31, 2015	<u>\$ 173</u>	<u>\$ 602</u>	<u>\$ 775</u>

NOTE 6. INVENTORIES

Inventories consist of finished goods including books from Regnery Publishing and wellness products. All inventories are valued at the lower of cost or market as determined on a First-In First-Out (“FIFO”) cost method and reported net of estimated reserves for obsolescence.

The following table provides details of inventory on hand by segment:

	As of December 31, 2015	As of December 31, 2016
	<i>(Dollars in thousands)</i>	
Regnery Publishing book inventories	\$ 2,186	\$ 2,473
Reserve for obsolescence – Regnery Publishing	(1,798)	(2,104)
Inventory, net - Regnery Publishing	<u>388</u>	<u>369</u>
Wellness products	\$ 562	\$ 423
Reserve for obsolescence – Wellness products	(57)	(122)
Inventory, net - Wellness products	<u>505</u>	<u>301</u>
Consolidated inventories, net	<u>\$ 893</u>	<u>\$ 670</u>

NOTE 7. BROADCAST LICENSES

The following table presents the changes in broadcasting licenses that include acquisitions of radio stations and FM translators as discussed in Note 4 of our consolidated financial statements.

Broadcast Licenses	As of December 31, 2015	As of December 31, 2016
	<i>(Dollars in thousands)</i>	
Balance, beginning of period before cumulative loss on impairment	\$ 484,727	\$ 492,032
Accumulated loss on impairment	(99,001)	(99,001)
Balance, beginning of period after cumulative loss on impairment	<u>385,726</u>	<u>393,031</u>
Acquisitions of radio stations	5,923	74
Acquisitions of FM translators	276	1,645
Capital projects to improve broadcast signal and strength	1,106	307
Impairments based on estimated fair value of broadcast licenses	—	(6,540)
Balance, end of period before cumulative loss on impairment	\$ 492,032	\$ 494,058
Accumulated loss on impairment	(99,001)	(105,541)
Balance, end of period after cumulative loss on impairment	<u>\$ 393,031</u>	<u>\$ 388,517</u>

NOTE 8. GOODWILL

The following table presents the changes in goodwill including acquisitions of multiple radio stations, digital entities and Hillcrest Media within our publishing segment.

Goodwill	As of December 31, 2015		As of December 31, 2016	
	<i>(Dollars in thousands)</i>			
Balance, beginning of period before cumulative loss on impairment,	\$	26,242	\$	26,560
Accumulated loss on impairment		(1,558)		(1,997)
Balance, beginning of period after cumulative loss on impairment		24,684		24,563
Acquisitions of radio stations		64		—
Acquisitions of digital media entities		254		237
Acquisitions of publishing entities		—		845
Impairment charge during year		(439)		(32)
Balance, end of period before cumulative loss on impairment		26,560		27,642
Accumulated loss on impairment		(1,997)		(2,029)
Ending period balance	\$	24,563	\$	25,613

NOTE 9. PROPERTY AND EQUIPMENT

The following is a summary of the categories of our property and equipment:

	As of December 31,	
	2015	2016
	<i>(Dollars in thousands)</i>	
Land	\$ 32,679	\$ 32,402
Buildings	29,099	29,070
Office furnishings and equipment	39,071	37,386
Office furnishings and equipment under capital lease obligations	228	228
Antennae, towers and transmitting equipment	83,943	84,144
Antennae, towers and transmitting equipment under capital lease obligations	795	795
Studio, production and mobile equipment	30,598	28,668
Computer software and website development costs	28,134	20,042
Record and tape libraries	55	27
Automobiles	1,298	1,373
Leasehold improvements	15,333	14,696
Construction-in-progress	6,632	9,983
	\$ 267,865	\$ 258,814
Less accumulated depreciation	(162,382)	(156,024)
	\$ 105,483	\$ 102,790

Depreciation expense was approximately \$12.2 million, \$12.4 million and \$12.6 million for the years ended December 31, 2016, 2015, and 2014, respectively, which includes depreciation of \$53,000 for each of these years on a radio station tower valued at \$0.8 million under a capital lease obligation. Accumulated depreciation associated with the capital lease was \$517,000, \$464,000 and \$411,000 at December 31, 2016, 2015 and 2014, respectively.

NOTE 10. AMORTIZABLE INTANGIBLE ASSETS

The following tables provide a summary of our significant classes of amortizable intangible assets:

	As of December 31, 2016		
	Cost	Accumulated Amortization	Net
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 22,599	\$ (20,070)	\$ 2,529
Domain and brand names	19,821	(12,970)	6,851
Favorable and assigned leases	2,379	(1,972)	407
Subscriber base and lists	7,972	(5,304)	2,668
Author relationships	2,771	(1,824)	947
Non-compete agreements	2,018	(1,012)	1,006
Other amortizable intangible assets	1,336	(1,336)	—
	\$ 58,896	\$ (44,488)	\$ 14,408

	As of December 31, 2015		
	Cost	Accumulated	Net
		Amortization	
<i>(Dollars in thousands)</i>			
Customer lists and contracts	\$ 20,009	\$ (18,914)	\$ 1,095
Domain and brand names	16,619	(11,200)	5,419
Favorable and assigned leases	2,379	(1,887)	492
Subscriber base and lists	7,313	(3,808)	3,505
Author relationships	2,245	(1,523)	722
Non-compete agreements	1,034	(786)	248
Other amortizable intangible assets	1,336	(1,336)	—
	<u>\$ 50,935</u>	<u>\$ (39,454)</u>	<u>\$ 11,481</u>

Amortization expense was approximately \$5.1 million, \$5.3 million and \$6.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. Based on the amortizable intangible assets as of December 31, 2016, we estimate amortization expense for the next five years to be as follows:

Year ended December 31,	Amortization Expense
<i>(Dollars in thousands)</i>	
2017	\$ 4,356
2018	3,917
2019	3,347
2020	2,056
2021	503
Thereafter	229
Total	<u>\$ 14,408</u>

NOTE 11. LONG-TERM DEBT

Salem Media Group, Inc. has no independent assets or operations, the subsidiary guarantees are full and unconditional and joint and several, and any subsidiaries of Salem Media Group, Inc. other than the subsidiary guarantors are minor.

Term Loan B and Revolving Credit Facility

On March 14, 2013, we entered into a senior secured credit facility, consisting of a term loan of \$300.0 million (“Term Loan B”) and a revolving credit facility of \$25.0 million (“Revolver”). The Term Loan B was issued at a discount for total net proceeds of \$298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. During the year ended December 31, 2015 and 2016, respectfully, approximately \$0.2 million, respectively, of the discount was been recognized as interest expense.

The Term Loan B has a term of seven years, maturing in March 2020. During this term, the principal amount may be increased by up to an additional \$60.0 million, subject to the terms and conditions of the credit agreement. We are required to make principal payments of \$750,000 per quarter as of September 30, 2013. Prepayments may be made against the outstanding balance of our Term Loan B with each prepayment applied ratably to each of the next four principal installments due within 12 months of the prepayment date in the direct order of maturity and thereafter to the remaining principal balance in reverse order of maturity.

We have made prepayments on our Term Loan B, including interest due through the date of the repayment as follows:

Date	Principal Paid	Unamortized Discount
<i>(Dollars in Thousands)</i>		
December 30, 2016	\$ 5,000	\$ 12
November 30, 2016	1,000	3
September 30, 2016	1,500	4
September 30, 2016	750	—
June 30, 2016	441	1
June 30, 2016	750	—
March 31, 2016	750	—
March 17, 2016	809	2
January 30, 2015	2,000	15

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," that requires the cost of issuing debt to be recorded as a reduction of the debt proceeds or a reduction of the debt liability, similar to the presentation of debt discounts. Prior to this ASU, debt issue costs were recorded as deferred costs, or long-term intangible assets. In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting" that amended ASU 2015-03 to reflect the SEC staff's position that it would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are outstanding borrowings under that line-of-credit arrangement.

We adopted ASU 2015-03, as amended by ASU 2015-15, as of the effective date, or fiscal years beginning after December 31, 2015. We chose to continue presentation of debt issue costs associated with our Revolver as an asset in accordance with ASU 2015-15. We have retrospectively accounted for the implementation of ASU 2015-03 and ASU 2015-15 as a change in accounting principle. We have reclassified debt issue costs reported on our December 31, 2015 consolidated balance sheet as follows:

	December 31, 2015	
	(Dollars in thousands)	
	As Reported	As Updated ASU 2015-03
Balance Sheet Line Items:		
Term Loan B	\$ 273,136	\$ 274,000
Less: Unamortized discount based on imputed interest rate of 4.78%	—	(864)
Less: Unamortized debt issuance costs based on imputed interest rate of 4.78%	—	(2,361)
Term Loan B net carrying value	273,136	270,775
Revolver	3,306	3,306
Capital leases and other loans	674	674
	\$ 277,116	\$ 274,755
Less current portion	(5,662)	(5,662)
Long-term debt and capital lease obligations less unamortized discount and debt issuance costs, net of current portion	\$ 271,454	\$ 269,093
Deferred financing costs	\$ 2,512	\$ 151

Debt issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For the years ended December 31, 2015 and 2016, approximately \$0.6 million, of the debt issue costs associated with the Term Loan B were recognized as interest expense.

Debt issue costs associated with our Revolver are recorded as an asset in accordance with ASU 2015-15. These costs are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%. For each of the twelve months ended December 31, 2015 and 2016, we recorded amortization of deferred financing costs of approximately \$0.1 million each.

The Revolver has a term of five years, maturing in March 2018. We report outstanding balances on our Revolver as short-term based on use of the Revolver to fund ordinary and customary operating cash needs with repayments made frequently. We believe that the borrowing capacity under our Term Loan B and Revolver allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months.

Borrowings under the Term Loan B may be made at LIBOR (subject to a floor of 1.00%) plus a spread of 3.50% or Wells Fargo Bank, National Association's ("Wells Fargo") base rate plus a spread of 2.50%. Borrowings under the Revolver may be made at LIBOR or Wells Fargo's base rate plus a spread determined by reference to our leverage ratio, as set forth in the pricing grid below. If an event of default occurs under the credit agreement, the applicable interest rate may increase by 2.00% per annum. At December 31, 2016, the blended interest rate on amounts outstanding under the Term Loan B and Revolver including the impact of the interest rate swap agreement was 5.08%.

Pricing Level	Consolidated Leverage Ratio	Revolver Pricing	
		Base Rate Loans	LIBOR Loans
1	Less than 3.00 to 1.00	1.250%	2.250%
2	Greater than or equal to 3.00 to 1.00 but less than 4.00 to 1.00	1.500%	2.500%
3	Greater than or equal to 4.00 to 1.00 but less than 5.00 to 1.00	1.750%	2.750%
4	Greater than or equal to 5.00 to 1.00 but less than 6.00 to 1.00	2.000%	3.000%
5	Greater than or equal to 6.00 to 1.00	2.500%	3.500%

The obligations under the credit agreement and the related loan documents are secured by liens on substantially all of the assets of Salem and its subsidiaries, other than certain exceptions set forth in the Security Agreement, dated as of March 14, 2013, among Salem, the subsidiary guarantors party thereto, and Wells Fargo, as Administrative Agent (the "Security Agreement") and such other related loan documents.

With respect to financial covenants, the credit agreement includes a minimum interest coverage ratio, which started at 1.50 to 1.0 and stepped up to 2.50 to 1.0 and a maximum leverage ratio, which started at 6.75 to 1.0 and steps down to 5.75 to 1.0 by 2017. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the credit agreement, restrict the ability of Salem and its subsidiary guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; or (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party. As of December 31, 2016, our leverage ratio was 4.96 to 1 compared to our compliance covenant of 6.00 and our interest coverage ratio was 3.57 compared to our compliance ratio of 2.50. We were in compliance with our debt covenants under the credit facility at December 31, 2016.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	December 31, 2015	December 31, 2016
	<i>(Dollars in thousands)</i>	
Term Loan B principal amount	\$ 274,000	\$ 263,000
Less unamortized discount and debt issuance costs based on imputed interest rate of 4.78%	(3,225)	(2,371)
Term Loan B net carrying value	<u>270,775</u>	<u>260,629</u>
Revolver	3,306	477
Capital leases and other loans	<u>674</u>	<u>568</u>
	274,755	261,674
Less current portion	<u>(5,662)</u>	<u>(590)</u>
	<u>\$ 269,093</u>	<u>\$ 261,084</u>

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of December 31, 2016:

- Outstanding borrowings of \$263.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%.
- Outstanding borrowings of \$0.5 million under the Revolver, with interest payments due at LIBOR plus 3.00% or at prime rate plus 2.00%.
- Commitment fees of 0.50% on any unused portion of the Revolver.
- Quarterly interest payments on \$150.0 million notional amount interest rate swap agreement with Wells Fargo based on a LIBOR floor of 0.625% and a fixed rate of 1.645%.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2015 and 2016 represents the present value of future commitments under the capital lease agreements.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at December 31, 2016 for each of the next five years and thereafter are as follows:

	Amount
For the Twelve Months Ended December 31,	<i>(Dollars in thousands)</i>
2017	\$ 590
2018	3,105
2019	3,103
2020	254,735
2021	120
Thereafter	21
	<u>\$ 261,674</u>

NOTE 12. FAIR VALUE MEASUREMENTS AND DISCLOSURES

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

- *Level 1 Inputs*—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- *Level 2 Inputs*—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- *Level 3 Inputs*—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

As of December 31, 2016, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments.

We have certain assets that are measured at fair value on a non-recurring basis that are adjusted to fair value only when the carrying values exceed the fair values. The categorization of the framework used to price the assets is considered Level 3 due to the subjective nature of the unobservable inputs used when estimating the fair value. During the fourth quarter of 2016, we estimated the fair value of broadcast licenses and mastheads using significant unobservable inputs (Level 3). We adjusted four of our broadcast market clusters and mastheads to their estimated fair value and recorded a combined impairment loss of \$7.0 million. See Note 2 – Impairment of Goodwill and Other Indefinite Lived Intangible Assets.

The following table summarizes the fair value of our financial assets and liabilities that are measured at fair value:

	December 31, 2016			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
<i>(Dollars in thousands)</i>				
Assets				
Estimated fair value of broadcast licenses	388,517			123,109
Estimated fair value of other indefinite-lived intangible assets	332			332
Liabilities:				
Estimated fair value of contingent earn-out consideration included in accrued expenses	66	—	—	66
Long-term debt and capital lease obligations less unamortized discount and debt issuance costs	261,674	—	261,674	—
Fair value of interest rate swap	514	—	514	—

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of contingent earn-out consideration is estimated as the present value of the expected contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments. These fair value estimates use unobservable inputs that reflect our own assumptions as to the ability of the acquired business to meet the targeted benchmarks and discount rates used in the calculations. The carrying value of long-term debt and capital lease obligations approximates the fair value as the related interest rates approximate rates currently available to the company for similar debt instruments of comparable maturity. The fair value of the interest rate swap is based on market quotes from a major financial institution taking into consideration the most recent market activity.

NOTE 13. INCOME TAXES

We recognize deferred tax assets and liabilities for future tax consequences attributable to differences between our consolidated financial statement carrying amount of assets and liabilities and their respective tax bases. We measure these deferred tax assets and liabilities using enacted tax rates expected to apply in the years in which these temporary differences are expected to reverse. We recognize the effect on deferred tax assets and liabilities resulting from a change in tax rates in income in the period that includes the date of the change.

For financial reporting purposes, we recorded a valuation allowance of \$4.5 million as of December 31, 2016 to offset \$4.2 million of the deferred tax assets related to the state net operating loss carryforwards and \$0.3 million associated with asset impairments. During the third quarter of 2016, we identified an error in our estimated valuation allowance for certain deferred tax assets. We recorded an out-of-period adjustment to increase our valuation allowance by \$1.6 million for a portion of the deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized. For financial reporting purposes, we recorded a valuation allowance of \$2.8 million as of December 31, 2015 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards.

A summary of changes in the gross amount of unrecognized tax benefits is as follows:

	December 31, 2016
	<i>(Dollars in thousands)</i>
Balance at January 1, 2016	\$ 100
Additions based on tax positions related to the current year	—
Additions based on tax positions related to prior years	—
Reductions related to tax positions of prior years	—
Decrease due to statute expirations	(73)
Related interest and penalties, net of federal tax benefits	(27)
Balance as of December 31, 2016	<u>\$ —</u>

The consolidated provision for income taxes is as follows:

	December 31,		
	2014	2015	2016
	<i>(Dollars in thousands)</i>		
Current:			
Federal	\$ —	\$ —	\$ —
State	269	249	229
	<u>269</u>	<u>249</u>	<u>229</u>
Deferred:			
Federal	3,932	6,234	4,938
State	564	212	(595)
	<u>4,496</u>	<u>6,446</u>	<u>4,343</u>
Provision for income taxes	<u>\$ 4,765</u>	<u>\$ 6,695</u>	<u>\$ 4,572</u>

Consolidated deferred tax assets and liabilities consist of the following:

	December 31,	
	2015	2016
	<i>(Dollars in thousands)</i>	
Deferred tax assets:		
Financial statement accruals not currently deductible	\$ 9,699	\$ 9,324
Net operating loss, AMT credit and other carryforwards	71,593	71,215
State taxes	114	87
Other	3,785	3,394
Total deferred tax assets	85,191	84,020
Valuation allowance for deferred tax assets	(2,771)	(4,487)
Net deferred tax assets	<u>\$ 82,420</u>	<u>\$ 79,533</u>
Deferred tax liabilities:		
Excess of net book value of property and equipment and software for financial reporting purposes over tax basis	\$ 2,826	\$ 2,096
Excess of net book value of intangible assets for financial reporting purposes over tax basis	127,078	128,988
Interest rate swap	(315)	(193)
Unrecognized tax benefits	100	—
Other	—	—
Total deferred tax liabilities	129,689	130,891
Net deferred tax liabilities	<u>\$ (47,269)</u>	<u>\$ (51,358)</u>

The following table reconciles the above net deferred tax liabilities to the financial statements:

	December 31,	
	2015	2016
	<i>(Dollars in thousands)</i>	
Deferred income tax asset per balance sheet	\$ 9,813	\$ 9,411
Deferred income tax liability per balance sheet	(57,082)	(60,769)
	<u>\$ (47,269)</u>	<u>\$ (51,358)</u>

A reconciliation of the statutory federal income tax rate to the provision for income tax is as follows:

	Year Ended December 31,		
	2014	2015	2016
	<i>(Dollars in thousands)</i>		
Statutory federal income tax rate (at 35%)	\$ 3,584	\$ 6,246	\$ 4,706
Effect of state taxes, net of federal	292	458	(486)
Permanent items	613	445	266
State rate change	166	23	(1,664)
Valuation allowance	84	(181)	1,763
Other, net	26	(296)	(13)
Provision for income taxes	\$ 4,765	\$ 6,695	\$ 4,572

At December 31, 2016, we had net operating loss carryforwards for federal income tax purposes of approximately \$150.7 million that expire in 2020 through 2034 and for state income tax purposes of approximately \$1,021.2 million that expire in years 2017 through 2036. For financial reporting purposes at December 31, 2016 we had a valuation allowance of \$4.5 million, net of federal benefit, to offset \$4.2 million of the deferred tax assets related to the state net operating loss carryforwards and \$0.3 million associated with asset impairments. Our evaluation was performed for tax years that remain subject to examination by major tax jurisdictions, which range from 2012 through 2015.

The amortization of our indefinite-lived intangible assets for tax purposes but not for book purposes creates deferred tax liabilities. A reversal of deferred tax liabilities may occur when indefinite-lived intangibles: (1) become impaired; or (2) are sold, which would typically only occur in connection with the sale of the assets of a station or groups of stations or the entire company in a taxable transaction. Due to the amortization for tax purposes and not book purposes of our indefinite-lived intangible assets, we expect to continue to generate deferred tax liabilities in future periods exclusive of any impairment losses in future periods. These deferred tax liabilities and net operating loss carryforwards result in differences between our provision for income tax and cash paid for taxes.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company enters into various agreements in the normal course of business that contain minimum guarantees. These minimum guarantees are often tied to future events, such as future revenue earned in excess of the contractual level. Accordingly, the fair value of these arrangements is zero.

The Company also records contingent earn-out consideration representing the estimated fair value of future liabilities associated with acquisitions that may have additional payments due upon the achievement of certain performance targets. The fair value of the contingent earn-out consideration is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the expected payment amounts. We review the probabilities of possible future payments to estimate the fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable. Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

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. We evaluate claims based on what we believe to be both probable and reasonably estimable. With the exception of the matter described below, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. The company maintains insurance that may provide coverage for such matters.

In April 2016, pursuant to a counterclaim to a collection suit initiated by Salem, an award was issued against Salem for breach of contract and attorney fees. While we have filed an appeal against the award as well as a malpractice lawsuit against the lawyer that represented Salem in the suit, we recorded a legal reserve of \$0.5 million as of March 31, 2016. This reserve represents the total possible loss contingency without third party recoveries from our appeal, malpractice lawsuit or insurance claims. There have been no changes in our estimates as of the date of this filing.

The company believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the Company's consolidated financial position, results of operations or cash flows.

Salem leases various land, offices, studios and other equipment under operating leases that generally expire over the next ten to twenty-five years. The majority of these leases are subject to escalation clauses and may be renewed for successive periods ranging from one to five years on terms similar to current agreements and except for specified increases in lease payments. Rental expense included in operating expense under all lease agreements was \$19.8 million, \$19.1 million and \$17.9 million in 2016, 2015 and 2014, respectively.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016, are as follows:

	Related Parties	Other	Total
	<i>(Dollars in thousand)</i>		
2017	\$ 1,560	\$ 11,698	\$ 13,258
2018	852	11,282	12,134
2019	592	10,601	11,193
2020	606	10,033	10,639
2021	591	8,533	9,124
Thereafter	5,712	32,109	37,821
	<u>\$ 9,913</u>	<u>\$ 84,256</u>	<u>\$ 94,169</u>

NOTE 15. STOCK INCENTIVE PLAN

Our Amended and Restated 1999 Stock Incentive Plan (the “Plan”) provides for grants of equity-based awards to employees, non-employee directors and officers, and advisors of the company (“Eligible Persons”). The Plan is designed to promote the interests of the company using equity investment interests to attract, motivate, and retain individuals.

A maximum of 5,000,000 shares of common stock are authorized under the Plan. All awards have restriction periods tied primarily to employment and/or service. The Plan allows for accelerated or continued vesting in certain circumstances as defined in the Plan including death, disability, a change in control, and termination or retirement. The company Board of Directors, or a committee appointed by the Board, has discretion subject to limits defined in the Plan, to modify the terms of any outstanding award.

The Plan does not allow insiders, or key employees and directors to exercise awards during pre-defined blackout periods. Insiders may participate in plans established pursuant to Rule 10b5-1 under the Exchange Act that allow them to exercise awards subject to pre-established criteria.

We recognize non-cash stock-based compensation expense based on the estimated fair value of awards in accordance with FASB ASC Topic 718 “*Compensation—Stock Compensation*.” Stock-based compensation expense fluctuates over time as a result of the vesting periods for outstanding awards and the number of awards that actually vest.

The following table reflects the components of stock-based compensation expense recognized in the Consolidated Statements of Operations for the years ended December 31, 2014, 2015 and 2016:

	Year Ended December 31,		
	2014	2015	2016
	<i>(Dollars in thousands)</i>		
Stock option compensation expense included in corporate expenses	\$ 1,025	\$ 474	\$ 378
Restricted stock shares compensation expense included in corporate expenses	—	34	24
Stock option compensation expense included in broadcast operating expenses	325	130	85
Stock option compensation expense included in Internet operating expenses	165	92	60
Stock option compensation expense included in publishing operating expenses	61	41	35
Total stock-based compensation expense, pre-tax	\$ 1,576	\$ 771	\$ 582
Tax benefit (expense) from stock-based compensation expense	(630)	(308)	(233)
Total stock-based compensation expense, net of tax	<u>\$ 946</u>	<u>\$ 463</u>	<u>\$ 349</u>

Stock option and restricted stock grants

Eligible employees may receive stock option awards annually with the number of shares and type of instrument generally determined by the employee’s salary grade and performance level. Incentive and non-qualified stock option awards allow the recipient to purchase shares of the company common stock at a set price, not to be less than the closing market price on the date of award, for no consideration payable by the recipient. The related number of shares underlying the stock option is fixed at the time of the grant. Options generally vest over a four-year period with a maximum term of five years from the vesting date. In addition, certain management and professional level employees may receive stock option awards upon the commencement of employment.

The Plan also allows for awards of restricted shares, which are typically granted annually to non-employee directors of the company. Awards granted to non-employee directors are made in exchange for their services to the company as directors and therefore, the guidance in FASB ASC Topic 505-50 “*Equity Based Payments to Non Employees*” is not applicable. Restricted stock awards contain transfer restrictions under which they cannot be sold, pledged, transferred or assigned until the period specified in the award, generally one to five years. Restricted stock awards are independent of option grants and are granted at no cost to the recipient other than applicable taxes owed by the recipient. The awards are considered issued and outstanding from the date of grant.

The fair value of each award is estimated as of the date of the grant using the Black-Scholes valuation model. The expected volatility reflects the consideration of the historical volatility of our stock as determined by the closing price over a six to ten year term commensurate with the expected term of the award. Expected dividends reflect the amount of quarterly distributions authorized and declared on our Class A and Class B common stock as of the grant date. The expected term of the awards are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the award are based on the U.S. Treasury yield curve in effect during the period the options were granted. We use historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the valuation model.

The weighted-average assumptions used to estimate the fair value of the stock options and restricted stock awards using the Black-Scholes valuation model were as follows for the years ended December 31, 2014, 2015 and 2016:

	Year Ended December 31,		
	2014	2015	2016
Expected volatility	74.98%	52.37%	47.03%
Expected dividends	2.70%	4.28%	5.36%
Expected term (in years)	7.8	3.0	7.4
Risk-free interest rate	2.27%	0.85%	1.64%

Activity with respect to the company's option awards during the three years ended December 31, 2015 is as follows (Dollars in thousands, except weighted average exercise price and weighted average grant date fair value):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2014	2,162,067	\$ 5.09	\$ 3.57	5.5 years	\$ 8,491
Granted	25,000	8.40	4.73		—
Exercised	(278,837)	4.38	3.43		1,260
Forfeited or expired	(92,026)	12.25	7.89		43
Outstanding at December 31, 2014	<u>1,816,204</u>	\$ 4.88	\$ 3.39	4.8 years	\$ 5,718
Exercisable at December 31, 2014	<u>663,417</u>	5.32	3.90	3.0 years	2,015
Expected to Vest	1,094,574	\$ 4.62	\$ 3.10	5.9 years	\$ 3,515
Outstanding at January 1, 2015	1,816,204	\$ 4.88	\$ 3.39	5.5 years	\$ 5,718
Granted	10,000	6.08	1.98		—
Exercised	(163,994)	2.35	1.53		589
Forfeited or expired	(81,087)	10.32	6.93		12
Outstanding at December 31, 2015	<u>1,581,123</u>	\$ 4.87	\$ 3.39	4.3 years	\$ 1,738
Exercisable at December 31, 2015	<u>947,573</u>	4.92	3.54	3.3 years	1,001
Expected to Vest	601,557	\$ 4.80	\$ 3.15	5.6 years	\$ 700
Outstanding at January 1, 2016	1,581,123	\$ 4.87	\$ 3.39	4.3 years	\$ 1,738
Granted	549,500	4.85	1.33		—
Exercised	(336,996)	2.95	2.02		1,418
Forfeited or expired	(73,627)	8.06	3.07		3
Outstanding at December 31, 2016	<u>1,720,000</u>	\$ 5.12	\$ 2.89	4.5 years	\$ 2,428
Exercisable at December 31, 2016	<u>841,625</u>	5.56	3.94	2.9 years	948
Expected to Vest	834,017	\$ 5.11	\$ 2.91	4.5 years	\$ 1,442

The aggregate intrinsic value represents the difference between the company's closing stock price on December 31, 2016 of \$6.25 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the years ended December 31, 2016, 2015 and 2014 was \$1.1 million, \$1.5 million and \$1.9 million, respectively.

Non-employee directors of the company have been awarded restricted stock grants that vest one year from the date of issuance. During the twelve months ended December 31, 2015, the company granted restricted stock awards to non-employee directors that vest one year from the date of issuance. These restricted stock awards contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until the sooner of the fifth anniversary from the grant date or the day after the non-employee director is no longer a member of the company's board. The restricted stock awards were independent of option grants and were granted at no cost to the recipient other than applicable taxes owed by the recipient. The awards were considered issued and outstanding from the date of grant.

The fair values of shares of restricted stock awards are determined based on the closing price of the company's common stock on the grant dates. Activity with respect to the company's restricted stock awards during the year ended December 31, 2016 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Non-Vested at January 1, 2016	10,000	\$ 5.83	0.2 years	\$ 40
Granted	—	—	—	—
Lapsed	(10,000)	(5.83)	—	52
Forfeited or expired	—	—	—	—
Outstanding at December 31, 2016	—	\$ —	—	\$ —

As of December 31, 2016, there was \$0.4 million of total unrecognized compensation cost related to non-vested awards of stock options. This cost is expected to be recognized over a weighted-average period of 2.0 years.

Additional information regarding options outstanding as of December 31, 2016, is as follows:

Range of Exercise Prices	Options	Weighted Average Contractual Life Remaining (Years)	Weighted Average Exercise Price	Exercisable Options	Weighted Average Grant Date Fair Value
\$2.38 - \$2.56	147,375	2.4	\$ 2.38	147,375	\$ 2.38
\$2.57 - \$4.42	290,500	4.6	2.76	86,500	2.80
\$4.43 - \$4.85	541,000	6.7	4.85	—	—
\$4.86 - \$6.65	91,250	1.7	5.30	86,250	5.33
\$6.66 - \$7.54	619,875	3.6	6.92	506,750	6.92
\$7.55 - \$8.76	30,000	4.8	8.37	14,750	8.37
	1,720,000	4.5	\$ 5.12	841,625	\$ 5.56

NOTE 16. RELATED PARTY TRANSACTIONS

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

On December 15, 2016, we entered into a related party LMA with East Bay Broadcasting, LLC, a company owned by Edward G. Atsinger III, Chief Executive Officer and Stuart W. Epperson, Chairman of the Board, to operate radio station KTRB-AM in San Francisco, California. We had been operating the station under an LMA agreement with an unrelated third party as of June 24, 2016. Our Nominating and Corporate Governance Committee reviewed the related party LMA and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party.

On October 19, 2016, we acquired a construction permit for an FM translator in Palm Coast, Florida for \$65,000 in cash from Delmarva Educational Association Corporation, a related party entity which Nancy A. Epperson, the wife of the Chairman of the Board, and Stuart W. Epperson Jr., the son of the Chairman of the Board, serve as directors. The FM translator will be used by our WTWD-AM radio station in Tampa, Florida.

On October 12, 2016, we acquired an FM translator in Lake City, Florida for \$65,000 in cash from Delmarva Educational Association Corporation, a related party entity which Nancy A. Epperson, the wife of the Chairman of the Board, and Stuart W. Epperson Jr., the son of the Chairman of the Board, serve as directors. The FM translator will be used by our WBZW-AM radio station in Orlando, Florida.

Leases with Principal Stockholders

A trust controlled by the Chief Executive Officer of the company, Edward G. Atsinger III, owns real estate on which assets of one radio station are located. Salem has entered into a lease agreement with this trust. Rental expense related to this lease included in operating expense for 2016, 2015 and 2014 amounted to \$185,000, \$180,000 and \$175,000, respectively.

Land and buildings occupied by various Salem radio stations are leased from entities owned by the company's CEO and its Chairman of the Board. Rental expense under these leases included in operating expense for 2016, 2015 and 2014 amounted to \$1.5 million, \$1.3 million and \$1.3 million, respectively.

On September 2, 2016, we entered into a related party lease with trusts created for the benefit of Edward G. Atsinger III, Chief Executive Officer, and Stuart W. Epperson, Chairman of the Board. The lease is for real property located in East Carondelet, Illinois that is used as the night site location for KXFN-AM in our St. Louis, Missouri market. Our Nominating and Corporate Governance Committee reviewed the lease and lease terms and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party.

On March 2, 2016, we entered into a related party lease with trusts created for the benefit of Edward G. Atsinger III, Chief Executive Officer, and Stuart W. Epperson, Chairman of the Board. The lease is for real property located in Brighton, Colorado that is used to operate radio station KNUS-AM in our Denver, Colorado market. Our Nominating and Corporate Governance Committee reviewed the lease and lease terms and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party.

Radio Stations Owned by the Epperson's

Nancy A. Epperson, the wife of the Chairman of the Board, Stuart W. Epperson, currently serves as an officer, director and stockholder of six radio stations in Virginia, five radio stations in North Carolina, and five radio stations in Florida. Chesapeake-Portsmouth Broadcasting Corporation ("Chesapeake-Portsmouth") is a company controlled by Nancy Epperson, wife of Salem's Chairman of the Board Stuart W. Epperson and sister of CEO Edward G. Atsinger III. Chesapeake-Portsmouth owns and operates radio stations WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida and WZAZ-AM, Jacksonville, Florida.

The markets where these radio stations are located are not currently served by stations owned and operated by the company. Under his employment agreement, Mr. Epperson is required to offer the company a right of first refusal of opportunities related to the company's business.

Radio Stations Owned by Mr. Hinz

Mr. Hinz, a director of the company, through companies or entities controlled by him, operates three radio stations in Southern California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language.

Truth For Life—Mr. Riddle

Truth For Life is a non-profit organization that is a customer of Salem Media Group, Inc. During 2016, 2015 and 2014, the company billed Truth For Life approximately \$2.2 million, respectively, for airtime on its stations. Mr. Riddle, a director of the company, joined the Truth for Life board in October 2010 and remains a member of this board.

Know the Truth - Mr. Riddle

Know the Truth is a non-profit organization that is a customer of Salem Media Group, Inc. During 2016, 2015 and 2014, the company billed Know the Truth approximately \$0.4 million, \$0.4 million and \$0.5 million, respectively, for airtime on its stations. Mr. Riddle, a director of the company, joined the Know the Truth board in 2010 and remains a member of this board.

The Truth Network – Stuart W. Epperson Jr.

The Truth Network provides original and broadcast Christian radio that is a customer of Salem Media Group, Inc. During 2016, the company billed The Truth Network approximately \$11,000 for airtime on its stations. Mr. Epperson Jr., is the CEO and President of the company.

Split-Dollar Life Insurance

Salem has maintained split-dollar life insurance policies for its Chairman and Chief Executive Officer since 1997. Since 2003, the company has been the owner of the split-dollar life insurance policies and is entitled to recover all of the premiums paid on these policies. The company records an asset based on the lower of the aggregate premiums paid or the insurance cash surrender value. The premiums were \$386,000 for each of the years ended December 31, 2016, 2015 and 2014. As of December 31, 2016, 2015, and 2014, the company recorded the net cash surrender value of these policies as assets of \$1.0 million, \$0.6 million and \$0.2 million, respectively. The cumulative premiums paid on these policies were \$2.6 million, \$2.5 million and \$1.9 million, respectively. Benefits above and beyond the cumulative premiums paid will go to the beneficiary trusts established by each of the Chairman and Chief Executive Officer.

Transportation Services Supplied by Atsinger Aviation

From time to time, the company rents aircraft from a company owned by Edward G. Atsinger III, Chief Executive Officer and director of Salem. As approved by the independent members of the company's board of directors, the company rents these aircraft on an hourly basis at what the company believes are market rates and uses them for general corporate needs. Total rental expense for these aircraft for 2016, 2015 and 2014 amounted to approximately \$301,000, \$133,000 and \$274,000, respectively.

NOTE 17. DEFINED CONTRIBUTION PLAN

We maintain a 401(k) defined contribution plan (the "401(k) Plan"), which covers all eligible employees (as defined in the 401(k) Plan). Participants are allowed to make non-forfeitable contributions up to 60% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The company match is currently 50% on the first 5% of the amounts contributed by each participant. During the years ending December 31, 2016, 2015 and 2014, the company contributed and expensed \$1.9 million, \$1.9 million and \$1.7 million, respectively, into the 401(k) Plan.

NOTE 18. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, "Compensation-Stock Compensation." As a result, \$0.6 million, \$0.8 million and \$1.6 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the years ended December 31, 2016, 2015, and 2014, respectively.

While we intend to pay regular quarterly distributions, the actual declaration of such future distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. The current policy of the Board of Directors is to review each of these factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations included with this annual report on Form 10-K.

The following table shows distributions that have been declared and paid since January 1, 2015:

Announcement Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)
December 7, 2016	December 31, 2016	\$ 0.0650	\$ 1,678
September 9, 2016	September 30, 2016	\$ 0.0650	\$ 1,679
June 2, 2016	June 30, 2016	\$ 0.0650	\$ 1,664
March 10, 2016	April 5, 2016	\$ 0.0650	\$ 1,657
December 1, 2015	December 29, 2015	\$ 0.0650	\$ 1,656
September 1, 2015	September 30, 2015	\$ 0.0650	\$ 1,655
June 2, 2015	June 30, 2015	\$ 0.0650	\$ 1,654
March 5, 2015	March 31, 2015	\$ 0.0650	\$ 1,647

Based on the number of shares of Class A and Class B currently outstanding, we expect to pay total annual distributions of approximately \$6.8 million for the year ended December 31, 2017.

NOTE 19. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

The following table sets forth selected financial results of the company on a quarterly basis.

	March 31		June 30		September 30		December 31	
	2015	2016	2015	2016	2015	2016	2015	2016
	<i>(Dollars in thousands, except per share data)</i>							
Total revenue	\$ 61,856	\$ 64,575	\$ 67,293	\$ 67,779	\$ 67,491	\$ 71,272	\$ 69,147	\$ 70,695
Operating income	5,703	6,083	9,254	9,702	8,800	8,835	9,265	3,458
Net income	\$ 295	\$ 353	\$ 3,523	\$ 3,356	\$ 2,077	\$ 2,192	\$ 5,255	\$ 2,972
Basic earnings per share Class A and Class B common stock	\$ 0.01	\$ 0.01	\$ 0.14	\$ 0.13	\$ 0.08	\$ 0.08	\$ 0.20	\$ 0.11
Diluted earnings per share Class A and B Class common stock	\$ 0.01	\$ 0.01	\$ 0.14	\$ 0.13	\$ 0.08	\$ 0.08	\$ 0.20	\$ 0.11
Weighted average Class A and Class B shares outstanding – basic	25,346,499	25,485,234	25,429,127	25,551,445	25,459,962	25,815,242	25,471,342	25,826,230
Weighted average Class A and Class B shares outstanding – diluted	25,921,118	25,802,958	25,829,493	26,052,649	25,907,651	26,183,182	25,893,015	26,101,172

NOTE 20. SEGMENT DATA

FASB ASC Topic 280, "*Segment Reporting*," requires companies to provide certain information about their operating segments. We have three operating segments: (1) Broadcast, (2) Digital Media and (3) Publishing.

During the third quarter of 2016, we reclassified Salem Consumer Products, our e-commerce business that sells books, DVD's and editorial content developed by our on-air personalities, from our Digital Media segment to our Broadcast segment. With this reclassification, all revenue and expenses generated by on-air hosts, including broadcast programs and e-commerce product sales are consolidated to assess the financial performance of each network program.

Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assess the performance of each operating segment and determine the appropriate allocations of resources to each segment. We continue to review our operating segment classifications to align with operational changes in our business and may make future changes as necessary.

We measure and evaluate our operating segments based on operating income and operating expenses that do not include allocations of costs related to corporate functions, such as accounting and finance, human resources, legal, tax and treasury; nor do they include costs such as amortization, depreciation, taxes or interest expense. Changes to our operating segments did not impact the reporting units used to test non-amortizable assets for impairment. All prior periods presented are updated to reflect the new composition of our operating segments. Segment performance, as defined by Salem, is not necessarily comparable to other similarly titled captions of other companies.

The table below presents financial information for each operating segment as of December 31, 2016, 2015 and 2014 based on the new composition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
<i>(Dollars in thousands)</i>					
Year Ended December 31, 2016					
Net revenue	\$ 202,016	\$ 46,777	\$ 25,528	\$ —	\$ 274,321
Operating expenses	146,283	36,290	26,209	14,994	223,776
Net operating income (loss) before depreciation, amortization, impairments, change in estimated fair value of contingent earn-out consideration (gain) loss on the sale or disposal of assets	\$ 55,733	\$ 10,487	\$ (681)	\$ (14,994)	\$ 50,545
Depreciation	7,592	3,092	675	846	12,205
Amortization	86	4,304	680	1	5,071
Impairment of long-lived assets	700	—	—	—	700
Impairment of indefinite-lived long-term assets other than goodwill	6,540	—	501	—	7,041
Impairment of goodwill	—	32	—	—	32
Impairment of amortizable intangible assets	—	8	—	—	8
Change in estimated fair value of contingent earn-out consideration	—	(146)	(543)	—	(689)
(Gain) loss on the sale or disposal of assets	(2,122)	236	(21)	6	(1,901)
Operating income (loss)	\$ 42,937	\$ 2,961	\$ (1,973)	\$ (15,847)	\$ 28,078
Year Ended December 31, 2015					
Net revenue	\$ 197,184	\$ 44,761	\$ 23,842	\$ —	\$ 265,787
Operating expenses	140,819	35,380	24,774	15,146	216,119
Net operating income (loss) before depreciation, amortization, impairments, change in estimated fair value of contingent earn-out consideration (gain) loss on the sale or disposal of assets	\$ 56,365	\$ 9,381	\$ (932)	\$ (15,146)	\$ 49,668
Depreciation	7,726	3,091	637	963	12,417
Amortization	96	4,685	542	1	5,324
Impairment of goodwill	439	—	—	—	439
Change in estimated fair value of contingent earn-out consideration	—	(478)	(1,237)	—	(1,715)
(Gain) loss on the sale or disposal of assets	219	11	(58)	9	181
Operating income (loss)	\$ 47,885	\$ 2,072	\$ (816)	\$ (16,119)	\$ 33,022
Year Ended December 31, 2014					
Net revenue	\$ 194,094	\$ 45,691	\$ 26,751	\$ —	\$ 266,536
Operating expenses	139,206	35,590	26,143	17,092	218,031
Net operating income (loss) before depreciation, amortization, impairments, change in estimated fair value of contingent earn-out consideration (gain) loss on the sale or disposal of assets	\$ 54,888	\$ 10,101	\$ 608	\$ (17,092)	\$ 48,505
Depreciation	7,988	2,987	529	1,125	12,629
Amortization	109	4,874	1,212	1	6,196
Impairment of indefinite-lived long-term assets other than goodwill	—	—	34	—	34
Impairment of goodwill	—	—	45	—	45
Change in estimated fair value of contingent earn-out consideration	—	325	409	—	734
(Gain) loss on the sale or disposal of assets	231	25	(5)	—	251
Operating income (loss)	\$ 46,560	\$ 1,890	\$ (1,616)	\$ (18,218)	\$ 28,616
<i>(Dollars in thousands)</i>					
As of December 31, 2016					
Inventories, net	\$ —	\$ 300	\$ 370	\$ —	\$ 670
Property and equipment, net	86,976	6,634	1,779	7,401	102,790
Broadcast licenses	388,517	—	—	—	388,517
Goodwill	3,581	20,136	1,888	8	25,613
Other indefinite-lived intangible assets	—	—	332	—	332
Amortizable intangible assets, net	407	9,927	4,069	5	14,408
As of December 31, 2015					
Inventories, net	\$ —	\$ 505	\$ 388	\$ —	\$ 893
Property and equipment, net	88,894	6,927	1,742	7,920	105,483
Broadcast licenses	393,031	—	—	—	393,031
Goodwill	3,581	19,930	1,044	8	24,563
Other indefinite-lived intangible assets	—	—	833	—	833
Amortizable intangible assets, net	492	9,599	1,385	5	11,481

The table below presents financial information for each operating segment as of December 31, 2015 and 2014 with a comparison of the results under the prior composition of our operating segments as compared to the new composition:

	Year ended December 31,			
	2014		2015	
	Original	Updated	Original	Updated
	<i>(Dollars in thousands)</i>			
Revenues by Segment:				
Net Broadcast Revenue	\$ 192,923	\$ 194,094	\$ 196,090	\$ 197,184
Net Digital Media Revenue	46,862	45,691	45,855	44,761
Net Publishing Revenue	26,751	26,751	23,842	23,842
Total Net Revenue	<u>\$ 266,536</u>	<u>\$ 266,536</u>	<u>\$ 265,787</u>	<u>\$ 265,787</u>
Operating expenses by segment:				
Broadcast Operating Expenses	\$ 138,564	\$ 139,206	\$ 140,230	\$ 140,819
Digital Media Operating Expenses	36,232	35,590	35,969	35,380
Publishing Operating Expenses	26,143	26,143	24,774	24,774
Unallocated Corporate Expenses	17,092	17,092	15,146	15,146
	<u>\$ 218,031</u>	<u>\$ 218,031</u>	<u>\$ 216,119</u>	<u>\$ 216,119</u>
Net operating income (loss) before depreciation, amortization, impairments and (gain) loss on the sale or disposal of assets	<u>\$ 48,505</u>	<u>\$ 48,505</u>	<u>\$ 49,668</u>	<u>\$ 49,668</u>

NOTE 21. SUBSEQUENT EVENTS

On March 8, 2017, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution will be paid on March 31, 2017, to all Class A and Class B common stockholders of record as of March 20, 2017.

On March 1, 2017, we closed on the acquisition of an FM translator in Roseburg, Oregon for \$45,000 in cash. The FM translator will be used in our Portland, Oregon market.

On February 28, 2017, we repaid \$3.0 million in principal on our Term Loan B and paid interest due through that date. We recorded a \$6,300 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$17,000 in bank loan fees associated with the principal repayment.

On January 30, 2017, we repaid \$2.0 million in principal on our Term Loan B and paid interest due through that date. We recorded a \$4,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$12,270 in bank loan fees associated with the principal repayment.

On January 16, 2017, we closed on the acquisition of an FM translator in Astoria, Florida for \$33,000 in cash. The FM translator will be relocated to the Seattle, Washington market for use by our KGNW-AM radio station.

On January 6, 2017, we closed on the acquisition of an FM translator construction permit in Mohave Valley, Arizona for \$20,000 in cash. The FM translator will be relocated to the San Diego, California market for use by our KCBQ-AM radio.

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rules 13a-15(b) and 15d-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of senior management, including our Chief Executive Officer and our Chief Financial Officer, of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, as a result of the material weakness in internal control over financial reporting discussed below, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures was not effective at the reasonable assurance level as of the end of the period covered by this report.

(b) Management's Annual Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2016 based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission using the 2013 framework.

Based on this evaluation, our management has concluded, as a result of the material weakness in internal control over financial reporting discussed below, that our internal control over financial reporting was not effective as of December 31, 2016. However, we believe that the financial statements included in this report present fairly, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

In November 2016, management identified a control deficiency with respect to the precision of the review of the calculation of our valuation allowance for certain deferred tax assets, and concluded that such deficiency constituted a material weakness in internal control over financial reporting.

Management has reviewed and revised its policies and procedures with respect to controls over the review and verification of the accuracy of the calculation of the valuation allowance for certain deferred tax assets to ensure that all reasonable steps are taken to correct this material weakness. Management has enhanced the precision of the controls, including hiring a Tax Director, however, the deficiency will not be considered remediated until internal controls are operational for a period of time and tested, and management concludes that the controls are operating effectively. Based on our assessment, we consider that the material weakness related to the precision of the review of the calculation of the provision for income taxes not to have been fully remediated and is still present as of December 31, 2016 as the remedial measures have not operated effectively for a sufficient period of time for management to conclude, through testing, that the applicable controls have operated effectively for a sufficient period of time.

(c) Attestation Report of Registered Public Accounting Firm The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Crowe Horwath LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(d) Changes in Internal Control Over Financial Reporting. Except for the activities taken to remediate the material weakness described above, there has been no change in our internal control over financial reporting during the quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Salem Media Group, Inc.
Camarillo, California

We have audited Salem Media Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's report. In November 2016, management concluded that a control deficiency with respect to the precision of the review of the calculation of the valuation allowance for certain deferred tax assets constituted a material weakness in internal control over financial reporting. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and this report does not affect our report dated March 10, 2017 on those financial statements.

In our opinion, because of the effects of the material weakness described above, the Company has not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2016, and the related statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2016 and our report dated March 10, 2017 expressed an unqualified opinion on those financial statements.

/s/ Crowe Horwath LLP

Sherman Oaks, California
March 10, 2017

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading “DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT,” expected to be filed within 120 days of our fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading “EXECUTIVE COMPENSATION,” expected to be filed within 120 days of our fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS” expected to be filed within 120 days of our fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item relating to “Certain Relationships and Related Party Transactions” is incorporated by reference to our Definitive Proxy Statement under the heading “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS” expected to be filed within 120 days of our fiscal year end.

The information required by this item relating to “Director Independence” is incorporated by reference to our Definitive Proxy Statement under the heading “DIRECTOR INDEPENDENCE” expected to be filed within 120 days of our fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading “PRINCIPAL ACCOUNTING FEES AND SERVICES,” expected to be filed within 120 days of our fiscal year end.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)

1. Financial Statements. The financial statements required to be filed hereunder are included in Item 8.

2. Financial Statement Schedule. The following financial statement schedule for the years ended December 31, 2016, 2015 and 2014 is filed as part of this report and should be read in conjunction with the consolidated financial statements.

ITEM 16. FORM 10-K SUMMARY

SALEM MEDIA GROUP, INC.
Schedule II – Valuation & Qualifying Accounts
(Dollars in thousands)

Description	Balance at Beginning of Period	Additions Charged to Cost and Expense	Deductions Bad Debt Write-offs	Balance at End of Period
Year Ended December 31, 2014 Allowance for Doubtful Accounts and Sales Returns	\$ 10,809	\$ 9,149	\$ (7,231)	\$ 12,727
Year Ended December 31, 2015 Allowance for Doubtful Accounts and Sales Returns	12,727	8,325	(7,573)	13,479
Year Ended December 31, 2016 Allowance for Doubtful Accounts and Sales Returns	13,479	5,369	(8,428)	10,420
Year Ended December 31, 2014 Allowance for Inventory Reserves	—	2,891	(1,664)	1,227
Year Ended December 31, 2015 Allowance for Inventory Reserves	1,227	628	—	1,855
Year Ended December 31, 2016 Allowance for Inventory Reserves	1,855	406	(35)	2,226

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Exhibits.

EXHIBIT LIST

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
3.01	Amended and Restated Certificate of Incorporation of the Company.	8-K	333-41733-29	04/14/99	3.1	
3.02	Certificate of Amendment of Certificate of Incorporation of the Company.	8-K	000-26497	02/23/15	3.1	
3.03	Second Amended and Restated Bylaws of the Company.	8-K	000-26497	02/23/15	3.2	
4.01	Specimen of Class A common stock certificate.	S-1/A	333-76649	Declared Effective 06/30/99	4.09	
10.01	Employment Agreement, dated July 1, 2016 between Salem Communications Holding Corporation and Edward G. Atsinger III.	8-K	000-26497	06/13/16	99.1	
10.02	Employment Agreement, dated July 1, 2016 between Salem Communications Holding Corporation and Stuart W. Epperson.	10-Q	000-26497	08/05/16	10.1	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.03	Employment Agreement dated January 1, 2017 between Salem Communications Holding Corporation and Evan D. Masyr.	8-K	000-26497	01/04/17	99.1	
10.04	Employment Agreement dated January 1, 2017 between Salem Communications Holding Corporation and David Santrella.	8-K	000-26497	01/04/17	99.2	
10.05	Employment Agreement, effective as of September 15, 2014, between Salem Communications Holding Corporation and David A.R. Evans.	8-K	000-26497	09/19/14	99.1	
10.06.01	Antenna/tower lease between Caron Broadcasting, Inc. (KFXN-AM) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust, expiring in 2036.	8-K	000-26497	09/08/16	10.3	
10.06.02	Antenna/tower/studio lease between Common Ground Broadcasting, Inc. (KKMS-AM/Eagan, Minnesota) and Messrs. Atsinger and Epperson expiring in 2036.	8-K	000-26497	09/08/16	10.2	
10.06.03	Antenna/tower lease (KFAX-FM/Hayward, California) and Salem Broadcasting Company, a partnership consisting of Messrs. Atsinger and Epperson, expiring in 2023.	8-K	000-26497	04/14/08	10.06.21	
10.06.04	Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.	S-4	333-41733-29	01/29/98	10.05.19	
10.06.04.01	Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Epperson-Atsinger 1983 Family Trust expiring 2017.	10-K	000-26497	03/17/08	10.06.13.01	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.06.04.02	Second Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Epperson-Atsinger 1983 Family Trust expiring 2017.	10-K	000-26497	03/17/08	10.06.13.02	
10.06.05	Antenna/tower lease between Inspiration Media, Inc. (KLFE-AM/Seattle, Washington) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring in 2023.	8-K	000-26497	04/14/08	10.06.22	
10.06.06	Antenna/tower/studio lease between Pennsylvania Media Associates, Inc. (WNTP-AM/WFIL-AM/Philadelphia, Pennsylvania) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2023.	8-K	000-26497	04/14/08	10.06.27	
10.06.07	Antenna/tower lease between New Inspiration Broadcasting Co., Inc.: as successor in interest to Radio 1210, Inc. (KPRZ-AM/San Marcos, California) and The Atsinger Family Trust expiring in 2028.	S-4	333-41733-29	01/29/98	10.05.12	
10.06.08	Lease Agreement between Salem Media of Colorado, Inc. (KNUS-AM/Denver-Boulder, Colorado) and Messrs. Atsinger and Epperson expiring 2036.	8-K	000-26497	03/03/16	10.1	
10.06.09	Antenna/tower lease between Salem Media of Oregon, Inc. (KPDQ-AM/FM/Portland, Oregon), and Messrs. Atsinger and Epperson expiring 2023.	8-K	000-26497	04/14/08	10.06.24	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.06.10	Antenna/tower lease between South Texas Broadcasting, Inc. (KNTH-AM/Houston-Galveston, Texas) and Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2023.	8-K	000-36497	04/14/08	10.06.23	
10.06.11	Antenna/tower lease between New Inspiration Broadcasting Company, Inc. (KFIA-AM/Sacramento, California) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2036.	8-K	000-26497	09/08/16	10.1	
10.06.12	Antenna/tower lease between Inspiration Media of Texas, Inc. (KTEK-AM/Alvin, Texas) and the Atsinger Family Trust and The Stuart W. Epperson Revocable Living Trust expiring 2018.	10-K	000-26497	03/31/99	10.05.23	
10.06.13	Antenna/tower lease between Pennsylvania Media Associates Inc. (WTLN-AM/Orlando, Florida) and Atsinger Family Trust and Stuart W. Epperson, revocable living trust expiring 2045.	10-K	000-26497	03/16/07	10.05.25	
10.06.14	Lease Agreement, dated April 8, 2008, between Inspiration Media, Inc. (KDOW-AM/Palo Alto, CA) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.20	
10.06.15	Lease Agreement, dated April 8, 2008, between New Inspiration Broadcasting Company, Inc. (KFAX-AM/San Francisco, CA) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.21	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.06.16	Lease Agreement, dated April 8, 2008, between Inspiration Media, Inc. (KLFE-AM/Seattle, WA) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.22	
10.06.17	Lease Agreement, dated April 8, 2008, between South Texas Broadcasting, Inc. (KNTH-AM/Houston, TX) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.23	
10.06.18	Lease Agreement, dated April 8, 2008, between Salem Media of Oregon, Inc. (KPDQ-AM/Portland, OR) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.24	
10.06.19	Lease Agreement, dated April 8, 2008, between Common Ground Broadcasting, Inc. (KPXQ-AM/Glendale, AZ) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.25	
10.06.20	Lease Agreement, dated April 8, 2008, between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX/night sight) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.26	
10.07.01	Asset Purchase Agreement, dated May 25, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W224BU, Lake City, Florida).					X

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.07.02	Asset Purchase Agreement, dated May 18, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W222BT, Palm Coast, Florida) (the "Palm Coast APA").					X
10.07.02.01	First Amendment to Palm Coast APA dated May 25, 2016.					X
10.07.02.02	Second Amendment to Palm Coast APA dated July 27, 2016.					X
10.07.02.03	Third Amendment to Palm Coast APA dated July 29, 2016.					X
10.07.02.04	First Assignment and Assumption of Purchase Agreement dated July 27, 2016 from Pennsylvania Media Associates, Inc. to Caron Broadcasting, Inc.					X
10.07.02.05	Second Assignment and Assumption of Asset Purchase Agreement dated July 29, 2016 from Caron Broadcasting, Inc. to South Texas Broadcasting, Inc.					X
10.07.03	Local Marketing Agreement, dated December 15, 2016 by and between New Inspiration Broadcasting Company, Inc. and East Bay Broadcasting, LLC (KTRB-AM, San Francisco, California).	8-K	000-26497	12/20/16	10.1	
10.08.01	Amended and Restated 1999 Stock Incentive Plan (as amended and restated through June 3, 2009).	8-K	000-26497	06/09/09	10.08.04.01	
10.08.02	Form of stock option grant for Amended and Restated 1999 Stock Incentive Plan.	10-K	000-26497	03/16/05	10.08.02	

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
10.08.03	Form of restricted stock option grant for Amended and Restated 1999 Stock Incentive Plan.	10-Q	000-26497	11/09/05	10.01	
10.09	Management Services Agreement by and among Salem and Salem Communications Holding Corporation, dated August 25, 2000 (incorporated by reference to previously filed exhibit 10.11).	10-Q	000-26497	05/15/01	10.11	
10.10.01	Credit Agreement, dated as of March 14, 2013, by and among Salem Communications Corporation, as the borrower, Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Issuer and the other Lenders party thereto, Wells Fargo Securities, LLC, SunTrust Robinson Humphrey, Inc., and Rabobank, N.A., as Joint Lead Arrangers and Joint Bookrunners, SunTrust Bank, as Syndication Agent, and Rabobank, N.A. as Documentation Agent.	8-K	000-26497	03/14/13	10.1	
10.10.02	Security Agreement, dated as of March 14, 2013, by and among Salem Communications Corporation, as Borrower and the Guarantors party thereto and Wells Fargo Bank, National Association, as Administrative Agent.	8-K	000-26497	03/14/13	10.2	
14	Code of Ethics	-	-	-	-	X
21	Subsidiaries of Salem Media Group, Inc.	-	-	-	-	X

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
23.1	Consent of SingerLewak LLP, Independent Registered Public Accounting Firm.	-	-	-	-	X
23.2	Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm.	-	-	-	-	X
23.3	Consent of Noble Financial Capital Markets Capital Markets dated March 4, 2015.	-	-	-	-	X
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	-	X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	-	X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.	-	-	-	-	X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.	-	-	-	-	X
101	The following financial information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets (ii) Consolidated Statements of Operations (iii) the Consolidated Statement of Stockholders' Equity (iv) the Consolidated Statements of Cash Flows (v) the Notes to the Consolidated Financial Statements.	-	-	-	-	X

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 10, 2017

SALEM MEDIA GROUP, INC.

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer

March 10, 2017

By: /s/ EVAN D. MASZR

Evan D. Masyr
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ EDWARD G. ATSINGER III</u> Edward G. Atsinger III	Chief Executive Officer (Principal Executive Officer)	March 10, 2017
<u>/s/ EVAN D. MASYSR</u> Evan D. Masysr	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 10, 2017
<u>/s/ STUART W. EPPERSON</u> Stuart W. Epperson	Chairman	March 10, 2017
<u>/s/ ROLAND S. HINZ</u> Roland S. Hinz	Director	March 10, 2017
<u>/s/ JONATHAN VENVERLOH</u> Jonathan Venverloh	Director	March 10, 2017
<u>/s/ RICHARD A. RIDDLE</u> Richard A. Riddle	Director	March 10, 2017
<u>/s/ JAMES KEET LEWIS</u> James Keet Lewis	Director	March 10, 2017
<u>/s/ ERIC HALVORSON</u> Eric Halvorson	Director	March 10, 2017
<u>/s/ EDWARD C. ATSINGER</u> Edward C. Atsinger	Director	March 10, 2017
<u>/s/ STUART W. EPPERSON JR.</u> Stuart W. Epperson Jr.	Director	March 10, 2017

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
10.07.01	Asset Purchase Agreement, dated May 25, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W224BU, Lake City, Florida).
10.07.02	Asset Purchase Agreement, dated May 18, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W222BT, Palm Coast, Florida) (the "Palm Coast APA").
10.07.02.01	First Amendment to Palm Coast APA dated May 25, 2016.
10.07.02.02	Second Amendment to Palm Coast APA dated July 27, 2016.
10.07.02.03	Third Amendment to Palm Coast APA dated July 29, 2016.
10.07.02.04	First Assignment and Assumption of Purchase Agreement dated July 27, 2016 from Pennsylvania Media Associates, Inc. to Caron Broadcasting, Inc.
10.07.02.05	Second Assignment and Assumption of Asset Purchase Agreement dated July 29, 2016 from Caron Broadcasting, Inc. to South Texas Broadcasting, Inc.
14	Code of Ethics
21	Subsidiaries of Salem Media Group Inc.
23.1	Consent of SingerLewak LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm.
23.3	Consent of Noble Financial Capital Markets
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.
101	The following financial information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets (ii) Consolidated Statements of Operations (iii) the Consolidated Statement of Stockholders' Equity (iv) the Consolidated Statements of Cash Flows (v) the Notes to the Consolidated Financial Statements.

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") is made as of this 25th day of May, 2016, by and among Delmarva Educational Association, a Florida not-for-profit corporation ("Seller"), and Pennsylvania Media Associates, Inc., a Pennsylvania corporation ("Buyer").

Recitals

A. Seller is the Federal Communications Commission ("FCC") licensee of FM translator station, W224BU, licensed to Lake City, FL, (Facility ID No. 144428) (the "Translator").

B. Seller has agreed to sell the Translator to Buyer, and Buyer has agreed to purchase certain assets relating to the Translator from Seller, on the terms and conditions set forth herein.

Agreements

In consideration of the foregoing, and the mutual covenants and agreements set forth below, Seller and Buyer hereby agree as follows:

1. **Assignment Application.** The parties shall cooperate in the prompt preparation and filing of an application with the FCC for consent to the assignment of the FCC Translator licenses, permits and authorizations (including pending licenses, permits and authorizations), and any renewals, extensions, amendments or modifications thereof, for the operation of the Translator (the "License") from Seller to Buyer (the "Assignment Application"). Such application is to be filed as soon as is practicable. The parties shall cooperate in the diligent submission of any additional information requested or required by the FCC with respect to such application, and shall take all steps reasonably required for the expeditious prosecution of the Assignment Application to a favorable conclusion, and shall diligently oppose any objections to, appeals from or petitions to reconsider such approval of the FCC, to the end that the FCC order granting consent to the assignment of the License may be obtained as soon as practicable, provided, however, that in the event the application for assignment of the License has been designated for hearing, then the party which is not the subject of the hearing (or which is not the party whose alleged actions or omissions resulted in the designation for hearing) may elect to terminate this Agreement upon written notice to the other party..

2. **Assets to be Conveyed.** On the Closing Date, as defined in Section 6 hereof, Seller will sell, assign, transfer, convey and deliver to Buyer:

a. the License;

b. Except for supplies and other incidental items which in the aggregate are not of material value, all tangible personal property used or useful in the operation of the Translator which Buyer elects to purchase (the "Tangible Personal Property"), together with such modifications, replacements, improvements and additional items made or acquired between the date hereof and the Closing Date. Seller shall provide a complete itemized list of all tangible personal property used or useful in the operation of the Translator to Buyer within thirty (30) days after the date of this Agreement, and Buyer will inform Seller within thirty (30) days of the receipt of the list what specific tangible personal property Buyer elects to purchase as part of this transaction; and

c. any files, records, and intangible property or property rights, including but not limited to intellectual property and goodwill, of Seller related to the Translator.

The foregoing assets (the "Purchased Assets") are to be conveyed by Seller to Buyer through an assignment and any other document of transfer (the "Closing Documents") customary for such purpose and satisfactory in form and substance to Buyer, Seller, and their respective counsel. The Purchased Assets are to be conveyed to Buyer free and clear of any claims, liabilities, mortgages, deeds of trust, assignments, liens, pledges, conditions, exceptions, restrictions, limitations, charges, security interests or other encumbrances of any nature whatsoever (collectively, "Liens").

The Purchased Assets specifically shall not include: (i) any real property interests of Seller, whether owned or leased, relating to the Translator; (ii) any contracts entered into by Seller relating to the Translator; or (iii) any cash or cash equivalents.

3. **No Liabilities Assumed.** Buyer shall not assume or in any manner be liable for any debts, liens, obligations or liabilities of Seller, whether express or implied, known or unknown, contingent or absolute.

4. **Purchase Price.** The Purchase Price ("Purchase Price") to be paid on the Closing Date by Buyer for the Purchased Assets shall be Sixty Five Thousand Dollars (\$65,000), to be paid to Seller at Closing by wire transfer by Buyer of immediately available funds to Seller.

5. **Allocation of the Purchase Price; Adjustments to Purchase Price.** Buyer and Seller shall agree to an allocation of the Purchase Price as reasonably established by Buyer. Buyer and Seller shall use such allocation for all reporting purposes in connection with federal, state and local income and, to the extent permitted under applicable law, franchise taxes. Buyer and Seller agree to report such allocation to the Internal Revenue Service in the form required by Treasury Regulation § 1.1060-1T.

All operating income and operating expenses of the Translator shall be adjusted and allocated between Seller and Buyer, and an adjustment in the Purchase Price shall be made as provided in this Section, to the extent necessary to reflect the principle that all such income and expenses attributable to the operation of the Translator on or before the Closing Date shall be for the account of Seller, and all income and expenses attributable to the operation of the Translator after the Closing Date shall be for the account of Buyer. To the extent not inconsistent with the express provisions of this Agreement, the allocations made pursuant to this Paragraph shall be made in accordance with generally accepted accounting principles. Adjustments pursuant to this Section shall be made at Closing to the extent practicable. Further prorations and adjustments shall be made by Buyer and Seller no later than (90) days following the Closing Date, or such later date as shall be mutually agreed to by Seller and Buyer. In the event Buyer and Seller cannot agree on the prorations and adjustments under this subsection, the parties will refer the disagreement to a firm of independent certified public accountants, mutually acceptable to Seller and Buyer, whose decision shall be final. The fees and expenses of such accountants shall be paid by the party who does not prevail on the disputed matters decided by the accountants.

6 . **Closing.** The Closing, or the Closing Date, as used throughout this Agreement, shall take place within five (5) business days after the FCC shall have consented to assignment of the License to Buyer and, unless waived by Buyer, in Buyer's sole discretion, such consent shall have become a Final Order, subject to satisfaction of or waiver of the other conditions precedent set forth herein. The term "Final Order" means such consent shall no longer be subject to review, reconsideration, appeal, or remand under applicable laws and the rules of the FCC.

7. **Representations and Warranties of Seller.** Seller hereby represents and warrants to Buyer that:

a. Seller is, and as of the Closing Date will be, a not-for-profit corporation, duly organized, validly existing and in good standing in the State of Florida. Seller has the requisite power and authority to enter into and fulfill its obligations under this Agreement

b. The execution and delivery of this Agreement and the consummation of the transaction contemplated hereby have or will be duly authorized and approved by all necessary action on the part of Seller prior to Closing. No other or further corporate act on the part of Seller is necessary to authorize this Agreement or the consummation of the transaction contemplated hereby. This Agreement constitutes the legal, valid and binding obligation of Seller, enforceable in accordance with its terms.

c. Subject to obtaining the approval of the FCC, the execution, delivery and performance of this Agreement (i) does not require the consent of any third party, and (ii) will not conflict with, result in a breach of, or constitute a default under any agreement or instrument to which Seller is a party or by which Seller is bound, or under any law, judgment, order, decree, rule or regulation of any court or governmental body which is applicable to Seller or the Translator.

d. Seller knows of no reason related to its qualifications which would disqualify it from owning or operating the Translator or assigning the License to Buyer. The License is valid and in full force and effect and constitutes all of the authorizations issued by the FCC in connection with the construction and/or operation of the Translator as provided in the License. Other than as set forth in the publicly available FCC records, the License is not subject to any restriction or condition that would limit in any respect the construction and/or operation of the FM translator as now intended. There is not pending or threatened any action by or before the FCC to revoke, suspend, cancel, rescind or modify the License (other than proceedings relating to FCC rules of general applicability), and there is no order to show cause, notice of violation, notice of apparent liability, or notice of forfeiture or complaint by or before the FCC, pending or threatened, against Seller regarding the Translator.

e. Seller has complied in all material respects with all requirements to file reports, applications and other documents with the FCC with respect to the Translator, and all such reports, applications and documents are complete and correct in all material respects.

f. Seller has, and on the Closing Date will have, good and marketable title to all the Purchased Assets, free and clear, of all claims and Liens. The list of tangible personal property to be provided by Seller pursuant to Section 2b shall be complete and accurate. The Tangible Personal Property used to a material extent in the operation of the Translator in the manner in which it is now operated is in good operating condition subject only to ordinary wear and tear.

g. Between now and the date of Closing, Seller shall not, without the consent of Buyer, enter into any leases or contracts pertaining to the Purchased Assets that do not expire as of the Closing Date, or remain Seller's sole responsibility thereafter, or dispose of any of the Purchased Assets except those for which a replacement or repair is provided, or agree to sell any of the Purchased Assets.

h. There is and will be no claim, action, litigation, government inquiry, government proceeding or other similar matter, pending or threatened, pertaining to the Purchased Assets. There is no basis for any such claim, action, litigation, government inquiry, government proceeding or other similar matter, which would individually or in the aggregate materially adversely affect the Purchased Assets.

i. No insolvency proceedings of any character including without limitation, bankruptcy, receivership, reorganization, composition or arrangement with creditors, voluntary or involuntary, affecting the Seller or the Purchased Assets, are pending or threatened, and Seller has made no arrangement for the benefit of creditors, nor taken any action with a view to, or which would constitute the basis for the institution of, any such insolvency proceedings.

j. Seller has filed all federal, state and local tax returns which are required to be filed, and has paid all taxes and all assessments to the extent that such taxes and assessments have become due, other than such returns, taxes and assessments, the failure to file or pay would not, individually or in the aggregate, materially adversely affect the Purchased Assets.

k. No agent, broker, investment banker, or other person or firm acting on behalf of or under the authority of Seller or any affiliate of Seller is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, from Buyer in connection with transactions contemplated by this Agreement.

l. None of the representations or warranties made by Seller, nor any statement made in any document or certificate furnished by Seller pursuant to this Agreement contains or will contain at the Closing, any untrue statement of a material fact, or omits or will omit at the Closing, to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading.

8. **Representations and Warranties of Buyer.** Buyer hereby represents and warrants to Seller that:

a. Buyer is, and as of the Closing Date will be, a corporation duly organized, validly existing and in good standing in the State of Pennsylvania. This Agreement constitutes a legal, valid and binding obligation of Buyer, enforceable in accordance with its terms.

b. The execution and delivery of this Agreement and the consummation of the transaction contemplated hereby have or will be duly authorized and approved by all necessary action on the part of Buyer prior to Closing. No other or further corporate act on the part of Buyer is necessary to authorize this Agreement or the consummation of the transaction contemplated hereby. This Agreement constitutes the legal, valid and binding obligation of Buyer, enforceable in accordance with its terms.

c. Buyer knows of no reason related to its qualifications that would disqualify it from acquiring the Translator from Seller.

d. Buyer has the financial resources necessary to consummate the transaction contemplated by this Agreement.

e. No agent, broker, investment banker, or other person or firm acting on behalf of or under the authority of Buyer or any affiliate of Buyer is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, from Seller in connection with transactions contemplated by this Agreement.

f. None of the representations or warranties made by Buyer, nor any statement made in any document or certificate furnished by Buyer pursuant to this Agreement contains or will contain at the Closing, any untrue statement of a material fact, or omits or will omit at the Closing, to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading.

9. **Expenses.** Except as are otherwise specified in Section 10 herein, all expenses involved in the preparation and consummation of this Agreement shall be borne by the party incurring such expense, provided, however, that the filing fee for the FCC assignment application shall be borne equally by Buyer and Seller.

10. **Modification of the License.** Seller hereby grants its consent for Buyer to file in Buyer's name, pursuant to Section 73.3517(a) of the FCC's rules, an application on FCC Form 349 to modify the facilities authorized under the License (the "Minor Mod Application"). Such application shall be prepared and filed in accordance with the procedure specified by the FCC pursuant to MB Docket 13-249 to request modifications to the License and/or a change in the transmitter site for the Translator to a location designated by Buyer which, if approved by the FCC, will permit the Translator to be used as a fill-in for Buyer's Class C or Class D AM radio station WBZW(AM). Such Minor Mod Application shall include a request that the Permit expiration date be tolled for a period to include reasonable construction time following the grant of (a) the Assignment Application and (b) the Minor Mod Application. Notwithstanding anything to the contrary contained herein, Buyer will assume all the expenses, duties of prosecution (including, without limitation, reasonable technical modifications and good-faith negotiations to settle mutually exclusive FM modification applications filed by third-parties), and risk attendant to the Minor Mod Application, the post-closing construction, and use of the Translator.

11. **Seller's Closing Conditions.** All obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions which, except for the initial consent of the FCC to the assignment, may be waived in whole or in part by Seller:

- a. the FCC shall have consented to the assignment of the License to Buyer without any condition materially adverse to Seller;
- b. Buyer shall have delivered the balance of the Purchase Price in the manner specified in Section 3 hereof; and

12. **Buyer's Closing Conditions.** All obligations of Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions which, except for the initial consent of the FCC to the assignment, may be waived in whole or in part by Buyer:

- a. the FCC shall have consented to the assignment of the License to Buyer without any condition materially adverse to Buyer, and such consent shall have become a Final Order;
 - b. Seller shall have executed and delivered to Buyer the Closing Documents and conveyed the Purchased Assets to Buyer in accordance with this Agreement;
 - c. all representations and warranties of Seller made herein shall be true and correct in all material respects as of the Closing Date; and
 - d. as of the Closing Date, Seller shall have complied in all material respects with all covenants and conditions of this Agreement.
-

13. **Termination.** This Agreement may be terminated by the parties as follows:

a. If either Buyer or Seller shall be in material breach of this Agreement, and such breach is not cured after twenty (20) days' written notice from the other party or, if the breach is not of a type that can be cured within such time period, then after a reasonable time to cure such breach so long as the breaching party has commenced good faith diligent efforts to cure such breach within said time period and thereafter diligently pursues such cure to completion, then the other party, if not then in material breach itself, may terminate this Agreement. In the event of a material breach of this Agreement by Seller, instead of termination of this Agreement and seeking damages from Seller, Buyer shall alternatively have the right to seek and obtain specific performance of the terms of this Agreement, it being agreed by Seller that the Purchased Assets are unique assets. If any action is brought by Buyer pursuant to this subsection to enforce this Agreement, Seller shall waive the defense that there is an adequate remedy at law. In the event of termination of this Agreement by Seller as a result of an uncured breach of this Agreement by Buyer, Seller's sole and exclusive remedy shall be payment from Buyer to Seller of the amount of \$6,500.00 as liquidated damages. THE DELIVERY OF THE LIQUIDATED DAMAGES AMOUNT TO SELLER SHALL BE CONSIDERED LIQUIDATED DAMAGES AND NOT A PENALTY, AND SHALL BE THE RECIPIENT'S SOLE REMEDY AT LAW OR IN EQUITY FOR A BREACH HEREUNDER IF CLOSING DOES NOT OCCUR. BUYER AND SELLER EACH ACKNOWLEDGE AND AGREE THAT THIS LIQUIDATED DAMAGE AMOUNT IS REASONABLE IN LIGHT OF THE ANTICIPATED HARM WHICH WILL BE CAUSED BY A BREACH OF THIS AGREEMENT, THE DIFFICULTY OF PROOF OF LOSS, THE INCONVENIENCE AND NON-FEASIBILITY OF OTHERWISE OBTAINING AN ADEQUATE REMEDY, AND THE VALUE OF THE TRANSACTION TO BE CONSUMMATED HEREUNDER.

b. If the FCC or a court shall have issued an order or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting or making the transaction not feasible, and such order or other action is finally determined, then either party may terminate this Agreement provided, however, that the right to terminate this Agreement under this Section 13(b) shall not be available to a party whose failure to fulfill any obligation under this Agreement shall have been the principal cause of, or shall have resulted in, such order or action.

c. If the Closing has not occurred within twelve (12) months after the date of this Agreement, then either party may terminate this Agreement, provided, however, that the right to terminate this Agreement under this Section 13(c) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the principal cause of, or shall have resulted in unreasonable delay in the Closing.

14. **Survival.** The representations and warranties of Buyer and Seller set forth above shall survive the Closing Date for a period of twelve (12) months (the "Survival Period"), except that for any representation or warranty of Buyer or Seller as to such party's qualifications and authority to consummate the transactions contemplated hereby, title of the parties to the Purchased Assets, any tax obligations of Seller, or the Purchased Assets being free and clear of any liens the Survival Period shall be indefinite. Seller indemnifies and holds Buyer harmless from any loss, liability, damage or expense (including legal and other expenses incident thereto) arising from or pertaining to (a) ownership of the Purchased Assets prior to the date of Closing or (b) breach of any covenants, representations or warranties of this Agreement, by Seller. Buyer indemnifies and holds Seller harmless from any loss, liability, damage or expense (including legal and other expenses incident thereto) arising from or pertaining to (a) ownership or operation of the Purchased Assets subsequent to the date of Closing or (b) breach of any covenants, representations or warranties in this Agreement, by Buyer. No claims may be brought under this Agreement unless written notice describing in reasonable detail the nature and basis of such claim is given on or prior to the last day of the Survival Period. In the event such notice is given, the right to indemnification with respect thereto under this provision shall survive the applicable Survival Period until such claim is finally resolved and any obligations with respect thereto are fully satisfied, and the indemnifying party shall be entitled at its own expense to compromise or defend against the claim with counsel reasonably satisfactory to the indemnified party; provided, that once the defense thereof is assumed by the indemnifying party, the indemnifying party shall keep the indemnified party advised of all developments in the defense thereof and any related litigation, and the indemnified party shall be entitled at all times to participate in the defense thereof at its own expense.

15. **Control of Translator.** Between the date of this Agreement and the Closing Date, Buyer shall not control the Translator, which shall remain the sole responsibility and under the control of Seller, subject to Seller's compliance with this Agreement.

16. **Entire Agreement.** This Agreement, together with all exhibits and schedules hereto, constitute the entire agreement between the parties and supersede any prior negotiations, agreements, understandings or arrangements between the parties with respect to the subject matter hereof.

17. **Amendments and Waivers.** No term or provision of this Agreement may be amended, waived, discharged or terminated orally but only by an instrument in writing signed by the party against whom the enforcement of such amendment, waiver, discharge or termination is sought. Any waiver shall be effective only in accordance with its express terms and conditions.

18. **Construction and Enforcement.** This Agreement shall be construed and enforced in accordance with the internal laws of the State of Florida. Any disputes arising out of this Agreement shall be resolved in state or federal court in Florida.

19. **Successors and Assigns.** This Agreement shall inure to the benefit of and be binding on the permitted successors and assigns of the parties hereto. This Agreement and any rights hereunder shall not be assignable by either party hereto without the prior written consent of the other party. Notwithstanding the foregoing, Buyer may in its sole and absolute discretion, assign all of its right, title, interest and obligation under this Agreement to any entity controlled by, or under common control with Buyer, including any subsidiary of Salem Media Group, Inc.

20. **Cooperation.** Both before and after the Closing, Seller and Buyer shall each cooperate, take such actions and execute and deliver such documents as may be reasonably requested by the other party in order to carry out the provisions of this Agreement.

21. **Notices.** All notices hereunder shall be delivered in writing and shall be deemed to have been duly given if delivered and received by certified or registered mail, return receipt requested, or by expedited courier service, to the following addresses or such other addresses as any party may provide by written notice:

To Seller: Delmarva Educational Foundation
3780 Will Scarlet Road
Winston-Salem, North Carolina 27104
Attention: Nancy Epperson
President

To Buyer: Pennsylvania Media Associates, Inc.
4880 Santa Rosa Road
Camarillo, California 93012
Attention: Christopher J. Henderson,
Senior Vice President/Secretary

22. **Exclusivity.** While this Agreement is in effect, Seller agrees not to engage in any discussions or negotiations concerning any potential sale of the Purchased Assets to any party other than Buyer or its assigns.

23. **Attorneys' Fees.** If any action at law or equity is brought, whether in a judicial proceeding or arbitration, to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and expenses from the other party, which fees and expenses shall be in addition to any other relief, which may be awarded.

24. **Counterparts.** This Agreement may be signed in counterparts with the same effect as if the signature on each counterpart were upon the same instrument. Executed copies of this Agreement transmitted by facsimile or other electronic means shall be valid and binding.

*[The remainder of this page has been intentionally left blank.
Signatures appear on the next page.]*

[Signature page to Asset Purchase Agreement]

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

SELLER:

DELMARVA EDUCATIONAL ASSOCIATION

By: /s/ Nancy. A. Epperson
Nancy A. Epperson
President

BUYER:

PENNSYLVANIA MEDIA ASSOCIATES, INC.

By: /s/ Christopher J. Henderson
Christopher J. Henderson
Senior Vice President/Secretary

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") is made as of this 18th day of May, 2016, by and among Delmarva Educational Association, a Florida not-for-profit corporation ("Seller"), and Pennsylvania Media Associates, Inc., a Pennsylvania corporation ("Buyer").

Recitals

- A. Seller is the holder of a Federal Communications Commission ("FCC") construction permit for a new FM translator station, W222BT to serve the community of Palm Coast, FL, (Facility ID No. 142973, FCC File No. BNPFT 20130815ABU) (the "Permit").
- B. Seller has agreed to sell the Permit to Buyer, and Buyer has agreed to purchase the Permit from Seller, on the terms and conditions set forth herein.

Agreements

In consideration of the foregoing, and the mutual covenants and agreements set forth below, Seller and Buyer hereby agree as follows:

1. **Assignment Application.** The parties shall cooperate in the prompt preparation and filing of an application with the FCC for consent to the assignment of the Permit from Seller to Buyer (the "Assignment Application"). Such application is to be filed as soon as is practicable. The parties shall cooperate in the diligent submission of any additional information requested or required by the FCC with respect to such application, and shall take all steps reasonably required for the expeditious prosecution of the Assignment Application to a favorable conclusion, and shall diligently oppose any objections to, appeals from or petitions to reconsider such approval of the FCC, to the end that the FCC order granting consent to the assignment of the Permit may be obtained as soon as practicable, provided, however, that in the event the application for assignment of the Permit has been designated for hearing, then the party which is not the subject of the hearing (or which is not the party whose alleged actions or omissions resulted in the designation for hearing) may elect to terminate this Agreement upon written notice to the other party..

2. **Assets to be Conveyed.** On the Closing Date, as defined in Section 6 hereof, Seller will sell, assign, transfer, convey and deliver to Buyer:
- a. the Permit; and
 - b. any files, records, and intangible property or property rights of Seller related to the Permit.

The foregoing assets (the "Purchased Assets") are to be conveyed by Seller to Buyer through an assignment and any other document of transfer (the "Closing Documents") customary for such purpose and satisfactory in form and substance to Buyer, Seller, and their respective counsel. The Purchased Assets are to be conveyed to Buyer free and clear of any claims, liabilities, mortgages, deeds of trust, assignments, liens, pledges, conditions, exceptions, restrictions, limitations, charges, security interests or other encumbrances of any nature whatsoever (collectively, "Liens").

3. **No Liabilities Assumed.** Buyer shall not assume or in any manner be liable for any debts, liens, obligations or liabilities of Seller, whether express or implied, known or unknown, contingent or absolute.

4. **Purchase Price.** The Purchase Price ("Purchase Price") to be paid on the Closing Date by Buyer for the Purchased Assets shall be Sixty Five Thousand Dollars (\$65,000), to be paid to Seller at Closing by wire transfer by Buyer of immediately available funds to Seller.

5. **Allocation of the Purchase Price.** Buyer and Seller shall agree to an allocation of the Purchase Price as reasonably established by Buyer. Buyer and Seller shall use such allocation for all reporting purposes in connection with federal, state and local income and, to the extent permitted under applicable law, franchise taxes. Buyer and Seller agree to report such allocation to the Internal Revenue Service in the form required by Treasury Regulation § 1.1060-1T.

6. **Closing.** The Closing, or the Closing Date, as used throughout this Agreement, shall take place within five (5) business days after the FCC shall have consented to assignment of the Permit to Buyer and, unless waived by Buyer, in Buyer's sole discretion, such consent shall have become a Final Order, subject to satisfaction of or waiver of the other conditions precedent set forth above. The term "Final Order" means such consent shall no longer subject to review, reconsideration, appeal, or remand under applicable laws and the rules of the FCC.

7. **Representations and Warranties of Seller.** Seller hereby represents and warrants to Buyer that:

a. Seller is, and as of the Closing Date will be, a not-for-profit corporation, duly organized, validly existing and in good standing in the State of Florida. Seller has the requisite power and authority to enter into and fulfill its obligations under this Agreement

b. The execution and delivery of this Agreement and the consummation of the transaction contemplated hereby have or will be duly authorized and approved by all necessary action on the part of Seller prior to Closing. No other or further corporate act on the part of Seller is necessary to authorize this Agreement or the consummation of the transaction contemplated hereby. This Agreement constitutes the legal, valid and binding obligation of Seller, enforceable in accordance with its terms.

c. Subject to obtaining the approval of the FCC, the execution, delivery and performance of this Agreement (i) does not require the consent of any third party, and (ii) will not conflict with, result in a breach of, or constitute a default under any agreement or instrument to which Seller is a party or by which Seller is bound, or under any law, judgment, order, decree, rule or regulation of any court or governmental body which is applicable to Seller or the Permit.

d. Seller knows of no reason related to its qualifications which would disqualify it from holding the Permit or assigning the Permit to Buyer. The Permit is valid and in full force and effect and constitutes all of the authorizations issued by the FCC in connection with the construction and/or operation of the new FM translator as provided in the Permit. Other than as set forth in the publicly available FCC records, the Permit is not subject to any restriction or condition that would limit in any respect the construction and/or operation of the FM translator as now intended. There is not pending or threatened any action by or before the FCC to revoke, suspend, cancel, rescind or modify the Permit (other than proceedings relating to FCC rules of general applicability), and there is no order to show cause, notice of violation, notice of apparent liability, or notice of forfeiture or complaint by or before the FCC, pending or threatened, against Seller regarding the Permit.

e. Seller has complied in all material respects with all requirements to file reports, applications and other documents with the FCC with respect to the Permit, and all such reports, applications and documents are complete and correct in all material respects.

f. Seller has, and on the Closing Date will have, good and marketable title to all the Purchased Assets, free and clear, of all claims and Liens.

g. There are no leases or contracts pertaining to the Purchased Assets, and between now and the date of Closing, Seller shall not, without the consent of Buyer, enter into any leases or contracts pertaining to the Purchased Assets or dispose of or agree to sell any of the Purchased Assets.

h. There is and will be no claim, action, litigation, government inquiry, government proceeding or other similar matter, pending or threatened, pertaining to the Purchased Assets. There is no basis for any such claim, action, litigation, government inquiry, government proceeding or other similar matter, which would individually or in the aggregate materially adversely affect the Purchased Assets.

i. No insolvency proceedings of any character including without limitation, bankruptcy, receivership, reorganization, composition or arrangement with creditors, voluntary or involuntary, affecting the Seller or the Purchased Assets, are pending or threatened, and Seller has made no arrangement for the benefit of creditors, nor taken any action with a view to, or which would constitute the basis for the institution of, any such insolvency proceedings.

j. Seller has filed all federal, state and local tax returns which are required to be filed, and has paid all taxes and all assessments to the extent that such taxes and assessments have become due, other than such returns, taxes and assessments, the failure to file or pay would not, individually or in the aggregate, materially adversely affect the Purchased Assets.

k. No agent, broker, investment banker, or other person or firm acting on behalf of or under the authority of Buyer or any affiliate of Buyer is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, from Seller in connection with transactions contemplated by this Agreement.

l. None of the representations or warranties made by Seller, nor any statement made in any document or certificate furnished by Seller pursuant to this Agreement contains or will contain at the Closing, any untrue statement of a material fact, or omits or will omit at the Closing, to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading.

8. **Representations and Warranties of Buyer.** Buyer hereby represents and warrants to Seller that:

a. Buyer is, and as of the Closing Date will be, a corporation duly organized, validly existing and in good standing in the State of Pennsylvania. This Agreement constitutes a legal, valid and binding obligation of Buyer, enforceable in accordance with its terms.

b. The execution and delivery of this Agreement and the consummation of the transaction contemplated hereby have or will be duly authorized and approved by all necessary action on the part of Buyer prior to Closing. No other or further corporate act on the part of Buyer is necessary to authorize this Agreement or the consummation of the transaction contemplated hereby. This Agreement constitutes the legal, valid and binding obligation of Buyer, enforceable in accordance with its terms.

c. Buyer knows of no reason related to its qualifications that would disqualify it from acquiring the Permit from Seller.

d. Buyer has the financial resources necessary to consummate the transaction contemplated by this Agreement.

e. No agent, broker, investment banker, or other person or firm acting on behalf of or under the authority of Buyer or any affiliate of Buyer is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, from Seller in connection with transactions contemplated by this Agreement.

f. None of the representations or warranties made by Buyer, nor any statement made in any document or certificate furnished by Buyer pursuant to this Agreement contains or will contain at the Closing, any untrue statement of a material fact, or omits or will omit at the Closing, to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading.

9. **Expenses.** Except as are otherwise specified in Section 10 herein, all expenses involved in the preparation and consummation of this Agreement shall be borne by the party incurring such expense, provided, however, that the filing fee for the FCC assignment application shall be borne equally by Buyer and Seller.

10. **Modification of the Permit.** Seller hereby grants its consent for Buyer to file in Buyer's name, pursuant to Section 73.3517(a) of the FCC's rules, an application on FCC Form 349 to modify the facilities authorized under the Permit (the "Minor Mod Application"). Such application shall be prepared and filed in accordance with the procedure specified by the FCC pursuant to MB Docket 13-249 to request modifications to the Permit and/or a change in the transmitter site for the Permit to a location designated by Buyer which, if approved by the FCC, will permit the Translator to be used as a fill-in for Buyer's Class C or Class D AM radio station WBZW(AM). Such Minor Mod Application shall include a request that the Permit expiration date be tolled for a period to include reasonable construction time following the grant of (a) the Assignment Application and (b) the Minor Mod Application. Notwithstanding anything to the contrary contained herein, Buyer will assume all the expenses, duties of prosecution (including, without limitation, reasonable technical modifications and good-faith negotiations to settle mutually exclusive FM modification applications filed by third-parties), and risk attendant to the Minor Mod Application, the post-closing construction, and use of the Permit.

11. **Seller's Closing Conditions.** All obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions which, except for the initial consent of the FCC to the assignment, may be waived in whole or in part by Seller:

- a. the FCC shall have consented to the assignment of the Permit to Buyer without any condition materially adverse to Seller; and
- b. Buyer shall have delivered the balance of the Purchase Price in the manner specified in Section 3 hereof.

12. **Buyer's Closing Conditions.** All obligations of Buyer to consummate the transactions contemplated by this Agreement are subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions which, except for the initial consent of the FCC to the assignment, may be waived in whole or in part by Buyer:

- a. the FCC shall have consented to the assignment of the Permit to Buyer without any condition materially adverse to Buyer, and such consent shall have become a Final Order;
 - b. Seller shall have executed and delivered to Buyer the Closing Documents and conveyed the Purchased Assets to Buyer in accordance with this Agreement;
 - c. all representations and warranties of Seller made herein shall be true and correct in all material respects as of the Closing Date; and
 - d. as of the Closing Date, Seller shall have complied in all material respects with all covenants and conditions of this Agreement.
-

13. **Termination.** This Agreement may be terminated by the parties as follows:

a. If either Buyer or Seller shall be in material breach of this Agreement, and such breach is not cured after twenty (20) days' written notice from the other party or, if the breach is not of a type that can be cured within such time period, then after a reasonable time to cure such breach so long as the breaching party has commenced good faith diligent efforts to cure such breach within said time period and thereafter diligently pursues such cure to completion, then the other party, if not then in material breach itself, may terminate this Agreement. In the event of a material breach of this Agreement by Seller, instead of termination of this Agreement and seeking damages from Seller, Buyer shall alternatively have the right to seek and obtain specific performance of the terms of this Agreement, it being agreed by Seller that the Purchased Assets are unique assets. If any action is brought by Buyer pursuant to this subsection to enforce this Agreement, Seller shall waive the defense that there is an adequate remedy at law. In the event of termination of this Agreement by Seller as a result of an uncured breach of this Agreement by Buyer, Seller's sole and exclusive remedy shall be payment from Buyer to Seller of the amount of \$6,500.00 as liquidated damages. THE DELIVERY OF THE LIQUIDATED DAMAGES AMOUNT TO SELLER SHALL BE CONSIDERED LIQUIDATED DAMAGES AND NOT A PENALTY, AND SHALL BE THE RECIPIENT'S SOLE REMEDY AT LAW OR IN EQUITY FOR A BREACH HEREUNDER IF CLOSING DOES NOT OCCUR. BUYER AND SELLER EACH ACKNOWLEDGE AND AGREE THAT THIS LIQUIDATED DAMAGE AMOUNT IS REASONABLE IN LIGHT OF THE ANTICIPATED HARM WHICH WILL BE CAUSED BY A BREACH OF THIS AGREEMENT, THE DIFFICULTY OF PROOF OF LOSS, THE INCONVENIENCE AND NON-FEASIBILITY OF OTHERWISE OBTAINING AN ADEQUATE REMEDY, AND THE VALUE OF THE TRANSACTION TO BE CONSUMMATED HEREUNDER.

b. If the FCC or a court shall have issued an order or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting or making the transaction not feasible, and such order or other action is finally determined, then either party may terminate this Agreement provided, however, that the right to terminate this Agreement under this Section 13(b) shall not be available to a party whose failure to fulfill any obligation under this Agreement shall have been the principal cause of, or shall have resulted in, such order or action.

c. If the Closing has not occurred within twelve (12) months after the date of this Agreement, then either party may terminate this Agreement, provided, however, that the right to terminate this Agreement under this Section 13(c) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the principal cause of, or shall have resulted in unreasonable delay in the Closing.

14. **Survival.** The representations and warranties of Buyer and Seller set forth above shall survive the Closing Date for a period of twelve (12) months (the "Survival Period"), except that for any representation or warranty of Buyer or Seller as to such party's qualifications and authority to consummate the transactions contemplated hereby, title of the parties to the Purchased Assets, any tax obligations of Seller, or the Purchased Assets being free and clear of any liens the Survival Period shall be indefinite. Seller indemnifies and holds Buyer harmless from any loss, liability, damage or expense (including legal and other expenses incident thereto) arising from or pertaining to (a) ownership of the Purchased Assets prior to the date of Closing or (b) breach of any covenants, representations or warranties of this Agreement, by Seller. Buyer indemnifies and holds Seller harmless from any loss, liability, damage or expense (including legal and other expenses incident thereto) arising from or pertaining to (a) ownership or operation of the Purchased Assets subsequent to the date of Closing or (b) breach of any covenants, representations or warranties in this Agreement, by Buyer. No claims may be brought under this Agreement unless written notice describing in reasonable detail the nature and basis of such claim is given on or prior to the last day of the Survival Period. In the event such notice is given, the right to indemnification with respect thereto under this provision shall survive the applicable Survival Period until such claim is finally resolved and any obligations with respect thereto are fully satisfied, and the indemnifying party shall be entitled at its own expense to compromise or defend against the claim with counsel reasonably satisfactory to the indemnified party; provided, that once the defense thereof is assumed by the indemnifying party, the indemnifying party shall keep the indemnified party advised of all developments in the defense thereof and any related litigation, and the indemnified party shall be entitled at all times to participate in the defense thereof at its own expense.

15. **Control of Permit.** Between the date of this Agreement and the Closing Date, Buyer shall not control the Permit, which shall remain the sole responsibility and under the control of Seller, subject to Seller's compliance with this Agreement.

16. **Entire Agreement.** This Agreement, together with all exhibits and schedules hereto, constitute the entire agreement between the parties and supersede any prior negotiations, agreements, understandings or arrangements between the parties with respect to the subject matter hereof.

17. **Amendments and Waivers.** No term or provision of this Agreement may be amended, waived, discharged or terminated orally but only by an instrument in writing signed by the party against whom the enforcement of such amendment, waiver, discharge or termination is sought. Any waiver shall be effective only in accordance with its express terms and conditions.

18. **Construction and Enforcement.** This Agreement shall be construed and enforced in accordance with the internal laws of the State of Florida. Any disputes arising out of this Agreement shall be resolved in state or federal court in Florida.

19. **Successors and Assigns.** This Agreement shall inure to the benefit of and be binding on the permitted successors and assigns of the parties hereto. This Agreement and any rights hereunder shall not be assignable by either party hereto without the prior written consent of the other party. Notwithstanding the foregoing, Buyer may in its sole and absolute discretion, assign all of its right, title, interest and obligation under this Agreement to any entity controlled by, or under common control with Buyer, including any subsidiary of Salem Media Group, Inc.

20. **Cooperation.** Both before and after the Closing, Seller and Buyer shall each cooperate, take such actions and execute and deliver such documents as may be reasonably requested by the other party in order to carry out the provisions of this Agreement.

21. **Notices.** All notices hereunder shall be delivered in writing and shall be deemed to have been duly given if delivered and received by certified or registered mail, return receipt requested, or by expedited courier service, to the following addresses or such other addresses as any party may provide by written notice:

To Seller: Delmarva Educational Foundation
3780 Will Scarlet Road
Winston-Salem, North Carolina 27104
Attention: Nancy Epperson
President

To Buyer: Pennsylvania Media Associates, Inc.
4880 Santa Rosa Road
Camarillo, California 93012
Attention: Christopher J. Henderson,
Senior Vice President/Secretary

22. **Exclusivity.** While this Agreement is in effect, Seller agrees not to engage in any discussions or negotiations concerning any potential sale of the Purchased Assets to any party other than Buyer or its assigns.

23. **Attorneys' Fees.** If any action at law or equity is brought, whether in a judicial proceeding or arbitration, to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and expenses from the other party, which fees and expenses shall be in addition to any other relief, which may be awarded.

24. **Counterparts.** This Agreement may be signed in counterparts with the same effect as if the signature on each counterpart were upon the same instrument. Executed copies of this Agreement transmitted by facsimile or other electronic means shall be valid and binding.

*[The remainder of this page has been intentionally left blank.
Signatures appear on the next page.]*

[Signature page to Asset Purchase Agreement]

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

SELLER:

DELMARVA EDUCATIONAL ASSOCIATION

By: /s/ Nancy. A. Epperson
Nancy A. Epperson
President

BUYER:

PENNSYLVANIA MEDIA ASSOCIATES, INC.

By: /s/ Christopher J. Henderson
Christopher J. Henderson
Senior Vice President/Secretary

FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT

This First Amendment to the Asset Purchase Agreement (“Amendment”), is entered into as of May 25, 2016, and amends the Asset Purchase Agreement for FM Translator construction permit W222BT, FCC Facility ID 142973, made and entered into as of the 18th of May, 2016 (the “Agreement”), by and between Delmarva Educational Association (“Seller”) and Pennsylvania Media Associates, Inc. (“Buyer”).

RECITAL

The purpose of this Amendment is to change the proposed primary station to be designated in the modification of the Permit that Buyer is allowed to file under the Agreement.

AGREEMENT

In consideration of the mutual covenants and agreements set forth herein, the parties, intending to be legally bound, hereby agree as follows:

1. **Amendment to Section 10.** Section 10 of the Agreement shall be amended by deleting the existing second sentence of that Section and replacing it with the following sentence: “Such application shall be prepared and filed in accordance with the procedure specified by the FCC pursuant to MB Docket 13-249 to request modifications to the Permit and/or a change in the transmitter site for the Permit to a location designated by Buyer which, if approved by the FCC, will permit the Translator to be used as a fill-in for Buyer’s Class B AM radio station WTLN(AM).”

2. **Continued Effect of the Agreement** All capitalized terms not defined herein shall have the same meaning as in the Agreement. Except as expressly modified by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect and be binding on the parties. This Amendment may not be modified, renewed, extended, or discharged except by a further amendment to the Agreement in writing, signed by both parties.

3. **Effective Date of this Amendment.** This Amendment shall be effective as of May 25, 2016.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

PENNSYLVANIA MEDIA ASSOCIATES, INC.

DELMARVA EDUCATIONAL ASSOCIATION

/s/ Christopher J. Henderson

/s/ Nancy A. Epperson

By: Christopher J. Henderson

By: Nancy A. Epperson

Its: Senior Vice President/Secretary

Its: President

SECOND AMENDMENT TO ASSET PURCHASE AGREEMENT

This Second Amendment to the Asset Purchase Agreement (“Amendment”), is entered into as of July 27, 2016, and amends the Asset Purchase Agreement for FM Translator construction permit W222BT, FCC Facility ID 142973, made and entered into as of the 18th of May, 2016 (the “Agreement”), by and between Delmarva Educational Association (“Seller”) and Pennsylvania Media Associates, Inc. (“Buyer”).

RECITAL

The purpose of this Amendment is to change the proposed primary station to be designated in the modification of the Permit that Buyer is allowed to file under the Agreement.

AGREEMENT

In consideration of the mutual covenants and agreements set forth herein, the parties, intending to be legally bound, hereby agree as follows:

1. **Amendment to Section 10.** Section 10 of the Agreement shall be amended by deleting the existing second sentence of that Section and replacing it with the following sentence: “Such application shall be prepared and filed in accordance with the procedure specified by the FCC pursuant to MB Docket 13-249 to request modifications to the Permit and/or a change in the transmitter site for the Permit to a location designated by Buyer which, if approved by the FCC, will permit the Translator to be used as a fill-in for Buyer’s AM radio station WGUL(AM).”

2. **Continued Effect of the Agreement** All capitalized terms not defined herein shall have the same meaning as in the Agreement. Except as expressly modified by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect and be binding on the parties. This Amendment may not be modified, renewed, extended, or discharged except by a further amendment to the Agreement in writing, signed by both parties.

3. **Effective Date of this Amendment.** This Amendment shall be effective as of July 25, 2016.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

PENNSYLVANIA MEDIA ASSOCIATES, INC.

DELMARVA EDUCATIONAL ASSOCIATION

/s/ Christopher J. Henderson
By: Christopher J. Henderson
Its: Senior Vice President/Secretary

/s/ Nancy. A. Epperson
By: Nancy A. Epperson
Its: President

THIRD AMENDMENT TO ASSET PURCHASE AGREEMENT

This Third Amendment to the Asset Purchase Agreement (“Amendment”), is entered into as of July 29, 2016, and amends the Asset Purchase Agreement for FM Translator construction permit W222BT, FCC Facility ID 142973, made and entered into as of the 18th of May, 2016 (the “Agreement”), by and between Delmarva Educational Association (“Seller”) and Pennsylvania Media Associates, Inc., which assigned the Agreement to Caron Broadcasting, Inc. as of July 27, 2016. Caron Broadcasting, Inc. in turn assigned the Agreement to South Coast Broadcasting, Inc. as of July 29, 2016 (“Buyer”).

RECITAL

The purpose of this Amendment is to change the proposed primary station to be designated in the modification of the Permit that Buyer is allowed to file under the Agreement.

AGREEMENT

In consideration of the mutual covenants and agreements set forth herein, the parties, intending to be legally bound, hereby agree as follows:

1. **Amendment to Section 10.** Section 10 of the Agreement shall be amended by deleting the existing second sentence of that Section and replacing it with the following sentence: “Such application shall be prepared and filed in accordance with the procedure specified by the FCC pursuant to MB Docket 13-249 to request modifications to the Permit and/or a change in the transmitter site for the Permit to a location designated by Buyer which, if approved by the FCC, will permit the Translator to be used as a fill-in for Buyer’s AM radio station WTWD.”

2. **Continued Effect of the Agreement** All capitalized terms not defined herein shall have the same meaning as in the Agreement. Except as expressly modified by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect and be binding on the parties. This Amendment may not be modified, renewed, extended, or discharged except by a further amendment to the Agreement in writing, signed by both parties.

3. **Effective Date of this Amendment** This Amendment shall be effective as of July 25, 2016.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

SOUTH TEXAS BROADCASTING, INC.

DELMARVA EDUCATIONAL ASSOCIATION

/s/ Christopher J. Henderson

/s/ Nancy A. Epperson

By: Christopher J. Henderson

By: Nancy A. Epperson

Its: Senior Vice President/Secretary

Its: President

ASSIGNMENT AND ASSUMPTION OF ASSET PURCHASE AGREEMENT

This Assignment and Assumption of Asset Purchase Agreement (“Assignment and Assumption”), dated as of July 27, 2016, is entered into by and between Pennsylvania Media Associates, Inc., a Pennsylvania corporation (“Assignor”) and Caron Broadcasting, Inc., an Ohio corporation (“Assignee”) and is made pursuant to Section 19 of the Purchase Agreement (hereinafter defined).

WHEREAS, Delmarva Educational Assication, a Florida nonprofit corporation (“Seller”) and Assignor entered into an Asset Purchase Agreement, dated as of May 18, 2016 (the “Purchase Agreement”), pursuant to which, among other things, Seller and Assignor agreed that Seller will sell and Assignor will acquire certain assets relating to the radio broadcast FM translator construction permit W222BT, permitted to Palm Coast, FL, (FCC Facility ID 142973) upon the terms and conditions set forth therein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in the Purchase Agreement and this Assignment and Assumption, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee hereby covenant and agree as follows:

1. Assignor hereby assigns, transfers, and conveys to Assignee all of Assignor’s right, title, and interest in and to the Purchase Agreement.
2. Assignee hereby assumes and undertakes to pay, to satisfy, and to discharge the liabilities, obligations, and commitments of Assignor under the Purchase Agreement from the date hereof.
3. This Assignment and Assumption is intended to effect an assignment to a wholly owned subsidiary of Assignor in connection with the consummation of the transactions contemplated by the Purchase Agreement, as permitted by Section 19 thereof, and is made without representation and warranty except as provided in and by the Purchase Agreement. This Assignment and Assumption is in all respects subject to the provisions of the Purchase Agreement and is not intended in any way to supersede, to limit, or to qualify any provision of the Purchase Agreement.
4. Each of Assignor and, by its acceptance hereof, Assignee covenants and agrees to execute such further documents and instruments and to take such additional actions as may reasonably be requested by Assignee or Assignor, as the case may be, to vest in Assignee any and all of the assets, liabilities, obligations, and commitments being transferred hereby and otherwise to effectuate the intent of this Assignment and Assumption.
5. Unless otherwise defined herein, all capitalized terms used herein have the meanings ascribed to them in the Purchase Agreement.

6. This Assignment and Assumption may be signed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Assumption to be executed and delivered effective as of the date first written above.

PENNSYLVANIA MEDIA ASSOCIATES, INC.

By

Christopher J. Henderson
Sr. Vice President and Secretary

CARON BROADCASTING, INC.

By

Christopher J. Henderson
Sr. Vice President and Secretary

ASSIGNMENT AND ASSUMPTION OF ASSET PURCHASE AGREEMENT

This Assignment and Assumption of Asset Purchase Agreement (“Assignment and Assumption”), dated as of July 29, 2016, is entered into by and between Caron Broadcasting, Inc., an Ohio corporation (“Assignor”) and South Texas Broadcasting, Inc., a Texas corporation (“Assignee”) and is made pursuant to Section 19 of the Purchase Agreement (hereinafter defined).

WHEREAS, Delmarva Educational Association, a Florida nonprofit corporation (“Seller”) and Pennsylvania Media Associates, Inc. (“PMA”) entered into an Asset Purchase Agreement, dated as of May 18, 2016 (the “Purchase Agreement”), pursuant to which, among other things, Seller and Assignor agreed that Seller will sell and Assignor will acquire certain assets relating to the radio broadcast FM translator construction permit W222BT, permitted to Palm Coast, FL, (FCC Facility ID 142973) upon the terms and conditions set forth therein.

WHEREAS, PMA and Assignor entered into an Assignment and Assumption of Asset Purchase Agreement (“First Assignment”) dated as of July 27, 2016, pursuant to which PMA’s rights, title and interest in and to the Purchase Agreement were assigned to Assignor.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in the Purchase Agreement and this Assignment and Assumption, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee hereby covenant and agree as follows:

1. Assignor hereby assigns, transfers, and conveys to Assignee all of Assignor’s right, title, and interest in and to the Purchase Agreement.
2. Assignee hereby assumes and undertakes to pay, to satisfy, and to discharge the liabilities, obligations, and commitments of Assignor under the Purchase Agreement from the date hereof.
3. This Assignment and Assumption is intended to effect an assignment to a wholly owned subsidiary of Assignor in connection with the consummation of the transactions contemplated by the Purchase Agreement, as permitted by Section 19 thereof, and is made without representation and warranty except as provided in and by the Purchase Agreement. This Assignment and Assumption is in all respects subject to the provisions of the Purchase Agreement and is not intended in any way to supersede, to limit, or to qualify any provision of the Purchase Agreement.
4. Each of Assignor and, by its acceptance hereof, Assignee covenants and agrees to execute such further documents and instruments and to take such additional actions as may reasonably be requested by Assignee or Assignor, as the case may be, to vest in Assignee any and all of the assets, liabilities, obligations, and commitments being transferred hereby and otherwise to effectuate the intent of this Assignment and Assumption.

5. Unless otherwise defined herein, all capitalized terms used herein have the meanings ascribed to them in the Purchase Agreement.

6. This Assignment and Assumption may be signed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Assumption to be executed and delivered effective as of the date first written above.

CARON BROADCASTING, INC.

By /s/ Christopher J. Henderson
Christopher J. Henderson
Sr. Vice President and Secretary

SOUTH TEXAS BROADCASTING, INC.

By /s/ Christopher J. Henderson
Christopher J. Henderson
Sr. Vice President and Secretary

Financial Code of Conduct

Salem Media Group, Inc. (the "Company") has always held itself and its directors and employees to the highest standards of ethical behavior in all business dealings. These standards include an expectation that the integrity of the Company's financial reporting will never be compromised. All Salem employees and directors have a primary responsibility to ensure that all Company transactions are properly accounted for in the Company's accounting records and reflected on the Company's public reports.

It is appropriate to adopt a code of conduct uniquely applicable to financial matters and which supplements the Code of Ethics to which all employees of the Company are subject.

Specifically, each person subject to this Code of Conduct will at all times:

1. If working on financial documents and matters, ensure that external and internal financial data, and other information contained in the Company's public reports (a) present the facts in accordance with United States Generally Accepted Accounting Principles (GAAP) fairly and completely, and (b) accurately, timely and understandably set forth the facts they purport to represent.
2. Uphold honest and ethical conduct, especially in relation to the handling of actual and apparent conflicts of interest.
3. Report any conflicts of interest or any violation or suspected violation of this code of ethics as described below.
4. Ensure the Company is in full compliance with the law, all applicable rules and regulations, and Company policy, both in letter and in spirit.
5. Refrain from using the Company's confidential information, Company resources or corporate opportunities learned in the course of one's work for personal advantage without prior written approval from their supervisor.

Any person who violates this Code of Conduct is subject to disciplinary action, which may include termination of employment. The same is true of people who know of but fail to report another employee or director's violation of law or Company policy.

Any person who has reason to believe or suspect that this Ethical Code has been violated should immediately report the basis for such belief or suspicion to the Company. The report can be made through the Company's Ethics Helpline either telephonically (at 866-224-2163) or via the Internet (at www.SalemEthics.com). Reports to the Company's Ethics Helpline may be left anonymously, but the more information provided the greater ability the Company will have to investigate.

EXHIBIT 21

SUBSIDIARIES OF SALEM MEDIA GROUP, INC.

Name	State of Formation
Air Hot, Inc.	Delaware
Bison Media, Inc.	Colorado
Caron Broadcasting, Inc.	Ohio
Common Ground Broadcasting, Inc.	Oregon
Eagle Products, LLC	Delaware
Inspiration Media, Inc.	Washington
Inspiration Media of Texas, LLC	Texas
New Inspiration Broadcasting Company, Inc.	California
NI Acquisition Corporation	California
Pennsylvania Media Associates, Inc.	Pennsylvania
Reach Satellite Network, Inc.	Tennessee
Salem Consumer Products, Inc.	Delaware
Salem Communications Holding Corporation	Delaware
Salem Media Group, LLC	Delaware
Salem Media of Colorado, Inc.	Colorado
Salem Media of Hawaii, Inc.	Delaware
Salem Media of Illinois, LLC	Delaware
Salem Media of Kentucky, Inc.	Kentucky
Salem Media of Massachusetts, LLC	Massachusetts
Salem Media of New York, LLC	Delaware
Salem Media of Ohio, Inc.	Ohio
Salem Media of Oregon, Inc.	Oregon
Salem Media of Texas, Inc.	Texas
Salem Media of Virginia, Inc.	Virginia
Salem Media Representatives, Inc.	Texas
Salem Publishing, Inc.	Tennessee
Salem Radio Network Incorporated	Delaware
Salem Radio Operations, LLC	Delaware
Salem Radio Properties, Inc.	Delaware
Salem Satellite Media, LLC	Delaware
Salem Web Network, LLC	Delaware
SCA License Corporation	Delaware
SCA-Palo Alto, LLC	Delaware
South Texas Broadcasting, Inc.	Texas
SRN News Network, Inc.	Texas
SRN Store, Inc.	Texas

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (Nos. 333-40494, 333-113794, 333-125056 and 333-182807) on Form S-8 and in Registration Statement No. 333-86580 on Form S-3 of Salem Media Group, Inc. and subsidiaries of our report dated March 11, 2016, relating to our audit of the consolidated financial statements and the financial statement schedule, appearing in this Annual Report on Form 10-K of Salem Media Group, Inc. and subsidiaries for the year ended December 31, 2016.

/s/ SingerLewak LLP

Los Angeles, California
March 10, 2017

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-40494, 333-113794, 333-125056 and 333-182807 on Form S-8 and in Registration Statement No. 333-212909 on Form S-3 of Salem Media Group, Inc. of our report dated March 10, 2017 relating to the consolidated financial statements of Salem Media Group, Inc., and our report dated the same date relative to the effectiveness of internal control over financial reporting as of December 31, 2016, appearing in this Annual Report on Form 10-K.

/s/ Crowe Horwath LLP

Sherman Oaks, California
March 10, 2017

EXHIBIT 23.3

[Noble Financial Capital Markets letterhead]

March 7, 2017

Mr. Evan D. Masyr
Executive Vice President & Chief Financial Officer
Salem Media Group, Inc.
4880 Santa Rosa Road
Camarillo, CA 93012

PERSONAL & CONFIDENTIAL

Dear Mr. Masyr:

This letter is to confirm that Salem Media Group, Inc. is granted permission to disclose through its annual 10K filing with the Securities and Exchange Commission (SEC) on or about March 9, 2017, the name of "Noble Financial Capital Markets" in reference to Noble's ASC 350 impairment analysis of Salem's goodwill and other intangible assets for its informational purposes only.

Noble Financial Capital Markets

/s/ Richard H. Giles

Name: Richard H. Giles
Title: Managing Director

EXHIBIT 31.1

I, Edward G. Atsinger III, certify that:

1. I have reviewed this annual report on Form 10-K of Salem Media Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2017

/s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer

EXHIBIT 31.2

I, Evan D. Masyr, certify that:

1. I have reviewed this annual report on Form 10-K of Salem Media Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2017

/s/ EVAN D. MASYR

Evan D. Masyr
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as Chief Executive Officer of Salem Media Group, Inc. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Annual Report of the Company on Form 10-K for the period ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2017

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in his capacity as Executive Vice President and Chief Financial Officer of Salem Media Group, Inc. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Annual Report of the Company on Form 10-K for the period ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2017

By: /s/ EVAN D. MASYR

Evan D. Masyr
Executive Vice President and Chief Financial Officer
