

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

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

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

Large accelerated filer Accelerated filer Emerging Growth Company
Non-accelerated filer Smaller Reporting Company
(Do not check if a Smaller Reporting Company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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 August 1, 2017
Common Stock, \$0.01 par value per share	20,565,198 shares
Class B	Outstanding at August 1 2017
Common Stock, \$0.01 par value per share	5,553,696 shares

SALEM MEDIA GROUP, INC.
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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.

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 – FINANCIAL INFORMATION

SALEM MEDIA GROUP, INC.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	December 31, 2016 (Note 1)	June 30, 2017 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 130	\$ 19
Trade accounts receivable (net of allowances of \$10,420 in 2016 and \$7,091 in 2017)	37,260	33,552
Other receivables (net of allowances of \$260 in 2016 and \$125 in 2017)	751	982
Inventories (net of reserves of \$2,226 in 2016 and \$1,596 in 2017)	670	867
Prepaid expenses	6,287	7,091
Deferred income taxes - current	9,411	—
Land held for sale	1,000	1,000
Total current assets	<u>55,509</u>	<u>43,511</u>
Notes receivable (net of allowance of \$564 in 2016 and \$723 in 2017)	65	191
Property and equipment (net of accumulated depreciation of \$156,024 in 2016 and \$160,869 in 2017)	102,790	101,617
Broadcast licenses	388,517	388,678
Goodwill	25,613	25,628
Other indefinite-lived intangible assets	332	313
Amortizable intangible assets (net of accumulated amortization of \$44,488 in 2016 and \$44,872 in 2017)	14,408	12,204
Deferred financing costs	82	506
Deferred income taxes – non-current	—	1,877
Other assets	2,952	3,284
Total assets	<u>\$ 590,268</u>	<u>\$ 577,809</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,968	\$ 2,542
Accrued expenses	15,658	12,322
Accrued compensation and related expenses	8,133	8,196
Accrued interest	77	2,114
Current portion of deferred revenue	9,491	9,219
Income taxes payable	223	59
Current portion of long-term debt and capital lease obligations	590	10,116
Total current liabilities	<u>39,140</u>	<u>44,568</u>
Long-term debt and capital lease obligations less unamortized debt issuance costs, net of current portion	261,084	249,206
Fair value of interest rate swap	514	—
Deferred income taxes	60,769	54,507
Deferred rent expense	9,596	9,679
Deferred revenue less current portion	5,252	5,127
Other long-term liabilities	67	52
Total liabilities	<u>376,422</u>	<u>363,139</u>
Commitments and contingencies (Note 18)		
Stockholders' Equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,593,130 and 22,879,193 issued and 20,275,480 and 20,561,543 outstanding at December 31, 2016 and June 30, 2017, respectively	226	227
Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2016 and June 30, 2017	56	56
Additional paid-in capital	243,607	245,486
Accumulated earnings	3,963	2,907
Treasury stock, at cost (2,317,650 shares at December 31, 2016 and June 30, 2017)	(34,006)	(34,006)
Total stockholders' equity	<u>213,846</u>	<u>214,670</u>
Total liabilities and stockholders' equity	<u>\$ 590,268</u>	<u>\$ 577,809</u>

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2017	2016	2017
Net broadcast revenue	\$ 49,971	\$ 49,251	\$ 98,716	\$ 97,055
Net digital media revenue	11,047	10,866	22,057	21,552
Net publishing revenue	6,761	5,995	11,581	12,485
Total net revenue	<u>67,779</u>	<u>66,112</u>	<u>132,354</u>	<u>131,092</u>
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including \$411 and \$429 for the three months ended June 30, 2016 and 2017, respectively, and \$819 and \$853 for the six months ended June 30, 2016 and 2017, respectively, paid to related parties)	35,871	35,931	72,021	71,767
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,619	8,370	17,643	17,072
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,983	5,668	11,931	12,019
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including \$9 and \$28 for the three months ended June 30, 2016 and 2017, respectively, and \$107 and \$120 for the six months ended June 30, 2016 and 2017, respectively, paid to related parties)	3,568	3,825	7,781	8,950
Depreciation	2,982	3,109	5,974	6,089
Amortization	1,189	1,143	2,332	2,285
Change in the estimated fair value of contingent earn-out consideration	(134)	(43)	(262)	(42)
Impairment of long-lived assets	700	—	700	—
Impairment of indefinite-lived long-term assets other than goodwill	—	—	—	19
Net gain on the sale or disposal of assets	(1,701)	(510)	(1,551)	(505)
Total operating expenses	<u>58,077</u>	<u>57,493</u>	<u>116,569</u>	<u>117,654</u>
Operating income	9,702	8,619	15,785	13,438
Other income (expense):				
Interest income	2	1	3	2
Interest expense	(3,730)	(3,924)	(7,526)	(7,354)
Change in the fair value of interest rate swap	(423)	—	(2,181)	357
Loss on early retirement of long-term debt	(5)	(2,734)	(14)	(2,775)
Net income before income taxes	5,546	1,962	6,067	3,668
Provision for income taxes	2,190	690	2,358	1,336
Net income	<u>\$ 3,356</u>	<u>\$ 1,272</u>	<u>\$ 3,709</u>	<u>\$ 2,332</u>
Basic earnings per share data:				
Basic earnings per share	\$ 0.13	\$ 0.05	\$ 0.14	\$ 0.09
Diluted earnings per share data:				
Diluted earnings per share	\$ 0.13	\$ 0.05	\$ 0.14	\$ 0.09
Distributions per share	\$ 0.13	\$ 0.07	\$ 0.13	\$ 0.13
Basic weighted average shares outstanding	25,551,445	26,062,403	25,518,339	25,982,102
Diluted weighted average shares outstanding	<u>26,052,649</u>	<u>26,593,366</u>	<u>25,927,804</u>	<u>26,442,146</u>

See accompanying notes

SALEM MEDIA GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2017
OPERATING ACTIVITIES		
Net income	\$ 3,709	\$ 2,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	324	1,425
Tax benefit related to stock options exercised	67	—
Depreciation and amortization	8,306	8,374
Amortization of deferred financing costs	318	357
Accretion of financing items	103	74
Accretion of acquisition-related deferred payments and contingent consideration	38	24
Provision for bad debts	268	796
Deferred income taxes	2,176	1,272
Change in the fair value of interest rate swap	2,181	(357)
Change in the estimated fair value of contingent earn-out consideration	(262)	(42)
Impairment of long-lived assets	700	—
Impairment of indefinite-lived long-term assets other than goodwill	—	19
Loss on early retirement of long-term debt	14	2,775
Net gain on the sale or disposal of assets	(1,551)	(505)
Changes in operating assets and liabilities:		
Accounts receivable	7,421	2,669
Inventories	(10)	(197)
Prepaid expenses and other current assets	(30)	(804)
Accounts payable and accrued expenses	1,234	(1,143)
Deferred rent	(6,429)	49
Deferred revenue	1,086	(360)
Other liabilities	—	(15)
Income taxes payable	55	(164)
Net cash provided by operating activities	<u>19,718</u>	<u>16,579</u>
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances	(5,055)	(4,768)
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(448)	(52)
Escrow deposits related to acquisitions	(19)	(42)
Purchases of broadcast assets and radio stations	(718)	(130)
Purchases of digital media businesses and assets	(2,803)	(310)
Purchases of publishing businesses assets	(3)	—
Proceeds from sale of broadcast assets	2,471	600
Other	(547)	(289)
Net cash used in investing activities	<u>(7,122)</u>	<u>(4,991)</u>
FINANCING ACTIVITIES		
Payments under Term Loan B	(2,750)	(263,000)
Proceeds from borrowings under Revolver and ABL Facility	32,898	34,107
Payments on Revolver and ABL Facility	(34,433)	(24,583)
Payment of interest rate swap	—	(783)
Proceeds from bond offering	—	255,000
Payment of debt issuance costs	—	(6,368)
Payments of acquisition-related contingent earn-out consideration	(88)	(14)
Payments of deferred installments due from acquisition activity	(3,071)	(225)
Proceeds from the exercise of stock options	336	455
Payments of capital lease obligations	(53)	(62)
Payment of cash distributions on common stock	(3,321)	(3,388)
Book overdraft	(2,168)	(2,838)
Net cash used in financing activities	<u>(12,650)</u>	<u>(11,699)</u>
Net decrease in cash and cash equivalents	(54)	(111)
Cash and cash equivalents at beginning of year	98	130
Cash and cash equivalents at end of period	<u>\$ 44</u>	<u>\$ 19</u>

See accompanying notes

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

Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Cash paid for interest, net of capitalized interest	\$	7,099	\$ 4,849
Cash paid for income taxes	\$	60	\$ 211
Other supplemental disclosures of cash flow information:			
Barter revenue	\$	2,475	\$ 2,565
Barter expense	\$	2,441	\$ 2,348
Non-cash investing and financing activities:			
Capital expenditures reimbursable under tenant improvement allowances	\$	448	\$ 52
Current value of deferred cash payments (short-term)	\$	1,300	\$ —
Assets acquired under capital leases	\$	—	\$ 16
Debt issuance costs accrued	\$	—	\$ 465

See accompanying notes

SALEM MEDIA GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. 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. 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. We maintain a website at www.salemmedia.com.

Information with respect to the three and six months ended June 30, 2017 and 2016 is unaudited. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the company. The unaudited interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Salem filed on Form 10-K for the year ended December 31, 2016. Our results are subject to seasonal fluctuations. Therefore, the results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The balance sheet at December 31, 2016 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

Description of Business

Salem is a domestic multimedia company specializing in Christian and conservative content. Our media properties are comprised of radio broadcasting, digital media, and publishing entities. We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which are discussed in Note 19 – Segment Data. Our foundational business is radio broadcasting, which includes 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, TCM 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 format commercial radio stations. Each of our radio stations has a website specifically designed for that station from which our audience can access our entire library of digital content and online publications.

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, GodTube.com, CrossCards.com, LightSource.com, Jesus.org, BibleStudyTools.com, iBelieve.com, CCMmagazine.com and ChristianHeadlines.com, and 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 publish digital newsletters through Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

Our church e-commerce websites, including WorshipHouseMedia.com, SermonSpice.com, SermonSearch.com, ChurchStaffing.com, and ChristianJobs.com, offer a variety of digital resources including videos, song tracks, sermon archives and job listings to pastors and Church leaders. E-commerce also includes Eagle Wellness, which sells nutritional supplements.

Our web content is accessible through all of our radio station websites that feature content of interest to local audiences throughout the United States.

Our publishing operating segment is comprised of three businesses: (1) Regnery Publishing, 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 service for authors through Xulon Press and Mill City Press; and (3) Salem Publishing™ which produces and distributes print magazines.

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 June 30, 2017, we did not have implicit or explicit arrangements that required consolidation under the guidance in FASB ASC Topic 810.

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;
- s a l e s returns and allowances;
- barter transactions;
- inventory reserves;
- reserves for royalty advances;
- f a i r value of equity awards;
- self-insurance reserves;
- estimated lives for tangible and intangible assets;
- i n c o m e 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 reclassification of Salem Consumer Products (“SCP”) from our digital media segment to our broadcast segment. SCP sells books, DVD’s and editorial content developed by our on-air personalities. The reclassification was made to include revenue from all sources, including SCP, to assess the overall performance of each network program. Refer to Note 19 – Segment Data for an explanation of this reclassification.

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 May 2017, the FASB issued ASU 2017-09, *“Compensation – Stock Compensation (Topic 718) Scope of Modification Accounting,”* which clarifies when to account for a change in the terms or conditions of a share-based payment award as a modification. ASU 2017-09 requires modification accounting only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In March 2017, the FASB issued ASU 2017-08, *“Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium on Purchased Callable Debt Securities,”* which amends the amortization period for certain purchased callable debt securities held at a premium to a shorter period based on the earliest call date. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We do not expect the adoption of this accounting standard to have a material impact on 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 2017-01, *“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 expect the adoption of ASU 2017-01 to impact the purchase price allocation of any future radio station acquisitions that will be considered asset acquisitions under the new guidance rather than business acquisitions. We do not expect the change to 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 2016-16 *“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 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 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 the remainder of 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 modified retrospective application method of Topic 606. We do not believe that there will be a material impact to our revenues upon adoption as the practice of selling advertising on third party websites has not been widely used. We expect this type of sale to grow in popularity in future periods with the net incremental revenue reported in our financials. 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

Approximately 72% of our total assets as of June 30, 2017 consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. 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 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 complete our annual impairment tests in the fourth quarter of each 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 past experiences and judgment about future operating performance of our markets and business segments. 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 16.

We continue to evaluate our print magazine business due to recurring declines in operating results and projected revenues. Due to operating results during the three months ended March 31, 2017 that did not meet management's expectations, we ceased publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon delivery of the May 2017 print publications. Because of the likelihood that these print magazines would be sold or otherwise disposed of before the end of their previously estimated lives, we performed impairment testing as of March 31, 2017. We then recorded an impairment charge of \$19,000 associated with mastheads. There were no changes in depreciable lives of any property or equipment associated with these magazines as each individually identifiable asset had been fully depreciated.

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. We reviewed long-lived assets associated with Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine as of March 31, 2017, due to the likelihood that these print magazines would be sold or disposed of before the end of their previously estimated lives. We recorded a \$1.9 million decrease in the cost and a \$1.9 million decrease in the accumulated amortization for fully amortized subscriber lists and domain names associated with these magazines. There was no impairment loss or adjustment required to the previously estimated useful lives of these assets. There were no indications of impairment present as of June 30, 2017.

NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

During the six month period ended June 30, 2017, we completed or entered into the following transactions:

Debt

On May 19, 2017, we closed on a private offering of \$255.0 million aggregate principal amount of 6.75% senior secured notes due 2024 (the "Notes") and concurrently entered into a five-year \$30.0 million senior secured asset-based revolving credit facility, which includes a \$5.0 million subfacility for standby letters of credit and a \$7.5 million subfacility for swingline loans ("ABL Facility") due May 19, 2022. The net proceeds from the offering of the Notes, together with borrowings under the ABL Facility, were used to repay outstanding borrowings, including accrued and unpaid interest, on our previously existing senior credit facilities consisting of a term loan ("Term Loan B") and a revolving credit facility of \$25.0 million ("Revolver"), and to pay fees and expenses incurred in connection with the Notes offering and the ABL Facility (collectively, the "Refinancing").

In connection with the Refinancing, on May 19, 2017, we repaid \$258.0 million in principal on the Term Loan B and paid interest due as of that date. We recorded a \$0.6 million pre-tax loss on the early retirement of long-term debt related to the unamortized discount and a \$1.5 million pre-tax loss on the early retirement of long-term debt related to unamortized debt issuance costs associated with the Term Loan B. We also terminated the Revolver as of May 19, 2017. We repaid \$4.1 million in outstanding principal on the Revolver and paid interest due as of that date. We recorded a \$56,000 pre-tax loss on the early retirement of long-term debt related to unamortized debt issuance costs associated with the Revolver.

On February 28, 2017, we repaid \$3.0 million principal on the Term Loan B of \$300.0 million, and paid interest due as of that date. We recorded a \$6,200 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$18,000 in unamortized debt issuance costs associated with the principal repayment.

On January 30, 2017, we repaid \$2.0 million in principal on the Term Loan B and paid interest due as of that date. We recorded a \$4,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$12,000 in unamortized debt issuance costs associated with the principal repayment.

Equity

On June 1, 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 of \$1.7 million was paid on June 30, 2017 to all Class A and Class B common stockholders of record as of June 16, 2017.

On March 9, 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 of \$1.7 million was paid on March 30, 2017 to all Class A and Class B common stockholders of record as of March 20, 2017.

On March 24, 2017, a restricted stock award was granted to certain members of management that vested immediately. The fair value of each restricted stock award was measured based on the grant date market price of our common shares and expensed as of the vesting date. These restricted stock awards contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until three months from vesting date. Recipients of these restricted stock awards were entitled to all the rights of absolute ownership of the restricted stock from the date of grant, including the right to vote the shares and to receive dividends. 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 were considered issued and outstanding from the vest date of grant.

Acquisitions – Broadcast

On June 28, 2017, we closed on the acquisition of an FM translator construction permit in Festus, Missouri for \$40,000 in cash. The FM translator will be relocated to the St. Louis, Missouri market for use by our KXFN-FM radio station.

On March 14, 2017, we closed on the acquisition of an FM translator construction permit in Quartz Site, Arizona for \$20,000 in cash. The FM translator will be relocated to the San Diego, California market for use by our KPRZ-AM radio station.

On March 1, 2017, we closed on the acquisition of an FM translator construction permit in Roseburg, Oregon for \$45,000 in cash. The FM translator will be relocated to the Portland, Oregon market for use by our KPDQ-AM radio station.

On January 16, 2017, we closed on the acquisition of an FM translator in Astoria, Oregon 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.

Acquisitions – Digital Media

On June 8, 2017, we acquired a Portuguese Bible mobile application and related assets for \$65,000 in cash. As part of the purchase agreement, we may pay up to an additional \$20,000 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 the Portuguese Bible mobile's applications to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$16,500, which approximated the discounted present value due to the earn-out period of less than one year.

On March 15, 2017, we acquired the website prayers-for-special-help.com and related assets for \$0.2 million in cash. We recorded goodwill of approximately \$15,000 with the expected synergies to be realized from combining these applications into our existing digital media platform. The accompanying Condensed Consolidated Statement of Operations reflects the operating results as of the closing date within our digital media operating segment.

A summary of our business acquisitions and asset purchases during the six month period ended June 30, 2017, none of which were individually or in the aggregate material to our Condensed Consolidated financial position as of the respective date of acquisition, is as follows:

<u>Acquisition Date</u>	<u>Description</u>	<u>Total Cost</u>
		<i>(Dollars in thousands)</i>
June 28, 2017	FM Translator construction permit, Festus, Missouri (asset acquisition)	\$ 40
June 8, 2017	Portuguese Bible Mobile Applications (business acquisition)	82
March 15, 2017	Prayers for Special Help (business acquisition)	245
March 14, 2017	FM Translator construction permit, Quartz Site, Arizona (asset purchase)	20
March 1, 2017	FM Translator construction permit, Roseburg, Oregon (asset purchase)	45
January 16, 2017	FM Translator, Astoria, Oregon (asset purchase)	33
January 1, 2017	FM Translator construction permit, Mohave Valley, Arizona (asset purchase)	20
		<u>\$ 485</u>

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 assets acquired. 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 Condensed Consolidated Statements of Operations. To date, we have not recorded adjustments to the 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. We recognized costs associated with acquisitions of \$42,000 during the six month period ended June 30, 2017 compared to \$0.1 million during the same period of the prior year, which are included in unallocated corporate expenses in the accompanying Condensed 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 16 - Fair Value Measurements.

The following table summarizes the total acquisition consideration for the six month period ended June 30, 2017:

Description	Total Consideration (Dollars in thousands)
Cash payments made upon closing	\$ 440
Escrow deposits paid in prior years	28
Present value of estimated fair value of contingent earn-out consideration	17
Total purchase price consideration	<u>\$ 485</u>

The fair value of the net assets acquired was allocated as follows:

	Net Broadcast Assets Acquired	Net Digital Media Assets Acquired	Net Total Assets Acquired
	(Dollars in thousands)		
Assets			
Property and equipment	\$ —	\$ 230	\$ 230
Broadcast licenses	158	—	158
Goodwill	—	15	15
Domain and brand names	—	56	56
Customer lists and contracts	—	26	26
	<u>\$ 158</u>	<u>\$ 327</u>	<u>\$ 485</u>

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 Condensed Consolidated Statements of Operations included in this quarterly report on Form 10-Q reflect the operating results of this entity as of the TBA date.

On July 26, 2016, we entered an APA to acquire an FM translator construction permit in Eaglemount, Washington for \$40,000 in cash. The translator will be used by our radio station KDZR-AM in Portland, Oregon. The transaction closed on July 24, 2017.

Divestitures

On June 1, 2017, we received \$0.6 million in cash for a former transmitter site in our Dallas, Texas market that had been leased to a third-party.

Due to operating results during the three month period ended March 31, 2017 that did not meet management's expectations, we ceased publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon delivery of the May 2017 print publications. On May 30, 2017, we received \$10,000 for Preaching Magazine™ and YouthWorker Journal™. The purchaser assumed all deferred subscription liabilities for these publications resulting in a pre-tax gain on the sale or disposal of assets of approximately \$56,000.

On January 3, 2017, Word Broadcasting began operating our Louisville radio stations (WFIA-AM; WFIA-FM; WGK-AM) under a twenty-four month TBA.

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 16.

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.

Portuguese Bible Mobile Application

We acquired a Portuguese Bible mobile application and related assets on June 8, 2017. We paid \$65,000 in cash upon closing and may pay up to an additional \$20,000 in contingent earn-out consideration during the twelve month period ending June 8, 2018 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 the Portuguese Bible mobile applications to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$16,500, which approximated the discounted present value.

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimated 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 \$20,000. There were no changes in our estimates of the fair value of the contingent earn-out consideration as of the period ended June 30, 2017.

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 during the twelve month period ending September 13, 2017 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 \$74,000, which was recorded at the discounted present value of \$66,000. The discount is being accreted to interest expense over the twelve month 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 \$74,000. During the six month period ended June 30, 2017, we recorded a net decrease of \$39,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period due to a reduction in the likelihood of achieving the revenue targets based on actual results to date that were lower than our original estimates.

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 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 reviewed 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 were reflected in our results of operations in the period they were identified, up to the maximum amount due under the contract of \$165,000 less any amounts paid to date. During the six month period ended June 30, 2017, we recorded a net decrease of \$4,000 in the estimated fair value of the contingent earn-out consideration based on actual session results at the end of the earn-out period. We paid a total of \$75,000 to the seller over the two year earn-out period, with no payments made during the six month period ended June 30, 2017.

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 was based upon 50% of the net subscriber revenues achieved over the two-year period from date of close with 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 was accreted to interest expense over the two-year earn-out period. We paid a total of \$91,000 to the seller over the two year earn out period, of which approximately \$14,000 was paid during the six month period ended June 30, 2017.

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. The purchase agreement included contingent earn-out consideration of up to \$8.5 million 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 as of the end of the term on December 31, 2016.

The following table reflects the changes in the present value of our acquisition-related estimated contingent earn-out consideration during the three and six month periods ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	<i>(Dollars in thousands)</i>		
Beginning Balance as of April 1, 2017	\$ 60	\$ —	\$ 60
Acquisitions	17	—	17
Accretion of acquisition-related contingent earn-out consideration	2	—	2
Change in the estimated fair value of contingent earn-out consideration	(43)	—	(43)
Reclassification of payments due in next 12 months to short-term	—	—	—
Payments	(5)	—	(5)
Ending Balance as of June 30, 2017	<u>\$ 31</u>	<u>\$ —</u>	<u>\$ 31</u>

	Three Months Ended June 30, 2016		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	<i>(Dollars in thousands)</i>		
Beginning Balance as of April 1, 2016	\$ 541	\$ 33	\$ 574
Acquisitions	—	—	—
Accretion of acquisition-related contingent earn-out consideration	5	1	6
Change in the estimated fair value of contingent earn-out consideration	(134)	—	(134)
Reclassification of payments due in next 12 months to short-term	34	(34)	—
Payments	(5)	—	(5)
Ending Balance as of June 30, 2016	<u>\$ 441</u>	<u>\$ —</u>	<u>\$ 441</u>

	Six Months Ended June 30, 2017		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	<i>(Dollars in thousands)</i>		
Beginning Balance as of January 1, 2017	\$ 66	\$ —	\$ 66
Acquisitions	17	—	17
Accretion of acquisition-related contingent earn-out consideration	4	—	4
Change in the estimated fair value of contingent earn-out consideration	(42)	—	(42)
Reclassification of payments due in next 12 months to short-term	—	—	—
Payments	(14)	—	(14)
Ending Balance as of June 30, 2017	<u>\$ 31</u>	<u>\$ —</u>	<u>\$ 31</u>

	Six Months Ended June 30, 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	—	—	—
Accretion of acquisition-related contingent earn-out consideration	8	8	16
Change in the estimated fair value of contingent earn-out consideration	(208)	(54)	(262)
Reclassification of payments due in next 12 months to short-term	556	(556)	—
Payments	(88)	—	(88)
Ending Balance as of June 30, 2016	<u>\$ 441</u>	<u>\$ —</u>	<u>\$ 441</u>

NOTE 6. INVENTORIES

Inventories consist of finished goods that include books printed for sale by Regnery Publishing and wellness products for sale on our e-commerce sites. 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, 2016	As of June 30, 2017
	<i>(Dollars in thousands)</i>	
Regnery Publishing book inventories	\$ 2,473	\$ 2,126
Reserve for obsolescence – Regnery Publishing	(2,104)	(1,499)
Inventory, net - Regnery Publishing	<u>369</u>	<u>627</u>
Wellness products	\$ 423	\$ 337
Reserve for obsolescence – Wellness products	(122)	(97)
Inventory, net - Wellness products	<u>301</u>	<u>240</u>
Consolidated inventories, net	<u>\$ 670</u>	<u>\$ 867</u>

NOTE 7. BROADCAST LICENSES

The following table presents the changes in broadcasting licenses that include capital projects and acquisitions of radio stations and FM translators as discussed in Note 4 of our Condensed Consolidated financial statements.

Broadcast Licenses	Twelve Months Ended December 31, 2016	Six Months Ended June 30, 2017
	<i>(Dollars in thousands)</i>	
Balance, beginning of period before cumulative loss on impairment	\$ 492,032	\$ 494,058
Accumulated loss on impairment	(99,001)	(105,541)
Balance, beginning of period after cumulative loss on impairment	<u>393,031</u>	<u>388,517</u>
Acquisitions of radio stations	74	—
Acquisitions of FM translators	1,645	133
Capital projects to improve broadcast signal and strength	307	28
Impairments based on estimated fair value of broadcast licenses	(6,540)	—
Balance, end of period before cumulative loss on impairment	494,058	494,219
Accumulated loss on impairment	(105,541)	(105,541)
Balance, end of period after cumulative loss on impairment	<u>\$ 388,517</u>	<u>\$ 388,678</u>

NOTE 8. GOODWILL

The following table presents the changes in goodwill including acquisitions of multiple radio stations, digital entities and Mill City Press Media within our publishing segment.

Goodwill	Twelve Months Ended December 31, 2016	Six Months Ended June 30, 2017
	<i>(Dollars in thousands)</i>	
Balance, beginning of period before cumulative loss on impairment	\$ 26,560	\$ 27,642
Accumulated loss on impairment	(1,997)	(2,029)
Balance, beginning of period after cumulative loss on impairment	<u>24,563</u>	<u>25,613</u>
Acquisitions of radio stations	—	—
Acquisitions of digital media entities	237	15
Acquisitions of publishing entities	845	—
Impairment charge during year	(32)	—
Balance, end of period before cumulative loss on impairment	27,642	27,657
Accumulated loss on impairment	(2,029)	(2,029)
Ending period balance	<u>\$ 25,613</u>	<u>\$ 25,628</u>

NOTE 9. PROPERTY AND EQUIPMENT

The following is a summary of the categories of our property and equipment:

	As of December 31, 2016	As of June 30, 2017
	<i>(Dollars in thousands)</i>	
Land	\$ 32,402	\$ 32,310
Buildings	29,070	28,894
Office furnishings and equipment	37,386	38,527
Office furnishings and equipment under capital lease obligations	228	244
Antennae, towers and transmitting equipment	84,144	84,694
Antennae, towers and transmitting equipment under capital lease obligations	795	795
Studio, production and mobile equipment	28,668	29,634
Computer software and website development costs	20,042	22,475
Record and tape libraries	27	27
Automobiles	1,373	1,323
Leasehold improvements	14,696	18,437
Construction-in-progress	9,983	5,126
	<u>\$ 258,814</u>	<u>\$ 262,486</u>
Less accumulated depreciation	(156,024)	(160,869)
	<u>\$ 102,790</u>	<u>\$ 101,617</u>

Depreciation expense was approximately \$3.1 million and \$3.0 million, for each of the three month periods ended June 30, 2017 and 2016, respectively, and \$6.1 million and \$6.0 million for the six month periods ended June 30, 2017 and 2016, respectively, which includes depreciation of \$13,000 for each of the three month periods and \$26,000 for each of the six month periods on a radio station tower valued at \$0.8 million under a capital lease obligation. Accumulated depreciation associated with the capital lease was \$543,000 and \$517,000 at June 30, 2017 and December 31, 2016, respectively.

NOTE 10. AMORTIZABLE INTANGIBLE ASSETS

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

	As of June 30, 2017		
	Cost	Accumulated Amortization	Net
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 22,577	\$ (20,460)	\$ 2,117
Domain and brand names	19,517	(13,629)	5,888
Favorable and assigned leases	2,379	(2,007)	372
Subscriber base and lists	6,481	(4,180)	2,301
Author relationships	2,771	(2,084)	687
Non-compete agreements	2,018	(1,179)	839
Other amortizable intangible assets	1,333	(1,333)	—
	<u>\$ 57,076</u>	<u>\$ (44,872)</u>	<u>\$ 12,204</u>

	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)	—
	<u>\$ 58,896</u>	<u>\$ (44,488)</u>	<u>\$ 14,408</u>

Amortization expense was approximately \$1.2 million for each of the three month periods ended June 30, 2017 and 2016, and \$2.3 million for each of the six month periods ended June 30, 2017 and 2016. Based on the amortizable intangible assets as of June 30, 2017, we estimate amortization expense for the next five years to be as follows:

Year Ended December 31,	Amortization Expense (Dollars in thousands)
2017 (July – Dec)	\$ 2,084
2018	3,933
2019	3,363
2020	2,072
2021	520
Thereafter	232
Total	\$ 12,204

NOTE 11. LONG-TERM DEBT

Salem Media Group, Inc. has no independent assets or operations, the subsidiary guarantees relating to certain debt are full and unconditional and joint and several, and any subsidiaries of Salem Media Group, Inc. other than the subsidiary guarantors are minor.

6.75% Senior Secured Notes

On May 19, 2017, we issued in a private placement the Notes, which were guaranteed on a senior secured basis by our existing subsidiaries (the “Subsidiary Guarantors”). The Notes bear interest at a rate of 6.75% per year and mature on June 1, 2024, unless earlier redeemed or repurchased. Interest accrues on the Notes from May 19, 2017 and is payable semi-annually, in cash in arrears, on June 1 and December 1 of each year, commencing December 1, 2017.

The Notes and the ABL Facility are secured by liens on substantially all of our and the Subsidiary Guarantors’ assets, other than certain excluded assets. The ABL Facility has a first-priority lien on our and the Subsidiary Guarantor’s accounts receivable, inventory, deposit and securities accounts, certain real estate and related assets (the “ABL Priority Collateral”). The Notes are secured by a first-priority lien on substantially all other assets of ours and the Subsidiary Guarantors (the “Notes Priority Collateral”). There is no direct lien on our Federal Communications Commission (“FCC”) licenses to the extent prohibited by law or regulation.

We may redeem the Notes, in whole or in part, at any time on or after June 1, 2020 at a price equal to 100% of the principal amount of the Notes plus a “make-whole” premium as of, and accrued and unpaid interest, if any, to, but not including, the redemption date. At any time on or after June 1, 2020, we may redeem some or all of the Notes at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth in the Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. In addition, we may redeem up to 35% of the aggregate principal amount of the Notes before June 1, 2020 with the net cash proceeds from certain equity offerings at a redemption price of 106.75% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the redemption date. We may also redeem up to 10% of the aggregate original principal amount of the Notes per twelve month period before June 1, 2020 at a redemption price of 103% of the principal amount plus accrued and unpaid interest to, but not including, the redemption date.

The indenture relating to the Notes (the “Indenture”) contains covenants that, among other things and subject in each case to certain specified exceptions, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional debt; (ii) declare or pay dividends, redeem stock or make other distributions to stockholders; (iii) make investments; (iv) create liens or use assets as security in other transactions; (v) merge or consolidate, or sell, transfer, lease or dispose of substantially all of our assets; (vi) engage in transactions with affiliates; and (vii) sell or transfer assets.

The Indenture provides for the following events of default (each, an “Event of Default”): (i) default in payment of principal or premium on the Notes at maturity, upon repurchase, acceleration, optional redemption or otherwise; (ii) default for 30 days in payment of interest on the Notes; (iii) the failure by us or certain restricted subsidiaries to comply with other agreements in the Indenture or the Notes, in certain cases subject to notice and lapse of time; (iv) the failure of any guarantee by certain significant Subsidiary Guarantors to be in full force and effect and enforceable in accordance with its terms, subject to notice and lapse of time; (v) certain accelerations (including failure to pay within any grace period) of other indebtedness of ours or any restricted subsidiary if the amount accelerated (or so unpaid) is at least \$15 million; (vi) certain judgments for the payment of money in excess of \$15 million; (vii) certain events of bankruptcy or insolvency with respect to us or any significant subsidiary; and (viii) certain defaults with respect to any collateral having a fair market value in excess of \$15 million. If an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare the principal of the Notes and any accrued interest on the Notes to be due and payable immediately, subject to remedy or cure in certain cases. Certain events of bankruptcy or insolvency are Events of Default which will result in the Notes being due and payable immediately upon the occurrence of such Events of Default.

We are required to pay \$17.2 million per year in interest on the Notes. As of June 30, 2017, accrued interest on the Notes was \$2.0 million.

We incurred debt issuance costs of \$6.3 million that were recorded as a reduction of the debt proceeds that are being amortized to non-cash interest expense over the life of the Notes using the effective interest method. During the three and six month periods ended June 30, 2017, \$0.1 million of debt issuance costs associated with the Notes were recognized as interest expense.

Asset-Based Revolving Credit Facility

On May 19, 2017, the Company also entered into the ABL Facility pursuant to a Credit Agreement (the “Credit Agreement”) by and among us, as a borrower, our subsidiaries party thereto, as borrowers, Wells Fargo Bank, National Association, as administrative agent and lead arranger, and the lenders that are parties thereto. We used the proceeds of the ABL Facility, together with the net proceeds from the Notes offering, to repay the Prior Facility and related fees and expenses. Going forward, the proceeds of the ABL Facility will be used to provide ongoing working capital and for other general corporate purposes (including permitted acquisitions).

The ABL Facility is a five-year \$30.0 million revolving credit facility due May 19, 2022, which includes a \$5.0 million subfacility for standby letters of credit and a \$7.5 million subfacility for swingline loans. All borrowings under the ABL Facility accrue at a rate equal to a base rate or LIBOR rate plus a spread. The spread, which is based on an availability-based measure, ranges from 0.50% to 1.00% for base rate borrowings and 1.50% to 2.00% for LIBOR rate borrowings. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the ABL Facility may be paid and then reborrowed at our discretion without penalty or premium. Additionally, we pay a commitment fee on the unused balance of 0.25% to 0.375% per year.

The ABL Facility is secured by a first-priority lien on the ABL Priority Collateral and by a second-priority lien on the Notes Priority Collateral. There is no direct lien on the Company’s FCC licenses to the extent prohibited by law or regulation (other than the economic value and proceeds thereof).

The Credit Agreement includes a springing fixed charge coverage ratio of 1.0 to 1.0, which is tested during the period commencing on the last day of the fiscal month most recently ended prior to the date on which Availability (as defined in the Credit Agreement) is less than the greater of 15% of the Maximum Revolver Amount (as defined in the Credit Agreement) and \$4.5 million and continuing for a period of 60 consecutive days after the first day on which Availability exceeds such threshold amount. 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 the borrowers and their subsidiaries (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens, (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all assets to a third party, except as permitted thereby; (viii) to prepay indebtedness; and (ix) to pay dividends.

The Credit Agreement provides for the following events of default: (i) default for non-payment of any principal or letter of credit reimbursement when due or any interest, fees or other amounts within five days of the due date; (ii) the failure by any borrower or any subsidiary to comply with any covenant or agreement contained in the Credit Agreement or any other loan document, in certain cases subject to applicable notice and lapse of time; (iii) any representation or warranty made pursuant to the Credit Agreement or any other loan document is incorrect in any material respect when made; (iv) certain defaults of other indebtedness of any borrower or any subsidiary of indebtedness of at least \$10 million; (v) certain events of bankruptcy or insolvency with respect to any borrower or any subsidiary; (vi) certain judgments for the payment of money of \$10 million or more; (vii) a change of control; and (viii) certain defaults relating to the loss of FCC licenses, cessation of broadcasting and termination of material station contracts. If an event of default occurs and is continuing, the Administrative Agent and the Lenders may accelerate the amounts outstanding under the ABL Facility and may exercise remedies in respect of the collateral.

We incurred debt issue costs of \$0.3 million that were recorded as an asset and are being amortized to non-cash interest expense over the term of the ABL Facility using the effective interest method. During the three and six month periods ended June 30, 2017, \$12,000 of debt issue costs associated with the Notes were recognized as interest expense. At June 30, 2017, the blended interest rate on amounts outstanding under the ABL Facility was 2.97%.

We report outstanding balances on the ABL Facility as short-term regardless of the maturity date based on use of the ABL Facility to fund ordinary and customary operating cash needs with frequent repayments. We believe that our borrowing capacity under the ABL Facility allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months.

Prior Term Loan B and Revolving Credit Facility

Our prior credit facility consisted 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 was amortized to non-cash interest expense over the life of the loan using the effective interest method. For each of the three months ended June 30, 2017 and 2016, approximately \$26,000 and \$52,000, respectively, of the discount associated with the Term Loan B was recognized as interest expense. For each of the six months ended June 30, 2017 and 2016, approximately \$74,000 and \$104,000, respectively, of the discount associated with the Term Loan B was recognized as interest expense.

The Term Loan B had a term of seven years, maturing in March 2020. On May 19, 2017, we used the net proceeds of the Notes and a portion of the ABL Facility to fully repay amounts outstanding under the Term Loan B of \$258.0 million and under the Revolver of \$4.1 million. We recorded a loss on the early retirement of long-term debt of \$2.1 million, which included \$1.5 million of unamortized debt issuance costs on the Term Loan B and the Revolver and \$0.6 million of unamortized discount on the Term Loan B.

The following payments or prepayments of the Term Loan B were made during the year ended December 31, 2016 and through the date of the termination, including interest through the payment date as follows:

Date	Principal Paid	Unamortized Discount
<i>(Dollars in Thousands)</i>		
May 19, 2017	\$ 258,000	\$ 550
February 28, 2017	3,000	6
January 30, 2017	2,000	5
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

Debt issuance costs were amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For each of the three months ended June 30, 2017 and 2016, approximately \$71,000 and \$141,000, respectively, of the debt issuance costs associated with the Term Loan B were recognized as interest expense. For each of the six months ended June 30, 2017 and 2016, approximately \$203,000 and \$283,000 respectively, of the debt issuance costs associated with the Term Loan B were recognized as interest expense.

Debt issuance costs associated with the Revolver were recorded as an asset in accordance with ASU 2015-15. The costs were 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 three month periods ended June 30, 2017 and 2016, we recorded amortization of deferred financing costs of approximately \$9,000 and \$17,000. For each of the six month periods ended June 30, 2017 and 2016, we recorded amortization of deferred financing costs of approximately \$26,000 and \$35,000.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2016	As of June 30, 2017
<i>(Dollars in thousands)</i>		
6.75% Senior Secured Notes	\$ —	\$ 255,000
Less unamortized debt issuance costs based on imputed interest rate of 7.08%	—	(6,199)
6.75% Senior Secured Notes net carrying value	—	248,801
Asset-Based Revolving Credit Facility principal outstanding	—	10,000
Term Loan B principal amount	263,000	—
Less unamortized discount and debt issuance costs based on imputed interest rate of 4.78%	(2,371)	—
Term Loan B net carrying value	260,629	—
Revolver principal outstanding	477	—
Capital leases and other loans	568	521
Long-term debt and capital lease obligations less unamortized debt issuance costs	261,674	259,322
Less current portion	(590)	(10,116)
Long-term debt and capital lease obligations less unamortized debt issuance costs, net of current portion	\$ 261,084	\$ 249,206

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2017:

- Outstanding borrowings of \$10.0 million under the ABL Facility, with interest payments due at LIBOR plus 1.5% to 2.0% per annum;
- \$255.0 million aggregate principal amount of Notes with semi-annual interest payments at an annual rate of 6.75% ; and
- Commitment fee of 0.25% to 0.375% on the unused portion of the ABL Facility.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2016 and June 30, 2017 represents the present value of future commitments under the capital lease agreements.

Maturities of Long-Term Debt and Capital Lease Obligations

Principal repayment requirements under all long-term debt agreements outstanding at June 30, 2017 for each of the next five years and thereafter are as follows:

	<u>Amount</u>
<u>For the Twelve Months Ended June 30,</u>	<u>(Dollars in thousands)</u>
2018	\$ 10,116
2019	106
2020	107
2021	117
2022	75
Thereafter	255,000
	<u>\$ 265,521</u>

NOTE 12. 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 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.

Under the Plan, the Board, or a committee appointed by the Board, may impose restrictions on the exercise of 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. We adopted ASU 2016-09, “*Improvements to Employee Share-Based Payment Accounting*” as of January 1, 2017. The adoption of this ASU did not materially impact our financial position, results of operations, or cash flows.

The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2017 and 2016:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Dollars in thousands)</i>			
Stock option compensation expense included in corporate expenses	\$ 81	\$ 28	\$ 202	\$ 99
Restricted stock shares compensation expense included in corporate expenses	—	—	24	875
Stock option compensation expense included in broadcast operating expenses	20	6	48	34
Restricted stock shares compensation expense included in broadcast operating expenses	—	—	—	224
Stock option compensation expense included in digital media operating expenses	14	5	39	19
Restricted stock shares compensation expense included in digital media operating expenses	—	—	—	124
Stock option compensation expense included in publishing operating expenses	10	5	11	14
Restricted stock shares compensation expense included in publishing operating expenses	—	—	—	36
Total stock-based compensation expense, pre-tax	<u>\$ 125</u>	<u>\$ 44</u>	<u>\$ 324</u>	<u>\$ 1,425</u>
Tax benefit (expense) for stock-based compensation expense	(50)	(18)	(130)	(570)
Total stock-based compensation expense, net of tax	<u>\$ 75</u>	<u>\$ 26</u>	<u>\$ 194</u>	<u>\$ 855</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 our 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 stock, which have been granted periodically 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 from 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 vest 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 common 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 have used historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the valuation model. These estimates have approximated our actual forfeiture rates.

There were no stock options granted during the six month period ended June 30, 2017. The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes valuation model were as follows for the three and six month periods ended June 30, 2016:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Expected volatility	46.77%	47.03%
Expected dividends	4.08%	5.36%
Expected term (in years)	6.0	7.5
Risk-free interest rate	1.38%	1.66%

Activity with respect to the company's option awards during the six month period ended June 30, 2017 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<i>(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)</i>					
Outstanding at January 1, 2017	1,720,000	\$ 5.12	\$ 2.89	4.5 years	\$ 2,428
Granted	—	—	—		
Exercised	(107,471)	4.24	2.05		
Forfeited or expired	(122,125)	5.87	3.03		
Outstanding at June 30, 2017	1,490,404	\$ 5.13	\$ 2.93	4.1 years	\$ 2,979
Exercisable at June 30, 2017	988,276	\$ 5.53	\$ 3.69	3.1 years	\$ 1,582
Expected to Vest	476,771	\$ 5.13	\$ 2.95	4.1 years	\$ 1,357

The aggregate intrinsic value represents the difference between the company's closing stock price on June 30, 2017 of \$7.10 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the six month periods ended June 30, 2017 and 2016 was \$13,000 and \$1.1 million, respectively.

As of June 30, 2017, there was \$0.3 million of total unrecognized compensation cost related to non-vested stock option awards. This cost is expected to be recognized over a weighted-average period of 1.8 years.

On February 24, 2017, a restricted stock award was granted to certain members of management that vested immediately. The fair value of each restricted stock award was measured based on the grant date market price of our common shares and expensed as of the vesting date. These restricted stock awards contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until three months from vesting date. Recipients of these restricted stock awards were entitled to all the rights of absolute ownership of the restricted stock from the date of grant including the right to vote the shares and to receive dividends. 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 were considered issued and outstanding from the vest date of grant.

Activity with respect to the company's restricted stock awards during the six month period ended June 30, 2017 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<i>(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)</i>				
Outstanding at January 1, 2017	—	\$ —	—	\$ —
Granted	178,592	7.05	0.2 years	1,331
Lapsed	(178,592)	7.25	—	1,295
Forfeited	—	—	—	—
Outstanding at June 30, 2017	—	\$ —	—	\$ —

NOTE 13. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, "Compensation-Stock Compensation." As a result, \$44,000 and \$1.4 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and six month periods ended June 30, 2017, respectively, in comparison to \$0.1 million and \$0.3 million for the three and six month periods ended June 30, 2016, 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. In recent years, distributions have been 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 quarterly report on Form 10-Q. Future distributions, if any, are likely to be approximately 30% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest.

The following table shows distributions that have been declared and paid since January 1, 2016:

<u>Announcement Date</u>	<u>Payment Date</u>	<u>Amount Per Share</u>	<u>Cash Distributed (in thousands)</u>
June 1, 2017	June 30, 2017	\$ 0.0650	\$ 1,697
March 9, 2017	March 30, 2017	\$ 0.0650	\$ 1,691
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

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 during the year ended December 31, 2017.

NOTE 14. 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. Restricted stock awards that vested immediately during the three month period ended March 31, 2017, were included in the weighted average number of common shares used to compute basic earnings per share because these restricted stock awards contained dividend participation and voting rights. 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 1,490,404 and 1,942,803 shares of Class A common stock were outstanding at June 30, 2017 and 2016, 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. As of June 30, 2017 and 2016 there were 530,963 and 501,204 dilutive shares, respectively.

NOTE 15. 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 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 the Term Loan B. Payments on the swap are due on a quarterly basis with a LIBOR floor of 0.625%. Pursuant to the terms, the swap was set to expire 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 were recognized in the current period statement of operations rather than through other comprehensive income. On May 19, 2017, in connection with our Refinancing, we paid \$0.8 million to terminate the interest rate swap.

The following table summarizes the fair value of our derivative instruments that are measured at fair value:

	<u>As of December 31, 2016</u>	<u>As of June 30, 2017</u>
	<u>(Dollars in thousands)</u>	
Fair value of interest rate swap	\$ 514	\$ —

NOTE 16. FAIR VALUE MEASUREMENTS

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 June 30, 2017, 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.

The following table summarizes the fair value of our financial assets and liabilities that are measured at fair value:

	June 30, 2017			
	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 other indefinite-lived intangible assets	\$ 313	—	—	\$ 313
Liabilities:				
Estimated fair value of contingent earn-out consideration included in accrued expenses	31	—	—	31
Long-term debt and capital lease obligations less unamortized debt issuance costs	259,322	—	259,322	—

NOTE 17. 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. We recorded no adjustments to our unrecognized tax benefits as of June 30, 2017 and 2016.

We prospectively adopted ASU 2015-17, “*Income Taxes, Balance Sheet Classification of Deferred Taxes*” as of January 1, 2017. ASU 2015-17 requires that deferred tax assets and liabilities be classified as non-current on the balance sheet instead of separating the deferred tax assets and liabilities into current and non-current amounts. Our Condensed Consolidated Balance Sheet as of March 31, 2017 reflects the adoption of this guidance with a \$9.4 million reduction in current deferred income tax assets, a \$1.9 million increase in non-current deferred income tax assets and a \$7.5 million reduction in non-current deferred income tax liabilities. Other than this revised presentation, the adoption of this ASU had no impact on our financial position, results of operations, or cash flows.

We adopted 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 adoption of this ASU did not impact our financial position, results of operations, or cash flows.

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 2013 through 2016.

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.

Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of \$4.5 million as of June 30, 2017 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. We regularly review our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on our estimate of the benefit the company will receive from such carryforwards.

NOTE 18. 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. We filed an appeal against the award as well as a malpractice lawsuit against the lawyer that represented Salem in the collection lawsuit. A legal reserve of \$0.5 million was recorded representing the total possible loss contingency without third party recoveries from our appeal, malpractice lawsuit or insurance claims. In March 2017, the case and all counterclaims were settled for a net amount of \$0.3 million.

NOTE 19. 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. 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.

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 June 30, 2017 and 2016 based on the new composition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate Expenses	Consolidated
<i>(Dollars in thousands)</i>					
Three Months Ended June 30, 2017					
Net revenue	\$ 49,251	\$ 10,866	\$ 5,995	\$ —	\$ 66,112
Operating expenses	35,931	8,370	5,668	3,825	53,794
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairments and (gain) loss on disposal of assets	\$ 13,320	\$ 2,496	\$ 327	\$ (3,825)	\$ 12,318
Depreciation	1,929	820	162	198	3,109
Amortization	18	816	308	1	1,143
Change in the estimated fair value of contingent earn-out consideration	—	(43)	—	—	(43)
Impairment of indefinite-lived long-term assets other than goodwill	—	—	—	—	—
Net gain on disposal of assets	(494)	—	(16)	—	(510)
Net operating income (loss)	\$ 11,867	\$ 903	\$ (127)	\$ (4,024)	\$ 8,619
Three Months Ended June 30, 2016					
Net revenue	\$ 49,971	\$ 11,047	\$ 6,761	\$ —	\$ 67,779
Operating expenses	35,871	8,619	6,983	3,568	55,041
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairment losses and (gain) loss on disposal of assets	\$ 14,100	\$ 2,428	\$ (222)	\$ (3,568)	\$ 12,738
Depreciation	1,815	785	165	217	2,982
Amortization	23	1,093	72	1	1,189
Change in the estimated fair value of contingent earn-out consideration	—	(36)	(98)	—	(134)
Impairment of long-lived assets	700	—	—	—	700
Net (gain) loss on disposal of assets	(1,721)	20	(3)	3	(1,701)
Net operating income (loss)	\$ 13,283	\$ 566	\$ (358)	\$ (3,789)	\$ 9,702
<i>(Dollars in thousands)</i>					
Six Months Ended June 30, 2017					
Net revenue	\$ 97,055	\$ 21,552	\$ 12,485	\$ —	\$ 131,092
Operating expenses	71,767	17,072	12,019	8,950	109,808
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairments and (gain) loss on disposal of assets	\$ 25,288	\$ 4,480	\$ 466	\$ (8,950)	\$ 21,284
Depreciation	3,748	1,597	356	388	6,089
Amortization	35	1,634	615	1	2,285
Change in the estimated fair value of contingent earn-out consideration	—	(42)	—	—	(42)
Impairment of indefinite-lived long-term assets other than goodwill	—	—	19	—	19
Net gain on disposal of assets	(496)	—	(9)	—	(505)
Net operating income (loss)	\$ 22,001	\$ 1,291	\$ (515)	\$ (9,339)	\$ 13,438
Six Months Ended June 30, 2016					
Net revenue	\$ 98,716	\$ 22,057	\$ 11,581	\$ —	\$ 132,354
Operating expenses	72,021	17,643	11,931	7,781	109,376
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairment losses and (gain) loss on disposal of assets	\$ 26,695	\$ 4,414	\$ (350)	\$ (7,781)	\$ 22,978
Depreciation	3,678	1,552	315	429	5,974
Amortization	45	2,142	144	1	2,332
Change in the estimated fair value of contingent earn-out consideration	—	(106)	(156)	—	(262)
Impairment of long-lived assets	700	—	—	—	700
Net (gain) loss on disposal of assets	(1,542)	6	(21)	6	(1,551)
Net operating income (loss)	\$ 23,814	\$ 820	\$ (632)	\$ (8,217)	\$ 15,785

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
<i>(Dollars in thousands)</i>					
As of June 30, 2017					
Inventories, net	\$ —	\$ 240	\$ 627	\$ —	\$ 867
Property and equipment, net	85,691	6,520	1,379	8,027	101,617
Broadcast licenses	388,678	—	—	—	388,678
Goodwill	3,581	20,151	1,888	8	25,628
Other indefinite-lived intangible assets	—	—	313	—	313
Amortizable intangible assets, net	372	8,373	3,454	5	12,204
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

NOTE 20. SUBSEQUENT EVENTS

On July 24, 2017, we closed on the acquisition of the FM translator construction permit in Eaglemount, Washington, for \$40,000 in cash. The FM translator will be relocated to the Portland, Oregon market for use by our KDZR-AM radio station.

On July 6, 2017, we acquired TradersCrux.com for \$0.3 million in cash. In addition, we may pay the seller a one-time contingent payment of up to \$0.1 million if certain income goals are met during the one-year following the closing.

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

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

GENERAL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and related notes included elsewhere in this report on Form 10-Q. Our Condensed Consolidated Financial Statements are not directly comparable from period to period due to acquisitions and dispositions of selected assets of radio stations and acquisitions of various Internet and publishing businesses. Refer to Note 4 of our Condensed Consolidated Financial Statements for details of each of these transactions.

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. We maintain a website at www.salemmedia.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 19 – Segment Data in the notes to our Condensed Consolidated financial statements contained in Item 1 of this quarterly report on Form 10-Q 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;
- the sale of digital advertising on our magazine websites and digital newsletters; and
- publishing fees from authors.

Broadcasting

Our foundational business is radio broadcasting, which includes 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, TCM 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 format commercial radio stations.

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.

Each of our radio stations has a website specifically designed for that station. The station websites have digital banner advertisements, streaming, links to purchase goods featured by on-air advertisers, and links to our other digital media sites.

Revenues generated from our radio stations are reported as broadcast revenue in our Condensed Consolidated financial statements included in Part 1 of this quarterly report on Form 10-Q. 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 the Portable People Meter™ (“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. During the six month period ended June 30, 2017, 97% of our broadcast revenue was sold for cash compared to 98% during the same period of the prior year.

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, GodTube.com, CrossCards.com, LightSource.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 publish digital newsletters through Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

Our church e-commerce websites, including WorshipHouseMedia.com, SermonSpice.com, SermonSearch.com, ChurchStaffing.com, and ChristianJobs.com, offer a variety of digital resources including videos, song tracks, sermon archives and job listings to pastors and Church leaders.

E-commerce also includes Eagle Wellness, which is a seller of nutritional supplements.

The revenues generated from this segment are reported as digital media revenue in our Condensed Consolidated Statements of Operations included in this quarterly report on Form 10-Q. 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 products sold and the number of 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 product 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 the *Singing News*® magazine and operates websites specifically designed for our print publications. These websites have digital banner advertisements, streaming, links to purchase goods featured by advertisers, and links to our other digital media sites. Salem Author Services includes Xulon Press™ and Mill City Press which offer print-on-demand self-publishing services for authors. We acquired Mill City Press from Hillcrest Publishing Group, Inc., on August 1, 2016. Xulon Press™ publishes books for Christian authors while Mill City Press publishes books for all general market publications.

The revenues generated from this segment are reported as publishing revenue in our Condensed Consolidated Statements of Operations included in this quarterly report on Form 10-Q. 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 published. Regnery Publishing revenue is impacted by elections as it generates 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; and (iv) cost of goods sold that includes printing and production costs, fulfillment costs, author royalties and 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 advertising from our Los Angeles and Dallas markets, which generated 14.8% and 19.4%, respectively, of our net broadcast advertising revenue for the six month period ended June 30, 2017.

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 operations 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.

Reclassifications

During the three months ended June 30, 2017, we reclassified certain revenue streams within our digital media operating segment and certain revenue streams within our publishing operating segment to conform to the current period presentation.

RESULTS OF OPERATIONS

Three months ended June 30, 2017 compared to the three months ended June 30, 2016

The following factors affected our results of operations and cash flows for the three months ended June 30, 2017 as compared to the same period of the prior year:

Financing

- On May 19, 2017, we closed on a private offering of \$255.0 million aggregate principal amount of 6.75% senior secured notes due 2024 (the “Notes”) and concurrently entered into a five-year \$30.0 million senior secured asset-based revolving credit facility, which includes a \$5.0 million subfacility for standby letters of credit and a \$7.5 million subfacility for swingline loans (“ABL Facility”) due May 19, 2022. The net proceeds from the offering of the Notes, together with borrowings under the ABL Facility, were used to repay outstanding borrowings, including accrued and unpaid interest, on our previously existing senior credit facilities consisting of a term loan (“Term Loan B”) and a revolving credit facility of \$25.0 million (“Revolver”), and to pay fees and expenses incurred in connection with the Notes offering and the ABL Facility.

Acquisitions

- On June 28, 2017, we closed on the acquisition of an FM translator construction permit in Festus, Missouri for \$40,000 in cash. The FM translator will be relocated to the St. Louis, Missouri market for use by our KXFN-FM radio station.
- On June 8, 2017, we acquired a Portuguese Bible mobile application for \$85,000 in cash. We may pay up to an additional \$20,000 in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks.

Net Broadcast Revenue

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Broadcast Revenue	\$ 49,971	\$ 49,251	\$ (720)	(1.4)%	73.7%	74.5%
Same Station Net Broadcast Revenue	\$ 49,542	\$ 48,968	\$ (574)	(1.2)%		

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

	Three Months Ended June 30,			
	2016		2017	
	<i>(Dollars in thousands)</i>			
Block program time:				
National	\$ 12,374	24.8%	\$ 12,170	24.7%
Local	8,896	17.8%	8,386	17.0%
	21,270	42.6%	20,556	41.7%
Broadcast Advertising:				
National	2,974	6.0%	3,343	6.8%
Local	16,373	32.7%	14,817	30.1%
	19,347	38.7%	18,160	36.9%
Station Digital	1,694	3.4%	1,977	4.0%
Infomercials	593	1.2%	620	1.3%
Network	3,945	7.9%	4,291	8.7%
Other Revenue	3,122	6.2%	3,647	7.4%
Net Broadcast Revenue	\$ 49,971	100.0%	\$ 49,251	100.0%

The net decline in block programming revenue of \$0.7 million resulted from a \$0.5 million decline in local programming on our Christian Teaching and News Talk stations, a \$0.2 million decline in programs on our Business format stations, and a decline of \$0.2 million from the Louisville LMA, that was partially offset by a \$0.2 million increase in programming on our News Talk format stations. Declines in programming, particularly at the local level, resulted from program cancellations that we believe are due to increased competition from other broadcasters. There were no changes in programming rates as compared to the same period of the prior year, however they may be impacted in the future due to this increased competition.

Advertising revenue, net of agency commissions, declined by \$1.2 million, of which \$0.2 million was due to the political advertising recognized during the 2016 elections cycle. The remaining \$1.0 million decline includes a \$0.5 million decline in advertising on our CCM stations, particularly in our Dallas market, due to lower ratings and an increase in competition from agencies, and a \$0.4 million decline in advertising on our Christian Teaching and Talk format stations. These declines resulted from increased competition from other broadcasters and agencies that reduce the number of advertisements placed. This can, in turn, create lower demand and lower rates. We have undertaken efforts to retool our music, image and promotions to capture a younger demographic that we believe will improve the ratings for our CCM stations in the Dallas market.

Digital revenue generated from our radio station and network websites increased \$0.3 million, which reflects an increase in sales of licensed products through Salem Consumer Products. Rates charged were consistent with those during the same period of the prior year.

Infomercial revenue was consistent with the same period of the prior year.

Network revenue increased \$0.3 million due to a \$0.2 million revenue share agreement and a \$0.1 million increase in political advertising revenue associated with current year legislation campaigns.

Other revenue increased \$0.5 million due to a \$0.4 million increase in listener purchase program revenue from a higher audience demand with respect to participation in sales incentives and discount programs and a \$0.1 million increase in event revenue based on higher ticket sales and attendance at local events, such as concerts and speaking events.

On a Same Station basis, net broadcast revenue decreased \$0.6 million, which reflects these items net of the impact of stations with acquisitions and format changes.

Net Digital Media Revenue

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Net Digital Media Revenue	\$ 11,047	\$ 10,866	\$ (181)	(1.6)%	16.3%	16.4%

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

	Three Months Ended June 30,			
	2016		2017	
	<i>(Dollars in thousands)</i>			
Digital Advertising, Net	\$ 6,203	56.2%	\$ 5,997	55.2%
Digital Streaming	1,137	10.3	1,122	10.3
Digital Subscriptions	1,627	14.7	1,571	14.5
Digital Downloads	1,397	12.6	1,577	14.5
e-commerce	597	5.4	502	4.6
Other Revenues	86	0.8	97	0.9
Net Digital Media Revenue	\$ 11,047	100.0%	\$ 10,866	100.0%

Digital advertising revenue, net of agency commissions, declined by \$0.2 million on a consolidated basis. This decline was attributable to lower page views on our conservative opinion websites, primarily Townhall Media, as compared to the same period of the prior year due to the timing of the 2016 election. Page views for conservative opinion websites are typically higher during election years due to higher level of interest in content, for both desktop and mobile devices. Changes in the Facebook newsfeed algorithm have negatively impacted the volume of our desktop page views. Page views from Facebook declined 18.6% as compared to the same period of the prior year. To offset declines in page views generated from Facebook, we have continued to develop and promote the use of mobile applications, particularly for our Christian mobile applications. As mobile page views carry fewer advertisements and typically have shorter site visits, our growth in mobile application generated traffic is larger than our growth in revenue.

Digital streaming revenue was consistent with the same period of the prior year with no changes in sales volume or rates.

Declines in digital subscription revenue of \$0.1 million were due to a lower number of subscribers to Skousen's Fast Money Alert and 5 Star Trader newsletters, which was partially offset with new subscribers to TurnerTrends.com and Instant Income Trader, a start-up publication. There were no changes in subscription rates as compared to the same period of the prior year.

Digital download revenue increased \$0.2 million due to a higher volume of downloads as compared to the same period of the prior year. This increase is due to the Easter holiday falling in the second quarter of 2017 as compared to the first quarter of 2016. There were no changes in rates charged to our customers for digital downloads.

E-commerce revenue declined by \$0.1 million due to discounts offered on sales of Gene Smart's inventory through our wellness website. The average price per unit declined by 24.9% while the number of products sold increased 13.0%. Gene Smart inventory was discounted due to lower than expected sales in prior periods that resulted in perishable inventory on hand due to expiration dates associated with the nutritional supplements.

Net Publishing Revenue

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Publishing Revenue	\$ 6,761	\$ 5,995	\$ (766)	(11.3)%	10.0%	9.1%

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

	Three Months Ended June 30,			
	2016			2017
	<i>(Dollars in thousands)</i>			
Book Sales	\$ 5,133	75.9%	\$ 3,267	54.5%
Estimated Sales Returns & Allowances	(1,742)	(25.8)	(116)	(1.9)
E-Book Sales	550	8.1	416	6.9
Self-Publishing Fees	1,613	23.9	1,342	22.4
Print Magazine Subscriptions	427	6.3	298	5.0
Print Magazine Advertisements	247	3.7	201	3.3
Digital Advertising	197	2.9	202	3.4
Other Revenue	336	5.0	385	6.4
Net Publishing Revenue	\$ 6,761	100.0%	\$ 5,995	100.0%

On a consolidated basis, sales of print books decreased by \$1.9 million comprised of a \$2.4 million decline in Regnery Publishing sales due to the timing of best-selling books that was offset by a \$0.5 million increase in book sales through Salem Author Services, our self-publishing operations of Xulon Press and Mill City Press. The \$0.5 million increase in sales from Salem Author Services was comprised of a \$0.4 million increase from Mill City Press and a \$0.1 million increase from Xulon Press™. There were no changes in rates charged as compared to the same period of the prior year. Sales of Regnery Publishing books 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 a book.

The \$1.6 million decrease in estimated sales returns and allowances resulted from lower sales of Regnery Publishing print books, a reduction in the historical average return rate for Regnery Political books, and a reduction to the reserve for backlist titles.

Regnery Publishing e-book sales decreased \$0.1 million due to a 12.2% decrease in the average sales price per unit offset by a 14.6% increase in the number of books sold. E-book sales can also vary based on 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.

Self-publishing fees decreased overall by \$0.3 million due to a decline of \$0.5 million from a lower sales volume for Xulon Press™ that was offset by a \$0.2 million increase in volume from the acquisition of Mill City Press. There were no changes in fees charged to customers 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.

Declines in print magazine subscription and print magazine advertising revenue are due to the continual decline within this industry and our reduction in the number of publications. As of May 2017, we ceased publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine. This decision was based on continual declines in the number of subscribers and a corresponding declines in advertising revenues based on reduced demand and reduced rates due to lower distribution levels. We continue to explore cost reductions in this segment.

Digital advertng revenue within our publishing segment was consistent with the same period of the prior year with no changes in sales volume or rates.

Broadcast Operating Expenses

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Broadcast Operating Expenses	\$ 35,871	\$ 35,931	\$ 60	0.2%	52.9%	54.3%
Same Station Broadcast Operating Expenses	\$ 35,426	\$ 35,596	\$ 170	0.5%		

Broadcast operating expenses were consistent with those of the same period of the prior year as higher expenses of \$0.4 million were offset with savings from the Louisville market being operated under an LMA of \$0.4 million. Increases in expenses of \$0.4 million included operating expenses for new acquisitions of \$0.2 million, a \$0.3 million increase in production and programming expenses, and a \$0.2 million increase in bad debt expenses that were offset by a \$0.2 million decline in music license fees and a \$0.1 million decline in facility related expenses.

Digital Media Operating Expenses

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Digital Media Operating Expenses	\$ 8,619	\$ 8,370	\$ (249)	(2.9)%	12.7%	12.7%

Digital media operating expense declined by \$0.2 million due to a \$0.2 million reduction in commissions and bonuses and a \$0.2 million decline in advertising and promotional costs that was offset with a \$0.1 million increase in royalty fees and a \$0.1 million increase in payroll related costs due to annual pay increases.

Publishing Operating Expenses

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Publishing Operating Expenses	\$ 6,983	\$ 5,668	\$ (1,315)	(18.8)%	10.3%	8.6%

Publishing operating expenses declined by \$1.3 million including a \$1.3 million decline in the cost of goods for Regnery Publishing consistent with a reduction in the number of print books offset by a \$0.2 million increase in the cost of goods sold for Salem Author Services. The gross profit margin for Regnery Publishing was 64% for the three months ended June 30, 2017 as compared to 57% for the same period of the prior year. Regnery Publishing margins are impacted by the volume of e-book sales, which have a lower cost of goods sold due to the nature of delivery and do not have sales returns and allowances. The gross profit margin for our self-publishing entities decreased to 65% for the three months ended June 30, 2017 as compared to 74% for the same period of the prior year. In addition, there was a \$0.2 million decline in payroll related expenses and a \$0.1 million decline in travel and entertainment expenses that was offset by a \$0.2 million increase in advertising and promotional expenses.

Unallocated Corporate Expenses

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Unallocated Corporate Expenses	\$ 3,568	\$ 3,825	\$ 257	7.2%	5.3%	5.8%

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 increase of \$0.3 million includes a \$0.2 million increase in net payroll related costs due to increased employee headcount and annual pay increases and a \$0.1 million increase in professional fees for accounting and auditing services.

Impairment of Long-Lived Assets

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Long-Lived Assets	\$ 700	\$ —	\$ (700)	(100.0)%	1.0%	—%

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 continued to market the land for sale and had no intention to use the land in our operations, we had not received successful offers. Based on the amount of time that the land had 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 three months ended June 30, 2016.

Depreciation Expense

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Depreciation Expense	\$ 2,982	\$ 3,109	\$ 127	4.3%	4.4%	4.7%

Depreciation expense increased \$0.1 million compared to the same period of the prior year. The increase reflects the impact of recent capital expenditures associated with computer software, data processing and office equipment that have shorter estimated useful lives than towers and broadcast assets. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Amortization Expense	\$ 1,189	\$ 1,143	\$ (46)	(3.9)%	1.8%	1.7%

Amortization expense was consistent with that of the same period of the prior year with no changes in our amortization methods or the estimated useful lives of our intangible asset groups. Amortization expense includes increases from intangible assets acquired in 2016, such as Cycle Prophet in September 2016 and Mill City Press in September 2016 that were offset with intangible assets acquired with Eagle Publishing and WorshipHouseMedia.com that were fully amortized as of June 30, 2017.

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

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	\$ (134)	\$ (43)	\$ 91	(67.9)%	(0.2)%	—%

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.

During the three month period ended June 30, 2017, we decreased the estimated fair value of our contingent earn-out liabilities by \$43,000 compared to a net decrease of \$134,000 during the same period of the prior year. These changes are based on actual results as compared to the estimates used in our probability analysis for each contingency. Refer to Note 5 of our Condensed Consolidated financial statements 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.

Net Gain on the Sale or Disposal of Assets

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Gain on the Sale or Disposal of Assets	\$ (1,701)	\$ (510)	\$ 1,191	(70.0)%	(2.5)%	(0.8)%

The net gain on the sale or disposal of assets of \$0.5 million for the three month period ended June 30, 2017 includes a \$0.5 million gain from the sale of a former transmitter site in our Dallas, Texas market and a \$16,000 net gain from the sale of assets associated with our print magazine segment that was partially offset with losses from various fixed asset disposals.

The net gain on the sale or disposal of assets of \$1.7 million for the three month period ended June 30, 2016 includes a \$1.9 million gain on the sale of our Miami tower site that was offset by a \$0.2 million charge for leasehold improvements written off upon the relocation of our offices in Washington D.C. market and various fixed asset disposals.

Other Income (Expense)

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Interest Income	\$ 2	\$ 1	\$ (1)	(50.0)%	—%	—%
Interest Expense	(3,730)	(3,924)	(194)	5.2%	(5.5)%	(5.9)%
Change in the Fair Value of Interest Rate Swap	(423)	—	423	(100.0)%	(0.6)%	—%
Loss on Early Retirement of Long-Term Debt	(5)	(2,734)	(2,729)	54,580.0%	—%	(4.1)%

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 the swap agreement for applicable periods prior to the termination of the swap agreement, non-cash interest accretion of deferred payments and contingent earn-out consideration associated with our acquisition activity.

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 terminated on May 19, 2017.

Loss on early retirement of long-term debt reflects \$0.6 million of the unamortized discount and \$1.5 million of unamortized debt issuance costs associated with the payoff and termination of the Term Loan B on May 19, 2017, \$0.1 million of unamortized debt issuance costs associated with the Revolver terminated on May 19, 2017, and a \$0.6 million loss to exit and terminate our swap agreement on May 19, 2017.

Provision for Income Taxes

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Provision for Income Taxes	\$ 2,190	\$ 690	\$ (1,500)	(68.5)%	3.2%	1.0%

In accordance with FASB ASC Topic 740, "Income Taxes," our provision for income taxes decreased to \$0.7 million for the three months ended June 30, 2017 compared to \$2.2 million for the same period of the prior year. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was 35.2% for the three months ended June 30, 2017 compared to 39.5% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Net Income

	Three Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Net Income	\$ 3,356	\$ 1,272	\$ (2,084)	(62.1)%	5.0%	1.9%

We recognized net income of \$1.3 million for the three month period ended June 30, 2017 compared to \$3.4 million in the same period of the prior year. During this period, our net operating income decreased by \$1.1 million due to a \$1.7 million decrease in net revenues that was offset by a \$0.6 million decrease in operating expenses. We also recognized a \$0.4 million benefit based on the termination of our interest rate swap agreement and a \$1.5 million decrease in the tax provision that was offset by a \$0.2 million increase in interest expense and a \$2.7 million increase in the loss on early retirement of long-term debt based on \$258.0 million repayment of the Term Loan B and Revolver.

Six months ended June 30, 2017 compared to the six months ended June 30, 2016

The following factors affected our results of operations and cash flows for the six months ended June 30, 2017 as compared to the same period of the prior year:

Financing

On May 19, 2017, we closed on a private offering of \$255.0 million aggregate principal amount of 6.75% senior secured notes due 2024 (the "Notes") and concurrently entered into a five-year \$30.0 million senior secured asset-based revolving credit facility, which includes a \$5.0 million subfacility for standby letters of credit and a \$7.5 million subfacility for swingline loans ("ABL Facility") due May 19, 2022. The net proceeds from the offering of the Notes, together with borrowings under the ABL Facility, were used to repay outstanding borrowings, including accrued and unpaid interest, on our previously existing senior credit facilities consisting of a term loan ("Term Loan B") and a revolving credit facility of \$25.0 million ("Revolver"), and to pay fees and expenses incurred in connection with the Notes offering and the ABL Facility.

- On February 28, 2017, we repaid \$3.0 million in principal on the Term Loan B and paid interest due as of that date. We recorded a \$6,200 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$18,000 in unamortized debt issuance costs associated with the principal repayment.
- On January 30, 2017, we repaid \$2.0 million in principal on the Term Loan B and paid interest due as of that date. We recorded a \$4,500 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$12,000 in unamortized debt issuance costs associated with the principal repayment.

Acquisitions

- On June 28, 2017, we closed on the acquisition of an FM translator construction permit in Festus, Missouri for \$40,000 in cash. The FM translator will be relocated to the St. Louis, Missouri market for use by our KXFN-FM radio station.
- On June 8, 2017, we acquired a Portuguese Bible mobile application for \$85,000 in cash. We may pay up to an additional \$20,000 in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks.
- On March 15, 2017, we acquired the website prayers-for-special-help.com for \$0.2 million in cash.
- On March 14, 2017, we closed on the acquisition of an FM translator construction permit in Quartz Site, Arizona for \$20,000 in cash. The FM translator will be relocated to the San Diego, California market for use by our KPRZ-AM radio station.
- On March 1, 2017, we closed on the acquisition of an FM translator construction permit in Roseburg, Oregon for \$45,000 in cash. The FM translator will be relocated to the Portland, Oregon market for use by our KPDQ-AM radio station.
- On January 16, 2017, we closed on the acquisition of an FM translator in Astoria, Oregon 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.

Net Broadcast Revenue

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Net Broadcast Revenue	\$ 98,716	\$ 97,055	\$ (1,661)	(1.7)%	74.6%	74.0%
Same Station Net Broadcast Revenue	\$ 97,853	\$ 96,527	\$ (1,326)	(1.4)%		

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

	Six Months Ended June 30,			
	2016		2017	
	<i>(Dollars in thousands)</i>			
Block program time:				
National	\$ 24,456	24.8%	\$ 24,425	25.2%
Local	18,014	18.2%	17,212	17.7%
	42,470	43.0%	41,637	42.9%
Broadcast Advertising:				
National	6,424	6.5%	6,636	6.8%
Local	31,694	32.1%	29,024	29.9%
	38,118	38.6%	35,660	36.7%
Station Digital	3,302	3.4%	3,600	3.7%
Infomercials	1,216	1.2%	1,216	1.3%
Network	8,207	8.3%	8,640	8.9%
Other Revenue	5,403	5.5%	6,302	6.5%
Net Broadcast Revenue	\$ 98,716	100.0%	\$ 97,055	100.0%

The net decline in block programming revenue of \$0.8 million includes a \$0.7 million decline in local programming on our Christian Teaching and Talk stations, a \$0.2 million decline in programs on our Business stations and a \$0.4 million decline of revenue associated with the Louisville market LMA, offset by a \$0.5 million increase programming on our News Talk stations. These declines, particularly at the local level, resulted from cancellations that we believe are due to increased competition from other broadcasters. There were no changes in programming rates as compared to the same period of the prior year, however they may be impacted in the future due to this increased competition.

Advertising revenue, net of agency commissions, decreased by \$2.5 million including a \$0.9 million decline in political advertising due to the timing of the election cycle, \$0.9 million decline in advertising on our CCM stations, particularly in our Dallas market due to lower ratings and from higher competition for advertising sales from agencies, a \$0.8 million decrease on our Christian Teaching and Talk stations. These declines resulted from increased competition from other broadcasters and agencies that reduce the number of advertisements placed that in turns creates lower demand and lower rates, particularly for unsold spots.

Digital revenue generated from our radio station and network websites increased \$0.3 million, which reflects an increase in sales of licensed products through Salem Consumer Products. There were no changes in rates as compared to the same period of the prior year.

Infomercial revenue remained consistent with the same period of the prior year. We may continue to place programs that are categorized as infomercials.

Network revenue increased by \$0.4 million, including a \$0.2 million increase in advertising sales with our national talk shows that we believe is attributable to our increased exposure and media presence during the 2016 presidential debates and a \$0.4 million increase from a revenue share agreement that was offset by a \$0.2 million decline in political advertising revenue.

Other revenue increased \$0.9 million due to a \$0.6 million increase in listener purchase program revenue from a higher audience demand with respect to participation in sales incentives and discount programs and a \$0.3 million increase in event revenue based on higher ticket sales and attendance at local events, such as concerts and speaking events.

On a Same Station basis, net broadcast revenue decreased \$1.3 million, which reflects these items net of the impact of stations with acquisitions and format changes.

Net Digital Media Revenue

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Digital Media Revenue	\$ 22,057	\$ 21,552	\$ (505)	(2.3)%	16.7%	16.4%

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

	Six Months Ended June 30,			
	2016		2017	
	<i>(Dollars in thousands)</i>			
Digital Advertising, Net	\$ 12,422	56.3%	\$ 12,280	57.0%
Digital Streaming	2,257	10.2	2,264	10.5
Digital Subscriptions	2,989	13.6	3,120	14.5
Digital Downloads	3,007	13.6	2,694	12.5
e-commerce	1,199	5.5	1,013	4.7
Other Revenue	183	0.8	181	0.8
Net Digital Media Revenue	\$ 22,057	100.0%	\$ 21,552	100.0%

Digital advertising revenue, net of agency commissions, declined by \$0.1 million on a consolidated basis. This decline was attributable to lower page views on our conservative opinion websites, primarily Townhall Media, as compared to the same period of the prior year due to the timing of the 2016 election. Page views for conservative opinion websites are typically higher during election years due to higher level of interest in content, both desktop and mobile. Changes in the Facebook newsfeed algorithm have negatively impacted the volume of our desktop page views. Page views from Facebook declined 18.3% as compared to the same period of the prior year. To offset declines in page views generated from Facebook, we have continued to develop and promote the use of mobile applications, particularly for our Christian mobile applications. As mobile page views carry fewer advertisements and typically have shorter site visits, our growth in mobile application generated traffic is larger than our growth in revenue.

Digital streaming revenue was consistent with the prior year with no changes in sales volume or rates.

Digital subscription revenue increased by \$0.1 million due to higher distribution levels from our acquisitions of Retirement Watch and Turner Investment Products in 2016, as well as the launch of our start-up publication, Instant Income Trader, that were partially offset with declines in the number of subscribers to Skousen's Fast Money Alert and 5 Star Trader newsletters. There were no changes in subscriber rates as compared to the same period of the prior year.

Digital download revenue declined by \$0.3 million due to a lower volume of downloads generated as compared to the same period of the prior year. Of this decline, \$0.2 million was attributable to WorshipHouseMedia.com and \$0.1 million was attributable to SermonSpice.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. There were no changes in rates charged to our customers for digital downloads as compared to the same period of the prior year.

E-commerce revenue declined by \$0.2 million due to discounts offered on sales of Gene Smart's inventory through our wellness website. The average price per unit declined by 15.2% while the number of products sold declined by 4.3%. Gene Smart inventory was discounted due to lower than expected sales in prior periods that resulted in perishable inventory on hand due to expiration dates associated with the nutritional supplements.

Net Publishing Revenue

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Net Publishing Revenue	\$ 11,581	\$ 12,485	\$ 904	7.8%	8.8%	9.5%

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

	Six Months Ended June 30,					
	2016			2017		
	<i>(Dollars in thousands)</i>					
Book Sales	\$ 7,832		67.6%	\$ 7,961		63.8%
Estimated Sales Returns & Allowances	(2,437)		(21.0)	(1,374)		(11.0)
E-Book Sales	957		8.3	842		6.7
Self-Publishing Fees	3,046		26.3	2,876		23.0
Print Magazine Subscriptions	760		6.5	605		4.9
Print Magazine Advertisements	454		3.9	422		3.4
Digital Advertising	366		3.2	439		3.5
Other Revenue	603		5.2	714		5.7
Net Publishing Revenue	\$ 11,581		100.0%	\$ 12,485		100.0%

On a consolidated basis, sales of print books increased by \$0.1 million comprised of a \$1.1 million decrease in sales of Regnery Publishing printed books due to the timing of release of best-selling books that was offset by a \$1.2 million increase in book sales through Salem Author Services, our self-publishing operations of Xulon Press and Mill City Press. The \$1.2 million increase in book sales generated from Salem Author Services included a \$0.9 million increase from Mill City Press, which we acquired on August 1, 2016, and a \$0.3 million increase in book sales from Xulon Press™. There were no changes in rates charged as compared to the same period of the prior year. Sales of Regnery Publishing books 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 \$1.1 million decrease in estimated sales returns and allowances was due to the decrease in Regnery Publishing print books sales, a reduction to the historical average return rate for Regnery Political books and a reduction to the reserve for backlist titles.

Regnery Publishing e-book sales decreased \$0.1 million due to a decrease in sales volume of 45.4% and a decrease of 8.0% in the average price per unit. E-book sales can also vary based on 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.

Self-publishing fees decreased \$0.2 million which included a \$0.5 million increase in sales volume from Mill City Press, which we acquired in August 2016, and a \$0.7 million decline in sales volume from Xulon Press™. There were no changes in fees charged to authors 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.

Declines in print magazine subscription and print magazine advertising revenue are due to the continual decline within this industry and our reduction in the number of publications. As of the May 2017 publications, we ceased publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine. This decision was based on continual declines in the number of subscribers and a corresponding declines in advertising revenues based on reduced demand and reduced rates due to lower distribution levels. We continue to explore cost reductions in this segment.

Digital advertising revenue increased \$0.1 million due to a higher volume of digital newsletters issued from Regnery Publishing's Conservative Book Club. There were no changes in fees as compared to the same period of the prior year.

Other revenue consists of miscellaneous sources such as change fees, trailers and website revenues. The increase of \$0.1 million was generated by Mill City Press that was acquired on August 1, 2016.

Broadcast Operating Expenses

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Broadcast Operating Expenses	\$ 72,021	\$ 71,767	\$ (254)	(0.4)%	54.4%	54.7%
Same Station Broadcast Operating Expenses	\$ 71,131	\$ 71,026	\$ (105)	(0.1)%		

Broadcast operating expenses declined by \$0.3 million including a \$0.5 million reduction in sales-based commissions and incentives consistent with lower revenues, a \$0.7 million decline due to a favorable litigation matter, a \$0.3 million decline in advertising expenses, and a \$0.2 million decline in music license fees, that were offset by a \$0.4 million increase in employee benefit costs, a \$0.4 million increase in bad debt expense, a \$0.2 million increase in non-cash stock-based compensation expense and a \$0.4 million increase in payroll related costs associated with annual rate increases.

On a same-station basis, broadcast operating expenses decreased by \$0.1 million. The decrease 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 of \$0.5 million and \$0.7 million associated with the Louisville market.

Digital Media Operating Expenses

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Digital Media Operating Expenses	\$ 17,643	\$ 17,072	\$ (571)	(3.2)%	13.3%	13.0%

Digital media operating expenses declined by \$0.6 million due to a \$0.3 million reduction in advertising and promotion costs, a \$0.2 million reduction in sales-based commissions and incentives, and a \$0.2 million reduction in royalties that were offset by a \$0.1 million increase in bad debt expenses.

Publishing Operating Expenses

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Publishing Operating Expenses	\$ 11,931	\$ 12,019	\$ 88	0.7%	9.0%	9.2%

Publishing operating expenses were consistent in total with those of the same period of the prior year. Publishing operating expenses include a \$0.2 million increase in advertising and promotional expenses, a \$0.1 million increase in rent expense due to a new facility lease and a \$0.1 million increase in employee benefit costs that were offset by a \$0.2 million decline travel and entertainment expenses and a \$0.1 million decline in professional service fees.

Publishing operating expenses reflect a \$0.8 million increase in the cost of goods sold associated with book sales generated through Salem Author Services. The gross profit margin for our self-publishing entities decreased to 69% for the six months ended June 30, 2017 as compared to 73% for the same period of the prior year due to higher paper expenses. Cost of goods sold associated with book sales from Regnery Publishing decreased \$0.7 million due to a decrease in the number of print books sold. The gross profit margin for Regnery Publishing was 49% for the six months ended June 30, 2017 as compared to 52% for the same period of the prior year. Regnery Publishing margins are impacted by the volume of e-book sales, which have a lower cost of goods sold due to the nature of delivery and do not have sales returns and allowances.

Unallocated Corporate Expenses

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Unallocated Corporate Expenses	\$ 7,781	\$ 8,950	\$ 1,169	15.0%	5.9%	6.8%

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 increase of \$1.2 million includes a \$0.7 million non-cash stock-based compensation charge associated with restricted stock awards, a \$0.3 million increase in net payroll related costs due to increased employee headcount and annual rate increases and a \$0.1 million increase professional fees for legal and accounting services.

Impairment of Long-Lived Assets

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Long-Lived Assets	\$ 700	\$ —	\$ (700)	(100.0)%	0.5%	—%

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 continued to market the land for sale and had no intention to use the land in our operations, we had not received successful offers. Based on the amount of time that the land had 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 three months ended June 30, 2016.

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

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Indefinite-Lived Long-Term Assets Other Than Goodwill	\$ —	\$ 19	\$ 19	100.0%	—%	—%

We reviewed magazine mastheads for impairment at June 30, 2017 based on management's plan to cease publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon issuance of the May 2017 issues. We have received purchase offers from third parties interested in acquiring the rights to continue publishing Preaching Magazine™, but we have not closed on or agreed to final terms. Because of the likelihood that these print magazines would be sold or otherwise disposed of before the end of their previously estimated life, we performed impairment tests as of March 31, 2017. Due to reductions in forecasted operating cash flows and indications of interest from potential buyers, we then recorded an impairment charge of \$19,000 associated with mastheads.

Depreciation Expense

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Depreciation Expense	\$ 5,974	\$ 6,089	\$ 115	1.9%	4.5%	4.6%

Depreciation expense increased \$0.1 million compared to the same period of the prior year. The increase reflects the impact of recent capital expenditures associated with computer software, data processing and office equipment that have shorter estimated useful lives than towers and broadcast assets. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Amortization Expense	\$ 2,332	\$ 2,285	\$ (47)	(2.0)%	1.8%	1.7%

There were no changes in our amortization methods or in the estimated useful lives of our intangible asset groups. The amortization expense reflects the impact of subscriber base and customer lists and contracts acquired with Eagle Publishing and customer lists and contracts acquired with WorshipHouseMedia.com that were fully amortized as of June 30, 2017, compared to generating amortization expense of \$0.5 million during the prior year that were offset with the \$0.5 million amortization of intangible assets acquired related to 2016 acquisitions of Cycle Prophet in September 2016 and Mill City Press in September 2016.

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

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	\$ (262)	\$ (42)	\$ 220	(84.0)%	(0.2)%	—%

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.

During the three month period ended June 30, 2017, we decreased the estimated fair value of our contingent earn-out liabilities by \$42,000 compared to a net decrease of \$262,000 during the same period of the prior year. These changes are based on actual results as compared to the estimates used in our probability analysis for each contingency. Refer to Note 5 of our Condensed Consolidated financial statements 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.

Net Gain on the Sale or Disposal of Assets

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Gain on the Sale or Disposal of assets	\$ (1,551)	\$ (505)	\$ 1,046	(67.4)%	(1.2)%	(0.4)%

The net gain on the sale or disposal of assets of \$0.5 million for the six month period ended June 30, 2017 includes a \$0.5 million gain from the sale of a former transmitter site in our Dallas, Texas market and a \$16,000 net gain from disposals within our print magazine segment that was offset with losses from various fixed asset disposals.

The net gain on the sale or disposal of assets of \$1.6 million for the six month period ended June 30, 2016 includes a \$1.9 million gain on the sale of our Miami tower site offset by a \$0.4 million charge associated with the relocation of our offices in the Washington D.C. market and various losses from fixed asset disposals.

Other Income (Expense)

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Interest Income	\$ 3	\$ 2	\$ (1)	(33.3)%	—%	—%
Interest Expense	(7,526)	(7,354)	172	(2.6)%	(5.7)%	(5.6)%
Change in the Fair Value of Interest Rate Swap	(2,181)	357	2,538	(116.4)%	(1.6)%	0.3%
Loss on Early Retirement of Long-Term Debt	(14)	(2,775)	(2,761)	19,721.4%	—%	(2.1)%

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 the swap agreement for applicable periods prior to the termination of the swap agreement, non-cash interest accretion of deferred payments and contingent earn-out consideration associated with our acquisition activity.

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 terminated on May 19, 2017.

Loss on early retirement of long-term debt reflects \$0.6 million of the unamortized discount and \$1.5 million of unamortized debt issuance costs associated with the payoff and termination of the Term Loan B on May 19, 2017, \$0.1 million of unamortized debt issuance costs associated with the Revolver terminated on May 19, 2017, and a \$0.6 million loss to exit and terminate our swap agreement on May 19, 2017, as well as \$41,000 of the unamortized discount and unamortized debt issuance costs associated with prior principal redemptions of the Term Loan B.

Provision for Income Taxes

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Provision for Income Taxes	\$ 2,358	\$ 1,336	\$ (1,022)	(43.3)%	1.8%	1.0%

In accordance with FASB ASC Topic 740, "Income Taxes," our provision for income taxes decreased to \$1.3 million for the six months ended June 30, 2017 compared to \$2.4 million for the same period of the prior year. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was 36.4% for the six months ended June 30, 2017 compared to 38.9% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Net Income

	Six Months Ended June 30,					
	2016	2017	Change \$	Change %	2016	2017
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Income	\$ 3,709	\$ 2,332	\$ (1,377)	(37.1)%	2.8%	1.8%

We recognized net income of \$2.3 million for the six month period ended June 30, 2017 compared to \$3.7 million in the same period of the prior year. The \$1.4 million decline included a \$2.4 million decline in net operating income and a \$2.8 million loss on the early retirement of long-term debt that was partially offset by the \$2.5 million favorable impact of the change in fair value of our interest rate swap, a \$0.2 million decline in interest expense, and a \$1.0 million decrease in our provision for income taxes.

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 (Loss), 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 measure 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 (Loss) is defined as net publishing revenue less publishing operating expenses. Digital Media Operating Income and Publishing Operating Income (Loss) 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 (Loss) 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 (Loss) 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 net 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 long-term 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 and 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2017	2016	2017
<i>(Dollars in thousands)</i>				
Reconciliation of Net Broadcast Revenue to Same Station Net Broadcast Revenue				
Net broadcast revenue	\$ 49,971	\$ 49,251	\$ 98,716	\$ 97,055
Net broadcast revenue – acquisitions	—	(180)	—	(340)
Net broadcast revenue – dispositions	(403)	(44)	(805)	(86)
Net broadcast revenue – format change	(26)	(59)	(58)	(102)
Same Station net broadcast revenue	<u>\$ 49,542</u>	<u>\$ 48,968</u>	<u>\$ 97,853</u>	<u>\$ 96,527</u>
Reconciliation of Broadcast Operating Expenses To Same Station Broadcast Operating Expenses				
Broadcast operating expenses	\$ 35,871	\$ 35,931	\$ 72,021	\$ 71,767
Broadcast operating expenses – acquisitions	—	(258)	—	(533)
Broadcast operating expenses – dispositions	(402)	(24)	(802)	(102)
Broadcast operating expenses – format change	(43)	(53)	(88)	(106)
Same Station broadcast operating expenses	<u>\$ 35,426</u>	<u>\$ 35,596</u>	<u>\$ 71,131</u>	<u>\$ 71,026</u>
Reconciliation of Station Operating Income to Same Station Operating Income				
Station Operating Income	\$ 14,100	\$ 13,320	\$ 26,695	\$ 25,288
Station operating (income) loss – acquisitions	—	78	—	193
Station operating (income) loss – dispositions	(1)	(20)	(3)	16
Station operating (income) loss – format change	17	(6)	30	4
Same Station – Station Operating Income	<u>\$ 14,116</u>	<u>\$ 13,372</u>	<u>\$ 26,722</u>	<u>\$ 25,501</u>

In the table below, we present our calculations of 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 directly comparable measures reported in accordance with GAAP.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2017	2016	2017
<i>(Dollars in thousands)</i>				
Calculation of Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)				
Net broadcast revenue	\$ 49,971	\$ 49,251	\$ 98,716	\$ 97,055
Less broadcast operating expenses	(35,871)	(35,931)	(72,021)	(71,767)
Station Operating Income	<u>\$ 14,100</u>	<u>\$ 13,320</u>	<u>\$ 26,695</u>	<u>\$ 25,288</u>
Net digital media revenue	\$ 11,047	\$ 10,866	\$ 22,057	\$ 21,552
Less digital media operating expenses	(8,619)	(8,370)	(17,643)	(17,072)
Digital Media Operating Income	<u>\$ 2,428</u>	<u>\$ 2,496</u>	<u>\$ 4,414</u>	<u>\$ 4,480</u>
Net publishing revenue	\$ 6,761	\$ 5,995	\$ 11,581	\$ 12,485
Less publishing operating expenses	(6,983)	(5,668)	(11,931)	(12,019)
Publishing Operating Income (Loss)	<u>\$ (222)</u>	<u>\$ 327</u>	<u>\$ (350)</u>	<u>\$ 466</u>

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.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2017	2016	2017
<i>(Dollars in thousands)</i>				
Reconciliation of Net Income to Operating Income and Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)				
Net income	\$ 3,356	\$ 1,272	\$ 3,709	\$ 2,332
Plus provision for income taxes	2,190	690	2,358	1,336
Plus loss on early retirement of long-term debt	5	2,734	14	2,775
Plus change in fair value of interest rate swap	423	—	2,181	(357)
Plus interest expense, net of capitalized interest	3,730	3,924	7,526	7,354
Less interest income	(2)	(1)	(3)	(2)
Net operating income	\$ 9,702	\$ 8,619	\$ 15,785	\$ 13,438
Less net gain on the sale or disposal of assets	(1,701)	(510)	(1,551)	(505)
Less change in the estimated fair value of contingent earn-out consideration	(134)	(43)	(262)	(42)
Plus impairment of long-lived assets	700	—	700	—
Plus impairment of indefinite-lived long-term assets other than goodwill	—	—	—	19
Plus depreciation and amortization	4,171	4,252	8,306	8,374
Plus unallocated corporate expenses	3,568	3,825	7,781	8,950
Combined Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)	\$ 16,306	\$ 16,143	\$ 30,759	\$ 30,234
Station Operating Income	\$ 14,100	\$ 13,320	\$ 26,695	\$ 25,288
Digital Media Operating Income	2,428	2,496	4,414	4,480
Publishing Operating Income (Loss)	(222)	327	(350)	466
	\$ 16,306	\$ 16,143	\$ 30,759	\$ 30,234

In the table below, we present a reconciliation of Adjusted EBITDA to EBITDA to Net Income, 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.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2017	2016	2017
<i>(Dollars in thousands)</i>				
Reconciliation of Adjusted EBITDA to EBITDA to Net Income				
Net income	\$ 3,356	\$ 1,272	\$ 3,709	\$ 2,332
Plus interest expense, net of capitalized interest	3,730	3,924	7,526	7,354
Plus provision for income taxes	2,190	690	2,358	1,336
Plus depreciation and amortization	4,171	4,252	8,306	8,374
Less interest income	(2)	(1)	(3)	(2)
EBITDA	\$ 13,445	\$ 10,137	\$ 21,896	\$ 19,394
Less net gain on the sale or disposal of assets	(1,701)	(510)	(1,551)	(505)
Less change in the estimated fair value of contingent earn-out consideration	(134)	(43)	(262)	(42)
Plus impairment of long-lived assets	700	—	700	—
Plus impairment of indefinite-lived long-term assets other than goodwill	—	—	—	19
Plus changes the fair value of interest rate swap	423	—	2,181	(357)
Plus net miscellaneous income and expenses	—	—	—	—
Plus loss on early retirement of long-term debt	5	2,734	14	2,775
Plus non-cash stock-based compensation	125	44	324	1,425
Adjusted EBITDA	\$ 12,863	\$ 12,362	\$ 23,302	\$ 22,709

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. 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 Condensed Consolidated financial statements.

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 72% of our total assets at June 30, 2017, 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 16.

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.

Our analysis includes the following events and circumstances that could affect the estimated fair value of indefinite-lived intangible assets, 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.

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 reporting 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 prepare a sensitivity analysis of these assumptions and the hypothetical non-cash impairment charge that would have resulted if our estimated long-term revenue growth rates and estimated discount rates were increased.

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.

Accounting for 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 16.

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.

We recorded a net decrease to our estimated contingent earn-out liabilities of \$42,000 for the six months ended June 30, 2017 and net decrease of \$262,000 during the same period of the prior year. 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.

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 16.

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 18, Commitments and Contingencies, contained in our Condensed 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 Condensed 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 Condensed 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 Condensed 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. 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 three and six month periods ended June 30, 2017 was approximately \$1.2 million and \$2.5 million, respectively, and \$1.4 million and \$2.5 million for the three and six month periods ended June 30, 2016, respectively. Barter expenses included in broadcast operating expense for the three and six month periods ended June 30, 2017 was approximately \$1.1 million and \$2.3 million, respectively, and \$1.4 million and \$2.4 million for the three and six month periods ended June 30, 2016, respectively. Barter advertising revenue included in digital media revenue for the three and six month periods ended June 30, 2017 was approximately \$15,000 and \$40,000, respectively, and \$20,000 and \$22,000 for the three and six month periods ended June 30, 2016, respectively. Barter expenses included in digital media operating expense for the three and six month periods ended June 30, 2017 was approximately \$8,000 and \$0.1 million, respectively, and \$0 and \$6,500 for the three and six month periods ended June 30, 2016, 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 at June 30, 2017 and December 31, 2016. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates.

Income Tax Valuation Allowances (Deferred Taxes)

In preparing our Condensed 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 Condensed 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 June 30, 2017 and 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.

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. 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. 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.

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 six month period ended June 30, 2017, we did not recognize liabilities associated with uncertain tax positions. Accordingly, we have no liabilities for uncertain tax positions recorded at June 30, 2017. 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.

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 decreased to \$19,000 as of June 30, 2017 as compared to \$0.1 million at December 31, 2016. Working capital decreased \$17.4 million to negative working capital of \$1.0 million at June 30, 2017 compared to \$16.4 million at December 31, 2016 due to a \$9.4 million change in current deferred income tax assets upon adoption of ASU 2015-17, a \$3.7 million decrease in net trade accounts receivable and a \$9.5 million increase in the current portion of long-term debt offset by a \$5.7 million decrease in accounts payable and accrued expenses including accrued compensation and related 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 six month period ended June 30, 2017 decreased by \$3.1 million to \$16.6 million compared to \$19.7 million during the same period of the prior year. The decrease in cash provided by operating activities includes the impact of the following items:

- Net operating income decreased to \$2.3 million compared to \$3.7 million for the same period of the prior year;
- Net accounts receivable decreased \$3.7 million;
- Our Day's Sales Outstanding, or the average number of days to collect cash from the date of sale, decreased to 56 days at June 30, 2017 compared to 62 days for the same period of the prior year;
- Net accounts payable and accrued expenses decreased \$5.7 million to \$14.8 million for the six month period ended June 30, 2017 compared to a decrease of \$0.1 million to \$16.4 million for the same period of the prior year; and
- Net inventories on hand increased \$0.2 million to \$0.9 million at June 30, 2017 compared to remaining constant at June 30, 2016.

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.

We plan to fund future purchases and any acquisitions from cash on hand, operating cash flow or our credit facilities. These transactions include an option to acquire radio station KHTE-FM, Little Rock, Arkansas, for \$1.2 million in cash during the TBA period under which we are programming the station. The 36 month TBA began on April 1, 2015, and contains an option to extend to 48 months.

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 \$8.9 million during the remainder of 2017.

Net cash used in investing activities during the six month period ended June 30, 2017 decreased \$2.1 million to \$5.0 million compared to \$7.1 million during the same period of the prior year. The decrease in cash used for investing activities includes:

- Cash paid for acquisitions decreased \$3.1 million to \$0.4 million compared to \$3.5 million during the same period of the prior year;
- Cash paid for capital expenditures decreased \$0.3 million to \$4.8 million compared to \$5.1 million during the same period of the prior year; and
- Capital expenditures for leasehold improvements that are reimbursable as tenant improvement allowances decreased \$0.4 million to \$0.1 million compared to \$0.5 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 six month period ended June 30, 2017, we paid \$14,000 in cash for contingent earn-out consideration due under acquisition agreements and \$0.2 million in cash for the deferred installments.

On May 19, 2017, we closed on a private offering of the Notes and concurrently entered into the ABL Facility. The net proceeds from the offering of the Notes, together with borrowings under the ABL Facility, were used to repay outstanding borrowings, including accrued and unpaid interest, on our previously existing senior credit facilities consisting of the Term Loan B and the Revolver, and to pay fees and expenses incurred in connection with the Notes offering and the ABL Facility.

During the six month period ended June 30, 2017, the principal balances outstanding under our previous credit facilities ranged from \$258.0 million to \$263.5 million. During the six month period ended June 30, 2017, the principal balances outstanding under the Notes and ABL Facility ranged from \$10.0 million to \$13.8 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. In recent years, distributions have been 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 in this quarterly report on Form 10-Q. Future distributions, if any, are likely to be approximately 30% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest.

Our sole source of cash available for making any future equity distributions is our operating cash flow, subject to our credit facilities and Notes, 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 six month period ended June 30, 2017 decreased by \$1.0 million to \$11.7 million from \$12.7 million during the same period of the prior year. The decrease in cash used for financing activities includes:

- We made repayments on the Term Loan B of \$5.0 million as compared to \$2.8 million of principal during the same period of the prior year;
- We paid the remaining principal balance outstanding on the Term Loan B of \$258.0 million and terminated the Term Loan B;
- We paid the remaining principal outstanding on the Revolver and terminated the related credit agreement;
- We issued the 6.75% Senior Secured Notes and received gross proceeds of \$255.0 million upon issuance;
- We entered into the ABL Facility for \$30.0 million and borrowed \$13.6 million of proceeds thereunder;
- We subsequently repaid \$3.8 million on the ABL Facility;
- We paid \$0.2 million of cash against deferred installments due under our purchase agreements during the six month period ended June 30, 2017 compared to \$3.1 million during the same period of the prior year;
- We paid \$14,000 of cash due for amounts earned under the contingent earn-out provision of our purchase agreements during the six month period ended June 30, 2017 compared to \$0.1 million during the same period of the prior year;
- The book overdraft use decreased \$0.7 million to \$2.8 million source as of the period ended June 30, 2017 compared to a \$2.1 million for the same period of the prior year; and
- We paid cash equity distributions of \$3.4 million on our Class A and Class B common stock compared to \$3.3 million for the same period of the prior year.

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.

6.75% Senior Secured Notes

On May 19, 2017, we issued in a private placement the Notes, which were guaranteed on a senior secured basis by our existing subsidiaries (the “Subsidiary Guarantors”). The Notes bear interest at a rate of 6.75% per year and mature on June 1, 2024, unless earlier redeemed or repurchased. Interest accrues on the Notes from May 19, 2017 and is payable semi-annually, in cash in arrears, on June 1 and December 1 of each year, commencing December 1, 2017.

The Notes and the ABL Facility are secured by liens on substantially all of our and the Subsidiary Guarantors' assets, other than certain excluded assets. The ABL Facility has a first-priority lien on our and the Subsidiary Guarantor's accounts receivable, inventory, deposit and securities accounts, certain real estate and related assets (the "ABL Priority Collateral"). The Notes are secured by a first-priority lien on substantially all other assets of ours and the Subsidiary Guarantors (the "Notes Priority Collateral"). There is no direct lien on our Federal Communications Commission ("FCC") licenses to the extent prohibited by law or regulation.

We may redeem the Notes, in whole or in part, at any time on or after June 1, 2020 at a price equal to 100% of the principal amount of the Notes plus a "make-whole" premium as of, and accrued and unpaid interest, if any, to, but not including, the redemption date. At any time on or after June 1, 2020, we may redeem some or all of the Notes at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth in the Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. In addition, we may redeem up to 35% of the aggregate principal amount of the Notes before June 1, 2020 with the net cash proceeds from certain equity offerings at a redemption price of 106.75% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the redemption date. We may also redeem up to 10% of the aggregate original principal amount of the Notes per twelve month period before June 1, 2020 at a redemption price of 103% of the principal amount plus accrued and unpaid interest to, but not including, the redemption date.

The indenture relating to the Notes (the "Indenture") contains covenants that, among other things and subject in each case to certain specified exceptions, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional debt; (ii) declare or pay dividends, redeem stock or make other distributions to stockholders; (iii) make investments; (iv) create liens or use assets as security in other transactions; (v) merge or consolidate, or sell, transfer, lease or dispose of substantially all of our assets; (vi) engage in transactions with affiliates; and (vii) sell or transfer assets.

The Indenture provides for the following events of default (each, an "Event of Default"): (i) default in payment of principal or premium on the Notes at maturity, upon repurchase, acceleration, optional redemption or otherwise; (ii) default for 30 days in payment of interest on the Notes; (iii) the failure by us or certain restricted subsidiaries to comply with other agreements in the Indenture or the Notes, in certain cases subject to notice and lapse of time; (iv) the failure of any guarantee by certain significant Subsidiary Guarantors to be in full force and effect and enforceable in accordance with its terms, subject to notice and lapse of time; (v) certain accelerations (including failure to pay within any grace period) of other indebtedness of ours or any restricted subsidiary if the amount accelerated (or so unpaid) is at least \$15 million; (vi) certain judgments for the payment of money in excess of \$15 million; (vii) certain events of bankruptcy or insolvency with respect to us or any significant subsidiary; and (viii) certain defaults with respect to any collateral having a fair market value in excess of \$15 million. If an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare the principal of the Notes and any accrued interest on the Notes to be due and payable immediately, subject to remedy or cure in certain cases. Certain events of bankruptcy or insolvency are Events of Default which will result in the Notes being due and payable immediately upon the occurrence of such Events of Default.

We are required to pay \$17.2 million per year in interest on the Notes. As of June 30, 2017, accrued interest on the Notes was \$2.0 million.

We incurred debt issuance costs of \$6.3 million that were recorded as a reduction of the debt proceeds that are being amortized to non-cash interest expense over the life of the Notes using the effective interest method. During the three and six month periods ended June 30, 2017, \$0.1 million of debt issuance costs associated with the Notes were recognized as interest expense.

Asset-Based Revolving Credit Facility

On May 19, 2017, the Company also entered into the ABL Facility pursuant to a Credit Agreement (the "Credit Agreement") by and among us, as a borrower, our subsidiaries party thereto, as borrowers, Wells Fargo Bank, National Association, as administrative agent and lead arranger, and the lenders that are parties thereto. We used the proceeds of the ABL Facility, together with the net proceeds from the Notes offering, to repay the Prior Facility and related fees and expenses. Going forward, the proceeds of the ABL Facility will be used to provide ongoing working capital and for other general corporate purposes (including permitted acquisitions).

The ABL Facility is a five-year \$30.0 million revolving credit facility due May 19, 2022, which includes a \$5.0 million subfacility for standby letters of credit and a \$7.5 million subfacility for swingline loans. All borrowings under the ABL Facility accrue at a rate equal to a base rate or LIBOR rate plus a spread. The spread, which is based on an availability-based measure, ranges from 0.50% to 1.00% for base rate borrowings and 1.50% to 2.00% for LIBOR rate borrowings. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the ABL Facility may be paid and then reborrowed at our discretion without penalty or premium. Additionally, we pay a commitment fee on the unused balance of 0.25% to 0.375% per year.

The ABL Facility is secured by a first-priority lien on the ABL Priority Collateral and by a second-priority lien on the Notes Priority Collateral. There is no direct lien on the Company's FCC licenses to the extent prohibited by law or regulation (other than the economic value and proceeds thereof).

The ABL Facility is secured by a first-priority lien on the ABL Priority Collateral and by a second-priority lien on the Notes Priority Collateral. There is no direct lien on the Company's FCC licenses to the extent prohibited by law or regulation (other than the economic value and proceeds thereof).

The Credit Agreement includes a springing fixed charge coverage ratio of 1.0 to 1.0, which is tested during the period commencing on the last day of the fiscal month most recently ended prior to the date on which Availability (as defined in the Credit Agreement) is less than the greater of 15% of the Maximum Revolver Amount (as defined in the Credit Agreement) and \$4.5 million and continuing for a period of 60 consecutive days after the first day on which Availability exceeds such threshold amount. 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 the borrowers and their subsidiaries (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens, (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all assets to a third party, except as permitted thereby; (viii) to prepay indebtedness; and (ix) to pay dividends.

The Credit Agreement provides for the following events of default: (i) default for non-payment of any principal or letter of credit reimbursement when due or any interest, fees or other amounts within five days of the due date; (ii) the failure by any borrower or any subsidiary to comply with any covenant or agreement contained in the Credit Agreement or any other loan document, in certain cases subject to applicable notice and lapse of time; (iii) any representation or warranty made pursuant to the Credit Agreement or any other loan document is incorrect in any material respect when made; (iv) certain defaults of other indebtedness of any borrower or any subsidiary of indebtedness of at least \$10 million; (v) certain events of bankruptcy or insolvency with respect to any borrower or any subsidiary; (vi) certain judgments for the payment of money of \$10 million or more; (vii) a change of control; and (viii) certain defaults relating to the loss of FCC licenses, cessation of broadcasting and termination of material station contracts. If an event of default occurs and is continuing, the Administrative Agent and the Lenders may accelerate the amounts outstanding under the ABL Facility and may exercise remedies in respect of the collateral.

We incurred debt issue costs of \$0.3 million that were recorded as an asset and are being amortized to non-cash interest expense over the term of the ABL Facility using the effective interest method. During the three and six month periods ended June 30, 2017, \$12,000 of debt issue costs associated with the Notes were recognized as interest expense. At June 30, 2017, the blended interest rate on amounts outstanding under the ABL Facility was 2.97%.

We report outstanding balances on the ABL Facility as short-term regardless of the maturity date based on use of the ABL Facility to fund ordinary and customary operating cash needs with frequent repayments. We believe that our borrowing capacity under the ABL Facility allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months.

Prior Term Loan B and Revolving Credit Facility

Our prior credit facility consisted 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 was amortized to non-cash interest expense over the life of the loan using the effective interest method. For each of the three months ended June 30, 2017 and 2016, approximately \$26,000 and \$52,000, respectively, of the discount associated with the Term Loan B was recognized as interest expense. For each of the six months ended June 30, 2017 and 2016, approximately \$74,000 and \$104,000, respectively, of the discount associated with the Term Loan B was recognized as interest expense.

The Term Loan B had a term of seven years, maturing in March 2020. On May 19, 2017, we used the net proceeds of the Notes and a portion of the ABL Facility to fully repay amounts outstanding under the Term Loan B of \$258.0 million and of the Revolver of \$4.1 million. We recorded a loss on the early retirement of long-term debt of \$2.1 million, which included \$1.5 million of unamortized debt issuance costs on the Term Loan B and the Revolver and \$0.6 million of unamortized discount on the Term Loan B.

The following payments or prepayments of the Term Loan B were made during the year ended December 31, 2016 and through the date of the termination, including interest through the payment date as follows:

Date	Principal Paid	Unamortized Discount
<i>(Dollars in Thousands)</i>		
May 19, 2017	\$ 258,000	\$ 550
February 28, 2017	3,000	6
January 30, 2017	2,000	5
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

Debt issuance costs were amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For each of the three months ended June 30, 2017 and 2016, approximately \$71,000 and \$141,000, respectively, of the debt issuance costs associated with the Term Loan B were recognized as interest expense. For each of the six months ended June 30, 2017 and 2016, approximately \$203,000 and \$283,000 respectively, of the debt issuance costs associated with the Term Loan B were recognized as interest expense.

Debt issuance costs associated with the Revolver were recorded as an asset in accordance with ASU 2015-15. The costs were 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 three months ended June 30, 2017 and 2016, we recorded amortization of deferred financing costs of approximately \$9,000 and \$17,000. For each of the six months ended June 30, 2017 and 2016, we recorded amortization of deferred financing costs of approximately \$26,000 and \$35,000.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2016	As of June 30, 2017
<i>(Dollars in thousands)</i>		
6.75% Senior Secured Notes	\$ —	\$ 255,000
Less unamortized debt issuance costs based on imputed interest rate of 7.08%	—	(6,199)
6.75% Senior Secured Notes net carrying value	—	248,801
Asset-Based Revolving Credit Facility principal outstanding	—	10,000
Term Loan B principal amount	263,000	—
Less unamortized discount and debt issuance costs based on imputed interest rate of 4.78%	(2,371)	—
Term Loan B net carrying value	260,629	—
Revolver principal outstanding	477	—
Capital leases and other loans	568	521
Long-term debt and capital lease obligations less unamortized debt issuance costs	261,674	259,322
Less current portion	(590)	(10,116)
Long-term debt and capital lease obligations less unamortized debt issuance costs, net of current portion	\$ 261,084	\$ 249,206

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2017:

- Outstanding borrowings of \$10.0 million under the ABL Facility, with interest payments due at LIBOR plus 1.5% to 2.0% per annum;
- \$255.0 million aggregate principal amount of Notes with semi-annual interest payments at an annual rate of 6.75% ; and
- Commitment fee of 0.25% to 0.375% on the unused portion of the ABL Facility.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2016 and June 30, 2017 represents the present value of future commitments under the capital lease agreements.

Maturities of Long-Term Debt and Capital Lease Obligations

Principal repayment requirements under all long-term debt agreements outstanding at June 30, 2017 for each of the next five years and thereafter are as follows:

	Amount
For the Twelve Months Ended June 30,	(Dollars in thousands)
2018	\$ 10,116
2019	106
2020	107
2021	117
2022	75
Thereafter	255,000
	<u>\$ 265,521</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. 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.

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. During our annual testing in the fourth quarter of 2016, we recognized impairment charges of \$7.0 million including a \$6.5 million impairment of broadcast licenses and \$0.5 million impairment of mastheads. 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”). Mastheads were deemed to be impaired due to further reductions in projected net revenues and increases in the WACC. We continue to evaluate our print magazine business due to recurring declines in operating results and projected revenues. Due to operating results during the three month period ended March 31, 2017 that did not meet management’s expectations, we ceased publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon issuance of the May 2017 publication. We have received purchase offers from third parties interested in acquiring the rights to continue publishing Preaching Magazine™, but we have not closed on or agreed to final terms of the sale.

Because of the likelihood that these print magazines would be sold or otherwise disposed of before the end of their previously estimated life, we performed impairment tests as of March 31, 2017. Due to reductions in forecasted operating cash flows and indications of interest from potential buyers, we then recorded an impairment charge of \$19,000 associated with mastheads.

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 past experiences and judgment about future operating performance of our markets and business segments. 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 16.

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.

While the impairment charges we have recognized are non-cash in nature and did not violate the covenants on the then existing 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 June 30, 2017, 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

DERIVATIVE INSTRUMENTS

We are exposed to fluctuations in interest rates. We actively monitor these fluctuations and use derivative instruments from time to time to manage the related risk. In accordance with our risk management strategy, we 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 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 the Term Loan B. Payments on the swap were due on a quarterly basis with a LIBOR floor of 0.625%. The swap was to expire 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 were recognized in the current period statement of operations rather than through other comprehensive income. On May 19, 2017, we paid \$0.8 million to terminate the interest rate swap.

	<u>As of December 31, 2016</u>	<u>As of June 30, 2017</u>
	<i>(Dollars in thousands)</i>	
Fair value of interest rate swap	\$ 514	\$ —

On May 19, 2017, we entered into a new senior credit facility, which is an asset-based revolving credit facility (“ABL Facility”). The ABL Facility is a five-year \$30.0 million (subject to borrowing base) revolving credit facility maturing on May 19, 2022. Amounts outstanding under the ABL Facility bear interest at a rate based on LIBOR plus a spread of 1.50% to 2.0% per annum based on a pricing grid depending on the average available amount for the most recently ended quarter or at the Base Rate (as defined in the Credit Agreement) plus a spread of 0.50% to 1.0% per annum based on a pricing grid depending on the average available amount for the most recently ended quarter. Additionally, we pay a commitment fee on the unused balance of 0.25% to 0.38% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the ABL Facility may be paid and then re-borrowed at our discretion without penalty or premium.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. Our management, including our principal executive and financial officers, have conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during the three month period ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We and our subsidiaries, incident to our business activities, 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.

ITEM 1A. RISK FACTORS.

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Annual Report”) a description of certain risks and uncertainties that could affect our business, future performance or financial condition, which was updated or supplemented by risk factors included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (collectively, the “Risk Factors”). Except to the extent the Risk Factors have been updated or supplemented as provided below, the Risk Factors are hereby incorporated in Part II, Item 1A of this Form 10-Q. Investors should consider the Risk Factors, as updated and supplemented, prior to making an investment decision with respect to our stock. Except to the extent provided below, there are no material changes from the Risk Factors disclosed in the 2016 Annual Report and the Form 10-Q for the quarter ended March 31, 2017.

RISKS ASSOCIATED WITH OUR SUBSTANTIAL INDEBTEDNESS

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 June 30, 2017, we and our subsidiary guarantors have approximately \$265.5 million aggregate principal amount of outstanding indebtedness, all of which is senior debt comprised of an aggregate principal amount of \$255.0 million of the Notes and approximately \$10.0 million under the ABL Facility effectively ranking senior to the Notes to the extent of the ABL Priority Collateral securing such debt. In addition, the terms of the ABL Facility and the Indenture governing the Notes permit us to incur additional indebtedness, including up to approximately \$19.9 million that would be available under the ABL Facility, subject to our ability to meet certain borrowing conditions.

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

- make it more difficult for us to satisfy our financial obligations, including those relating to the Notes, as well as the ABL Facility;
- 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 Indenture governing the Notes and the agreements governing the ABL Facility, 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.

The ABL Facility also requires us to comply with a number of financial ratios, borrowing base requirements 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 Indenture governing the Notes or the ABL Facility. An event of default under any of our debt agreements could permit some of our lenders, including the lenders under the ABL Facility, 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 the ABL Facility could be terminated. If we were unable to repay debt to our lenders, or are otherwise in default under any provision governing our secured debt obligations, our secured lenders could proceed against us and our subsidiary guarantors and against the collateral securing that debt. In addition, acceleration of our other indebtedness may cause us to be unable to make interest payments on the Notes and repay the principal amount of or repurchase the Notes or may cause our subsidiary guarantors to be unable to make payments under the guarantees.

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 or to fund our other liquidity needs. 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, including the ABL Facility and the Notes, 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. However, we may not be able to secure additional financing on terms favorable to us or at all and, in addition, the terms of the ABL Facility and the Indenture governing the Notes limit our ability to sell assets and also restrict the use of proceeds from such a sale. In addition, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations.

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 the ABL Facility at any time will depend upon, among other factors, our ability to satisfy financial covenants and borrowing base requirements. 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

See "Exhibit Index" below.

SIGNATURES

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

August 7, 2017

SALEM MEDIA GROUP, INC.

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
Chief Executive Officer
(Principal Executive Officer)

August 7, 2017

By: /s/ EVAN D. MASZR

Evan D. Masyr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
4.1	Indenture, dated as of May 19, 2017, by and among the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee and collateral agent.	8-K	000-26497	05/23/2017	4.1	
4.2	Form of 6.750% Senior Secured Note due 2024.	8-K	000-26497	05/23/2017	4.2	
4.3	Security Agreement, dated as of May 19, 2017, among Salem Media Group, Inc., the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.	8-K	000-26497	05/23/2017	4.3	
10.1	Lease Agreement dated May 8, 2017 between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Edward G. Atsinger III, not individually but as sole trustee of the Atsinger Family Trust /u/a dated October 31, 1980, as amended, and Stuart W. Epperson, not individually but solely as trustee of the Stuart W. Epperson Revocable Living Trust /u/a dated January 14, 1993, as amended.	8-K	000-26497	05/10/2017	10.1	
10.2	Intercreditor Agreement, dated as of May 19, 2017, by and between Wells Fargo Bank, National Association, as administrative agent, and U.S. Bank National Association, as collateral agent.	8-K	000-26497	05/23/2017	10.1	

10.3	Credit Agreement, dated as of May 19, 2017, by and among Salem Media Group, Inc., as parent and a borrower, the subsidiaries party thereto, as borrowers, Wells Fargo Bank National Association, as administrative agent, Wells Fargo Bank, National Association, as lead arranger, and the lenders that are parties thereto.	8-K	000-26497	05/23/2017	10.2	
10.4	Guaranty and Security Agreement, dated as of May 19, 2017, by and among Salem Media Group, Inc., the subsidiaries party thereto and Wells Fargo Bank, National Association, as administrative agent.	8-K	000-26497	05/23/2017	10.3	
10.5	Purchase Agreement, dated May 11, 2017, by and between Salem Media Group, Inc., the subsidiaries party thereto, Wells Fargo Securities, LLC, Barclays Capital Inc. and Noble Capital Markets, Inc.	-	-	-	-	X
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	-	X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	-	X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.	-	-	-	-	X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.	-	-	-	-	X
101	The following financial information from the Quarterly Report on Form 10Q for the three and six months ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets (ii) Condensed Consolidated Statements of Operations (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Notes to the Condensed Consolidated Financial Statements.	-	-	-	-	X

Salem Media Group, Inc.

The Guarantors listed on the signature pages hereof

\$255,000,000

6.75% Senior Secured Notes due 2024

PURCHASE AGREEMENT

dated May 11, 2017

**Wells Fargo Securities, LLC
Barclays Capital Inc.
Noble Capital Markets, Inc.**

PURCHASE AGREEMENT

May 11, 2017

Wells Fargo Securities, LLC
As Representative of the Initial Purchasers
c/o Wells Fargo Securities, LLC
550 S. Tryon Street
Charlotte, North Carolina 28202

Ladies and Gentlemen:

Introductory. Salem Media Group, Inc., a Delaware corporation (the “**Company**”), proposes to issue and sell to the several Initial Purchasers named in Schedule A (the “**Initial Purchasers**”), acting severally and not jointly, the respective amounts set forth in such Schedule A of \$255,000,000 aggregate principal amount of the Company’s 6.75% Senior Secured Notes due 2024 (the “**Notes**”). Wells Fargo Securities, LLC has agreed to act as the representative of the several Initial Purchasers (the “**Representative**”) in connection with the offering and sale of the Notes.

The Securities (as defined below) will be issued pursuant to an indenture, to be dated as of May 19, 2017 (the “**Indenture**”), among the Company, the Guarantors (as defined below) and U.S. Bank National Association, as trustee (the “**Trustee**”). Notes will be issued only in book-entry form in the name of Cede & Co., as nominee of The Depository Trust Company (the “**Depository**”) pursuant to a letter of representations, to be dated on or before the Closing Date (as defined in Section 2 hereof) (the “**DTC Agreement**”), among the Company and the Depository.

The payment of principal of, premium, if any, and interest on the Notes will be fully and unconditionally guaranteed on a senior secured basis, jointly and severally by (i) the entities listed on the signature pages hereof as “Guarantors” and (ii) any subsidiary of the Company formed or acquired after the Closing Date that executes an additional guarantee in accordance with the terms of the Indenture, and their respective successors and assigns (collectively, the “**Guarantors**”), pursuant to their guarantees (the “**Guarantees**”). The Notes and the Guarantees attached thereto are herein collectively referred to as the “**Securities**.”

As described in the Pricing Disclosure Package (as defined below) and the Final Memorandum, proceeds from the issuance and sale of the Securities shall be used to (i) refinance the Company’s existing credit agreement and (ii) to pay related fees and expenses.

The issuance and sale of the Notes, the issuance of the Guarantees, the entry by the Company and the Guarantors into a new senior first lien credit facility (the “**Senior Credit Facility**”), the initial extensions of credit thereunder, if any, on the Closing Date, the refinancing of the Company’s existing credit agreement as described in the Pricing Disclosure Package, and the payment of transaction costs are referred to herein collectively, as the “**Transactions**.”

For purposes of this Purchase Agreement (this “**Agreement**”), a “Business Day” means any day other than a Saturday or Sunday or other day on which banking institutions in New York City are authorized or required by law to close.

The Notes will be secured by a first priority lien on the Notes Priority Collateral (as defined in the Indenture) and by a second priority lien on the ABL Priority Collateral (as defined in the Indenture), subject in each case to certain exceptions and Permitted Collateral Liens (as defined in the Indenture) (collectively, the “**Collateral**”), as more particularly described in the Pricing Disclosure Package and documented by a security agreement dated as of the Closing Date (the “**Security Agreement**”) and other instruments evidencing or creating a security interest (collectively, the “**Security Documents**”) in favor of U.S. Bank National Association, as collateral agent (in such capacity, the “**Collateral Agent**”), for its benefit and the benefit of the Trustee and the holders of the Notes. The Notes Priority Collateral will be senior to a second priority lien in favor of Wells Fargo Bank, N.A. as administrative agent under the Senior Credit Facility and as control agent (in such capacity, the “**Senior Credit Facility Administrative Agent**”) for the benefit of the lenders under the Senior Credit Agreement, and the ABL Priority Collateral will be subject to a first priority lien in favor of the Senior Credit Facility Administrative Agent for the benefit of the lenders under the Senior Credit Facility.

The Company, the Guarantors, the Collateral Agent and the Senior Credit Facility Administrative Agent will enter into an Intercreditor Agreement, dated as of the Closing Date (the “**Intercreditor Agreement**”), with respect to collateral sharing arrangements, and the Securities will be subject to such Intercreditor Agreement.

The Company understands that the Initial Purchasers propose to make an offering of the Securities on the terms and in the manner set forth herein and in the Pricing Disclosure Package and agrees that the Initial Purchasers may resell, subject to the conditions set forth herein, all or a portion of the Securities to purchasers (the “**Subsequent Purchasers**”) on the terms set forth in the Pricing Disclosure Package (the first time when sales of the Securities are made is referred to as the “**Time of Sale**”). The Securities are to be offered and sold to or through the Initial Purchasers without being registered with the Securities and Exchange Commission (the “**Commission**”) under the Securities Act of 1933 (as amended, the “**Securities Act**,” which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder), in reliance upon exemptions therefrom. Pursuant to the terms of the Securities and the Indenture, investors who acquire Securities shall be deemed to have agreed that Securities may only be resold or otherwise transferred, after the date hereof, if such Securities are registered for sale under the Securities Act or if an exemption from the registration requirements of the Securities Act is available (including the exemptions afforded by Rule 144A under the Securities Act (“**Rule 144A**”) or Regulation S under the Securities Act (“**Regulation S**”).

The Company has prepared and delivered to each Initial Purchaser copies of a Preliminary Offering Memorandum, dated May 8, 2017 (the “**Preliminary Offering Memorandum**”), and has prepared and delivered to each Initial Purchaser copies of a Pricing Supplement, dated May 11, 2017 (the “**Pricing Supplement**”), describing the terms of the Securities, each for use by such Initial Purchaser in connection with its solicitation of offers to purchase the Securities. The Preliminary Offering Memorandum and the Pricing Supplement are herein referred to as the “**Pricing Disclosure Package**.” Promptly after this Agreement is executed and delivered, the Company will prepare and deliver to each Initial Purchaser a final offering memorandum dated the date hereof (the “**Final Offering Memorandum**”).

All references herein to the terms “**Pricing Disclosure Package**” and “**Final Offering Memorandum**” shall be deemed to mean and include all reports filed with the Commission under the Securities Exchange Act of 1934 (as amended, the “**Exchange Act**,” which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder) prior to the Time of Sale and incorporated by reference in the Pricing Disclosure Package (including the Preliminary Offering Memorandum) or the Final Offering Memorandum (as the case may be), and all references herein to the terms “**amend**,” “**amendment**” or “**supplement**” with respect to the Final Offering Memorandum shall be deemed to mean and include all information filed under the Exchange Act after the Time of Sale and incorporated by reference in the Final Offering Memorandum.

The Company hereby confirms its agreements with the Initial Purchasers as follows:

SECTION 1. **Representations and Warranties.** Each of the Company and the Guarantors, jointly and severally, hereby represents, warrants and covenants to each Initial Purchaser that, as of the date hereof and as of the Closing Date (references in this Section 1 to the “**Offering Memorandum**” are to (x) the Pricing Disclosure Package in the case of representations and warranties made as of the date hereof and (y) the Final Offering Memorandum in the case of representations and warranties made as of the Closing Date):

(a) **No Registration Required.** Subject to the accuracy of the representations and warranties of the Initial Purchasers set forth in Section 2 hereof and compliance by the Initial Purchasers with the procedures set forth in Section 7 hereof, it is not necessary in connection with the offer, sale and delivery of the Securities to the Initial Purchasers and to each Subsequent Purchaser in the manner contemplated by this Agreement and the Final Memorandum to register the Securities under the Securities Act or to qualify the Indenture under the Trust Indenture Act of 1939.

(b) **No Integration of Offerings or General Solicitation.** Neither the Company, the Guarantors, nor any of their respective affiliates (as such term is defined in Rule 501 under the Securities Act) (each, an “**Affiliate**”), nor any person acting on its or any of their behalf (other than the Initial Purchasers, as to whom the Company and the Guarantors make no representation or warranty) has, directly or indirectly, solicited any offer to buy or offered to sell, or will, directly or indirectly, solicit any offer to buy or offer to sell, in the United States or to any United States citizen or resident, any security which is or would be integrated with the sale of the Securities in a manner that would require the Securities to be registered under the Securities Act. None of the Company, the Guarantors, nor any of their respective Affiliates, or any person acting on its or any of their behalf (other than the Initial Purchasers, as to whom the Company and the Guarantors make no representation or warranty) has engaged or will engage, in connection with the offering of the Securities, in any form of general solicitation or general advertising within the meaning of Rule 502 under the Securities Act. With respect to those Securities sold in reliance upon Regulation S, (i) none of the Company, the Guarantors, nor any of their respective Affiliates or any person acting on its or any of their behalf (other than the Initial Purchasers, as to whom the Company and the Guarantors make no representation or warranty) has engaged or will engage in any directed selling efforts within the meaning of Regulation S and (ii) each of the Company, the Guarantors and their respective Affiliates and any person acting on its or any of their behalf (other than the Initial Purchasers, as to whom the Company and the Guarantors make no representation or warranty) has complied and will comply with the offering restrictions set forth in Regulation S.

(c) **Eligibility for Resale under Rule 144A.** Subject to the accuracy of the representations and warranties of the Initial Purchasers set forth in Section 2 hereof and compliance by the Initial Purchasers with the procedures set forth in Section 7 hereof, the Securities are eligible for resale pursuant to Rule 144A and will not be, at the Closing Date, of the same class as securities listed on a national securities exchange registered under Section 6 of the Exchange Act or quoted in a U.S. automated interdealer quotation system.

(d) **The Pricing Disclosure Package and Offering Memorandum.** Neither the Pricing Disclosure Package, as of the Time of Sale, nor the Final Offering Memorandum, as of its date or (as amended or supplemented in accordance with Section 3(a), as applicable) as of the Closing Date, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided* that this representation, warranty and agreement shall not apply to statements in or omissions from the Pricing Disclosure Package, the Final Offering Memorandum or any amendment or supplement thereto made in reliance upon and in conformity with information furnished to the Company in writing by any Initial Purchaser through the Representative expressly for use in the Pricing Disclosure Package, the Final Offering Memorandum or amendment or supplement thereto, as the case may be. The Pricing Disclosure Package contains, and the Final Offering Memorandum will contain, all the information specified in, and meeting the requirements of, Rule 144A. The Company has not distributed and will not distribute, prior to the later of the Closing Date and the completion of the Initial Purchasers' distribution of the Securities, any offering material in connection with the offering and sale of the Securities other than the Pricing Disclosure Package and the Final Offering Memorandum as each may be amended or supplemented pursuant to Section 3(a).

(e) **Company Additional Written Communications.** The Company has not prepared, made, used, authorized, approved or distributed and will not prepare, make, use, authorize, approve or distribute any written communication that constitutes an offer to sell or solicitation of an offer to buy the Securities other than (i) the Pricing Disclosure Package, (ii) the Final Offering Memorandum and (iii) any electronic road show or other written communications, in each case used in accordance with Section 3(a). Each such communication by the Company or its agents and representatives pursuant to clause (iii) of the preceding sentence (each, a "**Company Additional Written Communication**"), when taken together with the Pricing Disclosure Package, did not as of the Time of Sale, and at the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided* that this representation, warranty and agreement shall not apply to statements in or omissions from each such Company Additional Written Communication made in reliance upon and in conformity with information furnished to the Company in writing by any Initial Purchaser through the Representative expressly for use in any Company Additional Written Communication.

(f) **Incorporated Documents.** The documents incorporated or deemed to be incorporated by reference in the Offering Memorandum at the time they were or hereafter are filed with the Commission (collectively, the “**Incorporated Documents**”) complied, and will comply, in all material respects with the requirements of the Exchange Act. Each such Incorporated Document, when taken together with the Pricing Disclosure Package, did not as of the Time of Sale, and at the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(g) **The Purchase Agreement.** This Agreement has been duly authorized, executed and delivered by the Company and the Guarantors.

(h) **Authorization of the Notes and the Guarantees.** The Notes to be purchased by the Initial Purchasers from the Company will on the Closing Date be in the form contemplated by the Indenture, have been duly authorized by the Company for issuance and sale pursuant to this Agreement and the Indenture and, at the Closing Date, will have been duly executed by the Company and, when authenticated in the manner provided for in the Indenture and issued and delivered against payment of the purchase price therefor, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles and will be entitled to the benefits of the Indenture. The Guarantees of the Notes on the Closing Date when issued pursuant to the Indenture have been duly authorized and, when the Notes have been authenticated in the manner provided for in the Indenture and issued and delivered against payment of the purchase price therefor, the Guarantees of the Notes will constitute valid and binding agreements of the Guarantors, in each case, enforceable in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles and will be entitled to the benefits of the Indenture.

(i) **Authorization of the Indenture.** The Indenture has been duly authorized by the Company and the Guarantors and, at the Closing Date, will have been duly executed and delivered by the Company and the Guarantors and, assuming due authorization, execution and delivery by the Trustee, will constitute a valid and binding agreement of the Company and the Guarantors, enforceable against the Company and the Guarantors in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles.

(j) **Authorization of the Intercreditor Agreement.** The Intercreditor Agreement has been duly authorized by the Company and each Guarantor and, at the Closing Date, will have been duly executed and delivered by the Company and each Guarantor and will constitute a valid and binding agreement of the Company and each Guarantor, enforceable against the Company and each Guarantor in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles.

(k) **Security Documents.** Each of the Security Documents has been duly authorized by the Company and/or the applicable Guarantor, as appropriate, and, when executed and delivered by the Company and/or the applicable Guarantor, will constitute the legal, valid, binding and enforceable agreement of the Company and/or the applicable Guarantor (subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in effect and by general principles of equity). The Security Documents, when executed and delivered in connection with the sale of the Securities, will create in favor of the Collateral Agent for the benefit of itself, the Trustee and the holders of the Notes, valid and enforceable security interests in and liens on the Collateral and, upon the filing of appropriate Uniform Commercial Code financing statements in United States jurisdictions as set forth on Schedule B hereto and the taking of the other actions, in each case as further described in the Security Documents, the security interests in and liens on the rights of the Company or the applicable Guarantor in such Collateral will be perfected security interests and liens, superior to and prior to the liens of all third persons other than the liens securing the Senior Credit Facility and Permitted Collateral Liens.

(l) **Description of the Securities, the Indenture, the Security Documents, the Senior Credit Facility and the Intercreditor Agreement.**The Securities, the Indenture, the Security Documents, the Senior Credit Facility and the Intercreditor Agreement will conform in all material respects to the respective statements relating thereto contained in the Pricing Disclosure Package and Final Offering Memorandum.

(m) **No Material Adverse Change.** Except as otherwise disclosed in the Offering Memorandum (exclusive of any amendment or supplement thereto), subsequent to the respective dates as of which information is given in the Offering Memorandum (exclusive of any amendment or supplement thereto): (i) there has been no material adverse change, or any development that could reasonably be expected to result in a material adverse change, in the condition, financial or otherwise, or in the earnings, business, operations or prospects, whether or not arising from transactions in the ordinary course of business, of the Company and its subsidiaries, considered as one entity (any such change is called a "**Material Adverse Change**"); (ii) the Company and its subsidiaries, considered as one entity, have not incurred any material liability or obligation, indirect, direct or contingent, not in the ordinary course of business nor entered into any material transaction or agreement not in the ordinary course of business; and (iii) there has been no dividend or distribution of any kind declared, paid or made by the Company or, except for dividends paid to the Company or other subsidiaries, any of its subsidiaries on any class of capital stock or repurchase or redemption by the Company or any of its subsidiaries of any class of capital stock.

(n) **Independent Accountants.** Each of SingerLewak LLP and Crowe Horwath LLP, each of which expressed its respective opinion with respect to the financial statements (which term as used in this Agreement includes the related notes thereto) and supporting schedules filed with the Commission and included in the Offering Memorandum, is an independent registered public accounting firm within the meaning of the Securities Act, the Exchange Act and the rules of the Public Company Accounting Oversight Board, and any non-audit services provided by SingerLewak LLP or Crowe Horwath LLP to the Company or any of the Guarantors have been approved by the Audit Committee of the Board of Directors of the Company.

(o) **Preparation of the Financial Statements.** The financial statements, together with the related schedules and notes, included in the Offering Memorandum present fairly the consolidated financial position of the entities to which they relate as of and at the dates indicated and the results of their operations and cash flows for the periods specified. Such financial statements have been prepared in conformity with United States generally accepted accounting principles (“GAAP”) applied on a consistent basis throughout the periods involved, except as may be expressly stated in the related notes thereto. The financial data set forth in the Offering Memorandum under the captions “Summary Historical and Consolidated Financial and Other Data” and “Selected Consolidated Financial and Other Data” fairly present the information set forth therein on a basis consistent with that of the audited financial statements contained in the Offering Memorandum. The statistical and market-related data and forward-looking statements included in the Offering Memorandum are based on or derived from sources that the Company and its subsidiaries believe to be reliable and accurate in all material respects and represent their good faith estimates that are made on the basis of data derived from such sources. The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Pricing Disclosure Package and the Offering Memorandum fairly presents the information called for in all material respects and has been prepared in accordance with the Commission’s rules and guidelines applicable thereto.

(p) **Incorporation and Good Standing of the Company and its Subsidiaries.** Each of the Company and its subsidiaries has been duly incorporated or formed, as applicable, and is validly existing as a corporation, limited partnership or limited liability company, as applicable, in good standing under the laws of the jurisdiction of its incorporation or formation, as applicable, and has corporate, partnership or limited liability company, as applicable, power and authority to own, lease and operate its properties and to conduct its business as described in the Offering Memorandum and, in the case of the Company and the Guarantors, to enter into and perform its obligations under each of this Agreement, the Securities, the Indenture, the Senior Credit Facility, the Security Documents and the Intercreditor Agreement. Each of the Company and each subsidiary is duly qualified as a foreign corporation, limited partnership or limited liability company, as applicable, to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except for such jurisdictions where the failure to so qualify or to be in good standing would not, individually or in the aggregate, result in a Material Adverse Change. All of the issued and outstanding capital stock or other ownership interest of each subsidiary has been duly authorized and validly issued, is fully paid and nonassessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance or claim, except as disclosed in the Offering Memorandum. The Company does not own or control, directly or indirectly, any corporation, association or other entity other than the subsidiaries listed in Exhibit 21 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

(q) **Capitalization and Other Capital Stock Matters.** At December 31, 2016, on a consolidated basis, after giving pro forma effect to the issuance and sale of the Securities pursuant hereto, the Company would have an authorized and outstanding capitalization as set forth in the Offering Memorandum under the caption “Capitalization” (other than for subsequent issuances of capital stock, if any, pursuant to employee benefit plans described in the Offering Memorandum or upon exercise of outstanding options or vesting of other outstanding equity awards described in the Offering Memorandum).

(r) **Non-Contravention of Existing Instruments; No Further Authorizations or Approvals Required.** Neither the Company nor any of its subsidiaries is (i) in violation of its charter, bylaws or other constitutive document or (ii) in default (or, with the giving of notice or lapse of time, would be in default) (“**Default**”) under any indenture, mortgage, loan or credit agreement, note, contract, franchise, lease or other instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound (including, without limitation, the Company’s existing credit agreement), or to which any of the property or assets of the Company or any of its subsidiaries is subject (each, an “**Existing Instrument**”), except, in the case of clause (ii) above, for such Defaults as would not, individually or in the aggregate, result in a Material Adverse Change. The execution, delivery and performance of this Agreement, the Indenture, the Senior Credit Facility, the Security Documents and the Intercreditor Agreement by the Company and the Guarantors, and the issuance and delivery of the Securities, and consummation of the transactions contemplated hereby and thereby and by the Offering Memorandum (i) have been duly authorized by all necessary corporate, limited partnership or limited liability company action, as applicable, and will not result in any violation of the provisions of the charter, bylaws or other constitutive document of the Company or any subsidiary, (ii) will not conflict with or constitute a breach of, or Default or a Debt Repayment Triggering Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, or require the consent of any other party to, any Existing Instrument (other than any Existing Instrument that is being discharged, repurchased, repaid or redeemed in connection with the Transactions), except for such conflicts, breaches, Defaults, liens, charges or encumbrances as would not, individually or in the aggregate, result in a Material Adverse Change and (iii) will not result in any violation of any law, administrative regulation or administrative or court decree applicable to the Company or any subsidiary. No consent, approval, authorization or other order of, or registration or filing with, any court or other governmental or regulatory authority or agency is required for the execution, delivery and performance of this Agreement, the Indenture, the Senior Credit Facility, the Security Documents and the Intercreditor Agreement by the Company and the Guarantors, or the issuance and delivery of the Securities, or consummation of the transactions contemplated hereby and thereby and by the Offering Memorandum, except (A) such filings as have been obtained or made by the Company or any such Guarantor and are in full force and effect under the Securities Act, applicable securities laws of the several states of the United States or provinces of Canada and (B) filings of financing statements under the Uniform Commercial Code as from time to time in effect in the relevant jurisdictions and any filing to be made in the United States Patent and Trademark Office or the United States Copyright Office and such filings necessary to perfect the Collateral Agent’s security interests in the Collateral. As used herein, a “**Debt Repayment Triggering Event**” means any event or condition which gives, or with the giving of notice or lapse of time would give, the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder’s behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any of its subsidiaries.

(s) **No Material Actions or Proceedings.** There are no legal or governmental actions, suits or proceedings pending or, to the best of the Company's knowledge, threatened (i) against or affecting the Company or any of its subsidiaries or (ii) which has as the subject thereof any property owned or leased by, the Company or any of its subsidiaries and any such action, suit or proceeding, if determined adversely to the Company or such subsidiary, which would, in the case of (i) and (ii) above, result in a Material Adverse Change or materially adversely affect the consummation of the transactions contemplated by this Agreement. No material labor dispute with the employees of the Company or any of its subsidiaries exists or, to the best of the Company's knowledge, is threatened or imminent.

(t) **Intellectual Property Rights.** The Company and its subsidiaries own or possess sufficient trademarks, trade names, patent rights, copyrights, licenses, approvals, trade secrets and other similar rights (collectively, "**Intellectual Property Rights**") reasonably necessary to conduct their businesses as now conducted; and the expected expiration of any of such Intellectual Property Rights would not result in a Material Adverse Change. Neither the Company nor any of its subsidiaries has received any notice of infringement or conflict with asserted Intellectual Property Rights of others, which infringement or conflict, if the subject of an unfavorable decision, would result in a Material Adverse Change.

(u) **All Necessary Permits, etc.** The Company and each subsidiary possess such valid and current certificates, authorizations or permits issued by the appropriate state, federal or foreign regulatory agencies or bodies necessary to own, lease and operate its properties and to conduct their respective businesses, except where the failure to possess or make the same would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Change; and neither the Company nor any subsidiary has received any notice of proceedings relating to the revocation or modification of, or non-compliance with, any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Change.

(v) **Title to Properties.** The Company and each of its subsidiaries has good and marketable title to all the properties and assets reflected as owned in the financial statements referred to in Section 1(o) hereof, in each case free and clear of any security interests, mortgages, liens, encumbrances, equities, claims and other defects, except as disclosed in the Offering Memorandum and except such as do not materially and adversely affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company or such subsidiary. The real property, improvements, equipment and personal property held under lease by the Company or any subsidiary are held under valid and enforceable leases, with such exceptions as are not material and do not materially interfere with the use made or proposed to be made of such real property, improvements, equipment or personal property by the Company or such subsidiary.

(w) **Collateral.** The Company and the Guarantors collectively own, have rights in or have the power to transfer rights in the Collateral, free and clear of any Liens (as defined under the caption "Description of Notes" in the Offering Memorandum) other than Permitted Collateral Liens.

(x) **Tax Law Compliance.** The Company and its subsidiaries have filed all necessary federal, state and foreign income and franchise tax returns and have paid all taxes required to be paid by any of them and, if due and payable, any related or similar assessment, fine or penalty levied against any of them except as may be being contested in good faith and by appropriate proceedings or except where any such failure to so pay or so file is immaterial in amount or significance. The Company has made adequate charges, accruals and reserves in accordance with GAAP in the applicable financial statements referred to in Section 1(n) and (o) hereof in respect of all federal, state and foreign income and franchise taxes for all periods as to which the tax liability of the Company or any of its subsidiaries has not been finally determined.

(y) **Company and Guarantors Not an "Investment Company."** Neither the Company nor any Guarantor is, or after receipt of payment for the Securities will be, required to register as an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "**Investment Company Act**," which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder) and will conduct its business in a manner so that it will not be required to register as an "investment company" under the Investment Company Act.

(z) **Insurance.** Each of the Company and its subsidiaries are insured by recognized, financially sound institutions with policies in such amounts and with such deductibles and covering such risks as are generally deemed adequate and customary for their businesses including, without limitation, policies covering real and personal property owned or leased by the Company and its subsidiaries against theft, damage, destruction, acts of vandalism and earthquakes. The Company has no reason to believe that it or any subsidiary will not be able (i) to renew its existing insurance coverage as and when such policies expire or (ii) to obtain comparable coverage from similar institutions as may be necessary or appropriate to conduct its business as now conducted and at a cost that would not result in a Material Adverse Change. Neither of the Company nor any subsidiary has been denied any insurance coverage which it has sought or for which it has applied.

(aa) **No Price Stabilization or Manipulation.** None of the Company or any of the Guarantors has taken and or will take, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(bb) **Solvency.** Each of the Company and the Guarantors is, and immediately after the Closing Date will be, Solvent. As used herein, the term **'Solvent'** means, with respect to any person on a particular date, that on such date (i) the fair market value of the assets of such person is greater than the total amount of liabilities (including contingent liabilities) of such person, (ii) the present fair salable value of the assets of such person is greater than the amount that will be required to pay the probable liabilities of such person on its debts as they become absolute and matured, (iii) such person is able to realize upon its assets and pay its debts and other liabilities, including contingent obligations, as they mature and (iv) such person does not have unreasonably small capital.

(cc) **Compliance with Sarbanes-Oxley.** The Company and its subsidiaries and their respective officers and directors, in their capacities as such, are in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act of 2002 (the **"Sarbanes-Oxley Act,"** which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder).

(dd) **Company's Accounting System.** The Company and its subsidiaries maintain a system of accounting controls that is in compliance with the Sarbanes-Oxley Act and is sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(ee) **Disclosure Controls and Procedures.** The Company has established and maintains disclosure controls and procedures (as such term is defined in Rules 13a-15 and 15d-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. As of December 31, 2016, except as disclosed in the Pricing Disclosure Package, such disclosure controls and procedures were effective. The Company's auditors and the Audit Committee of the Board of Directors of the Company have been advised of: (i) any significant deficiencies or material weaknesses in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data; and (ii) any fraud, whether or not material, that involves management or other employees who have a role in the Company's internal controls; and since the date of the most recent evaluation of such disclosure controls and procedures, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

(ff) **Regulations T, U, X.** Neither the Company nor any Guarantor nor any of their respective subsidiaries nor any agent thereof acting on their behalf has taken, and none of them will take, any action that might cause this Agreement or the issuance or sale of the Securities to violate Regulation T, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System.

(gg) **Compliance with and Liability under Environmental Laws.** Except as would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Change: (i) each of the Company and its subsidiaries and their respective operations and facilities are in compliance with, and not subject to any known liabilities under, applicable Environmental Laws, which compliance includes, without limitation, having obtained and being in compliance with any permits, licenses or other governmental authorizations or approvals, and having made all filings and provided all financial assurances and notices, required for the ownership and operation of the business, properties and facilities of the Company or its subsidiaries under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) neither the Company nor any of its subsidiaries has received any written communication, whether from a governmental authority, citizens group, employee or otherwise, that alleges that the Company or any of its subsidiaries is in violation of any Environmental Law; (iii) there is no claim, action or cause of action filed with a court or governmental authority, no investigation with respect to which the Company has received written notice, and no written notice by any person or entity alleging actual or potential liability on the part of the Company or any of its subsidiaries based on or pursuant to any Environmental Law pending or, to the best of the Company's knowledge, threatened against the Company or any of its subsidiaries or any person or entity whose liability under or pursuant to any Environmental Law the Company or any of its subsidiaries has retained or assumed either contractually or by operation of law; (iv) neither the Company nor any of its subsidiaries is conducting or paying for, in whole or in part, any investigation, response or other corrective action pursuant to any Environmental Law at any site or facility, nor is any of them subject or a party to any order, judgment, decree, contract or agreement which imposes any obligation or liability under any Environmental Law; (v) no lien, charge, encumbrance or restriction has been recorded pursuant to any Environmental Law with respect to any assets, facility or property owned, operated or leased by the Company or any of its subsidiaries; and (vi) there are no past or present actions, activities, circumstances, conditions or occurrences, including, without limitation, the Release or threatened Release of any Material of Environmental Concern, that could reasonably be expected to result in a violation of or liability under any Environmental Law on the part of the Company or any of its subsidiaries, including without limitation, any such liability which the Company or any of its subsidiaries has retained or assumed either contractually or by operation of law.

For purposes of this Agreement, “**Environment**” means ambient air, indoor air, surface water, groundwater, drinking water, soil, surface and subsurface strata, and natural resources such as wetlands, flora and fauna. “**Environmental Laws**” means the common law and all federal, state, local and foreign laws or regulations, ordinances, codes, orders, decrees, judgments and injunctions issued, promulgated or entered thereunder, relating to pollution or protection of the Environment or human health, including without limitation, those relating to (i) the Release or threatened Release of Materials of Environmental Concern; and (ii) the manufacture, processing, distribution, use, generation, treatment, storage, transport, handling or recycling of Materials of Environmental Concern. “**Materials of Environmental Concern**” means any substance, material, pollutant, contaminant, chemical, waste, compound, or constituent, in any form, including without limitation, petroleum and petroleum products, subject to regulation or which can give rise to liability under any Environmental Law. “**Release**” means any release, spill, emission, discharge, deposit, disposal, leaking, pumping, pouring, dumping, emptying, injection or leaching into the Environment, or into, from or through any building, structure or facility.

(hh) **Periodic Review of Costs of Environmental Compliance.** In the ordinary course of its business, the Company conducts a periodic review of the effect of Environmental Laws on the business, operations and properties of the Company and its subsidiaries, in the course of which it identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review and the amount of its established reserves, the Company has reasonably concluded that such associated costs and liabilities would not, individually or in the aggregate, result in a Material Adverse Change.

(ii) **ERISA Compliance.** The Company and its subsidiaries and any “employee benefit plan” (as defined under the Employee Retirement Income Security Act of 1974 (as amended, “**ERISA**,” which term, as used herein, includes the regulations and published interpretations thereunder) established or maintained by the Company, its subsidiaries or their ERISA Affiliates (as defined below) are in compliance in all material respects with ERISA and, to the knowledge of the Company, each “multiemployer plan” (as defined in Section 4001 of ERISA) to which the Company, its subsidiaries or an ERISA Affiliate contributes (a “**Multiemployer Plan**”) is in compliance in all material respects with ERISA. “**ERISA Affiliate**” means, with respect to the Company or a subsidiary, any member of any group of organizations described in Section 414 of the Internal Revenue Code of 1986 (as amended, the “**Code**,” which term, as used herein, includes the regulations and published interpretations thereunder) of which the Company or such subsidiary is a member. No “reportable event” (as defined under ERISA) has occurred or is reasonably expected to occur with respect to any “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates. No “single employer plan” (as defined in Section 4001 of ERISA) established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates, if such “employee benefit plan” were terminated, would have any “amount of unfunded benefit liabilities” (as defined under ERISA). Neither the Company, its subsidiaries nor any of their ERISA Affiliates has incurred or reasonably expects to incur any liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any “employee benefit plan” or (ii) Sections 412, 4971, 4975 or 4980B of the Code. Each “employee benefit plan” established or maintained by the Company, its subsidiaries or any of their ERISA Affiliates that is intended to be qualified under Section 401 of the Code is so qualified and nothing has occurred, whether by action or failure to act, which would cause the loss of such qualification.

(jj) **Compliance with Labor Laws.** Except as would not, individually or in the aggregate, result in a Material Adverse Change, (i) there is (A) no unfair labor practice complaint pending or, to the best of the Company's knowledge, threatened against the Company or any of its subsidiaries before the National Labor Relations Board, and no grievance or arbitration proceeding arising out of or under collective bargaining agreements pending, or to the best of the Company's knowledge, threatened, against the Company or any of its subsidiaries, (B) no strike, labor dispute, slowdown or stoppage pending or, to the best of the Company's knowledge, threatened against the Company or any of its subsidiaries and (C) no union representation question existing with respect to the employees of the Company or any of its subsidiaries and, to the best of the Company's knowledge, no union organizing activities taking place and (ii) there has been no violation of any federal, state or local law relating to discrimination in hiring, promotion or pay of employees or of any applicable wage or hour laws.

(kk) **Related Party Transactions.** No relationship, direct or indirect, exists between or among any of the Company or any affiliate of the Company, on the one hand, and any director, officer, member, stockholder, customer or supplier of the Company or any affiliate of the Company, on the other hand, which is required by the Securities Act to be disclosed in a registration statement on Form S-1 which is not so disclosed in the Offering Memorandum. There are no outstanding loans, advances (except advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company or any affiliate of the Company to or for the benefit of any of the officers or directors of the Company or any affiliate of the Company or any of their respective family members.

(ll) **No Unlawful Contributions or Other Payments.** Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company or any of the Guarantors, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is aware of or has taken any action, directly or indirectly, that has resulted nor would result in a violation by any such persons of the FCPA or any other applicable anti-bribery or anti-corruption law, including, without limitation, any offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA or any other applicable anti-bribery or anti-corruption law and the Company and its subsidiaries and, to the knowledge of the Company and the Guarantors, its and their other affiliates have conducted their businesses in compliance with the FCPA and other applicable anti-bribery and anti-corruption laws and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

“FCPA” means Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder.

(mm) **No Conflict with Money Laundering Laws.** The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by any governmental agency (collectively, the “**Money Laundering Laws**”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any of the Guarantors, threatened.

(nn) **No Conflict with Sanctions Laws.** Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company or any of the Guarantors, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department or any other relevant sanctions authority (collectively, “**Sanctions**”); and the Company shall not use the proceeds of the offering or otherwise make available such proceeds to any subsidiary or other person or entity to fund or facilitate any activities of or business with any person that, at the time of such funding or facilitation, is the subject or the target of any Sanctions, (ii) to fund or facilitate any activities of or any business in any country, that, at the time of such funding, is the subject of Sanctions or (iii) in any other manner that could result in a violation by any person (including any person participating in the transaction, whether as an Initial Purchaser or otherwise) of any Sanctions.

(oo) **New Senior Credit Facility.** The Senior Credit Facility has been duly and validly authorized by the Company and the Guarantors and, when duly executed and delivered by the Company and the Guarantors, will be the valid and legally binding obligation of the Company and the Guarantors, enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles.

(pp) **Stock Options.** With respect to the stock options (the “**Stock Options**”) granted pursuant to the stock-based compensation plans of the Company and its subsidiaries (the “**Company Stock Plans**”), except where the failure of the foregoing representations to be true and correct would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Change: (i) each Stock Option that has been exercised on or prior to the date of this Agreement that was intended to qualify as an “incentive stock option” under Section 422 of the Code so qualifies, (ii) each grant of a Stock Option was duly authorized no later than the date on which the grant of such Stock Option was by its terms to be effective (the “**Grant Date**”) by all necessary corporate action, including, as applicable, approval by the board of directors of the Company (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, and the award agreement governing such grant (if any) was duly executed and delivered by each party thereto, (iii) each such grant was made in accordance with the terms of the Company Stock Plans, the Exchange Act and all other applicable laws and regulatory rules or requirements, including the rules of any securities exchange on which Company securities are traded, (iv) the per share exercise price of each Stock Option was equal to the fair market value of a share of common stock on the applicable Grant Date and (v) each such grant was properly accounted for in accordance with GAAP in the financial statements (including the related notes) of the Company and disclosed in the Company’s filings with the Commission in accordance with the Exchange Act and all other applicable laws. The Company has not knowingly granted, and there is no and has been no policy or practice of the Company of granting, Stock Options prior to, or otherwise coordinating the grant of Stock Options with, the release or other public announcement of material information regarding the Company or its subsidiaries or their results of operations or prospects.

(qq) **Regulation S.** The Company, the Guarantors and their respective affiliates and all persons acting on their behalf (other than the Initial Purchasers, as to whom the Company and the Guarantors make no representation) have complied with and will comply with the offering restrictions requirements of Regulation S in connection with the offering of the Securities outside the United States and, in connection therewith, the Offering Memorandum will contain the disclosure required by Rule 902. Each of the Company and the Guarantors is a “reporting issuer,” as defined in Rule 902 under the Securities Act.

Any certificate signed by an officer of the Company or any Guarantor and delivered to the Initial Purchasers or to counsel for the Initial Purchasers shall be deemed to be a representation and warranty by the Company or such Guarantor to each Initial Purchaser as to the matters set forth therein.

SECTION 2. **Purchase, Sale and Delivery of the Securities.**

(a) **The Securities.** Each of the Company and the Guarantors agrees to issue and sell to the Initial Purchasers, severally and not jointly, all of the Notes, and the Initial Purchasers agree, severally and not jointly, to purchase from the Company and the Guarantors the aggregate principal amount of Notes set forth opposite their names on Schedule A, at a purchase price of 98.5314% of the principal amount thereof payable on the Closing Date, in each case, on the basis of the representations, warranties and agreements herein contained, and upon the terms, subject to the conditions thereto, herein set forth.

(b) **The Closing Date.** Delivery of certificates for the Securities in definitive form to be purchased by the Initial Purchasers and payment therefor shall be made at the offices of Cahill Gordon & Reindel llp, 80 Pine Street, New York, NY 10005 (or such other place as may be agreed to by the Company and Wells Fargo Securities, LLC) at 9:00 a.m. New York City time, on May 19, 2017, or such other time and date as Wells Fargo Securities, LLC shall designate by notice to the Company (the time and date of such closing are called the “**Closing Date**”). The Company hereby acknowledges that circumstances under which Wells Fargo Securities, LLC may provide notice to postpone the Closing Date as originally scheduled include, but are in no way limited to, any determination by the Company or the Initial Purchasers to recirculate to investors copies of an amended or supplemented Offering Memorandum or a delay as contemplated by the provisions of Section 17 hereof.

(c) **Delivery of the Securities.** The Company shall deliver, or cause to be delivered, to the Representative for the accounts of the several Initial Purchasers certificates for the Notes at the Closing Date against the irrevocable release of a wire transfer of immediately available funds for the amount of the purchase price therefor. The certificates for the Notes shall be in such denominations and registered in the name of Cede & Co., as nominee of the Depository, pursuant to the DTC Agreement, and shall be made available for inspection on the Business Day preceding the Closing Date at a location in New York City, as Wells Fargo Securities, LLC may designate. Time shall be of the essence, and delivery at the time and place specified in this Agreement is a further condition to the obligations of the Initial Purchasers.

(d) **Initial Purchasers as Qualified Institutional Buyers.** Each Initial Purchaser severally and not jointly represents and warrants to, and agrees with, the Company that:

- (i) it will offer and sell Securities only to (a) persons who it reasonably believes are “qualified institutional buyers” within the meaning of Rule 144A (“**Qualified Institutional Buyers**”) in transactions meeting the requirements of Rule 144A or (b) upon the terms and conditions set forth in Annex I to this Agreement;
- (ii) it is an institutional “accredited investor” within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act; and
- (iii) it will not offer or sell Securities by, any form of general solicitation or general advertising, including but not limited to the methods described in Rule 502(c) under the Securities Act.

SECTION 3. **Additional Covenants.** Each of the Company and the Guarantors further covenants and agrees with each Initial Purchaser as follows:

(a) **Preparation of Final Offering Memorandum; Initial Purchasers’ Review of Proposed Amendments and Supplements and Company Additional Written Communications.** As promptly as practicable following the Time of Sale and in any event not later than the second Business Day following the date hereof, the Company will prepare and deliver to the Initial Purchasers the Final Offering Memorandum, which shall consist of the Preliminary Offering Memorandum as modified only by the information contained in the Pricing Supplement. The Company will not amend or supplement the Preliminary Offering Memorandum, the Pricing Supplement or the Final Offering Memorandum prior to the Closing Date unless the Representative and counsel for the Initial Purchasers shall previously have been furnished a copy of the proposed amendment or supplement at least two Business Days prior to the proposed use or filing, and shall not have objected to such amendment or supplement. Before making, preparing, using, authorizing, approving or distributing any Company Additional Written Communication, the Company will furnish to the Representative a copy of such written communication for review and will not make, prepare, use, authorize, approve or distribute any such written communication to which the Representative reasonably objects.

(b) **Amendments and Supplements to the Pricing Disclosure Package, Final Offering Memorandum and Other Securities Act Matters.** If at any time prior to the Closing Date (i) any event shall occur or condition shall exist as a result of which any of the Pricing Disclosure Package as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (ii) it is necessary to amend or supplement any of the Pricing Disclosure Package to comply with law, the Company and the Guarantors will immediately notify the Initial Purchasers thereof and forthwith prepare and (subject to Section 3(a) hereof) furnish to the Initial Purchasers such amendments or supplements to any of the Pricing Disclosure Package as may be necessary so that the statements in any of the Pricing Disclosure Package as so amended or supplemented will not, in the light of the circumstances under which they were made, be misleading or so that any of the Pricing Disclosure Package will comply with all applicable law. If, prior to the completion of the placement of the Securities by the Initial Purchasers with the Subsequent Purchasers, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Final Offering Memorandum, as then amended or supplemented, in order to make the statements therein, in the light of the circumstances when the Final Offering Memorandum is delivered to a Subsequent Purchaser, not misleading, or if in the judgment of the Representative or counsel for the Initial Purchasers it is otherwise necessary to amend or supplement the Final Offering Memorandum to comply with law, the Company and the Guarantors agree to promptly prepare (subject to Section 3 hereof) and furnish at its own expense to the Initial Purchasers, amendments or supplements to the Final Offering Memorandum so that the statements in the Final Offering Memorandum as so amended or supplemented will not, in the light of the circumstances at the Closing Date and at the time of sale of Securities, be misleading or so that the Final Offering Memorandum, as amended or supplemented, will comply with all applicable law.

The Company hereby expressly acknowledges that the indemnification and contribution provisions of Sections 8 and 9 hereof are specifically applicable and relate to each offering memorandum, amendment or supplement referred to in this Section 3.

(c) **Copies of the Offering Memorandum.** The Company agrees to furnish the Initial Purchasers, without charge, as many copies of the Pricing Disclosure Package and the Final Offering Memorandum and any amendments and supplements thereto as they shall reasonably request.

(d) **Blue Sky Compliance.** Each of the Company and the Guarantors shall cooperate with the Representative and counsel for the Initial Purchasers to qualify or register (or to obtain exemptions from qualifying or registering) all or any part of the Securities for offer and sale under the securities laws of the several states of the United States, the provinces of Canada or any other jurisdictions designated by the Representative, shall comply with such laws and shall continue such qualifications, registrations and exemptions in effect so long as required for the distribution of the Securities. None of the Company or any of the Guarantors shall be required to qualify as a foreign corporation or to take any action that would subject it to general service of process in any such jurisdiction where it is not presently qualified or where it would be subject to taxation as a foreign corporation. The Company will advise the Representative promptly of the suspension of the qualification or registration of (or any such exemption relating to) the Securities for offering, sale or trading in any jurisdiction or any initiation or threat of any proceeding for any such purpose, and in the event of the issuance of any order suspending such qualification, registration or exemption, each of the Company and the Guarantors shall use its best efforts to obtain the withdrawal thereof at the earliest possible moment.

(e) **Use of Proceeds.** The Company shall apply the net proceeds from the sale of the Securities sold by it in the manner described under the caption "Use of Proceeds" in the Pricing Disclosure Package.

(f) **The Depository.** The Company will cooperate with the Initial Purchasers and use its best efforts to permit the Securities to be eligible for clearance and settlement through the facilities of the Depository.

(g) **The Liens.** The Company and the Guarantors shall cause the Securities to be secured by (i) a perfected first priority lien on the Notes Priority Collateral (it being understood that the Senior Credit Facility shall be secured by a perfected second priority lien on the Notes Priority Collateral) and (ii) a perfected second priority lien on the ABL Priority Collateral (it being understood that the Senior Credit Facility shall be secured by a perfected first priority lien on the ABL Priority Collateral), in each case to the extent and in the manner provided for in the Indenture and the Security Documents and as described in the Offering Memorandum, and further subject in each case to there being no Liens except Permitted Liens.

(h) **Additional Issuer Information.** Prior to the completion of the placement of the Securities by the Initial Purchasers with the Subsequent Purchasers, the Company shall file, on a timely basis, with the Commission and the Nasdaq Global Market all reports and documents required to be filed under Section 13 or 15 of the Exchange Act. Additionally, at any time when the Company is not subject to Section 13 or 15 of the Exchange Act, for the benefit of holders and beneficial owners from time to time of the Securities, the Company shall furnish, at its expense, upon request, to holders and beneficial owners of Securities and prospective purchasers of Securities information ("**Additional Issuer Information**") satisfying the requirements of Rule 144A(d).

(i) **Agreement Not To Offer or Sell Additional Securities.** During the period of 180 days following the date hereof, the Company will not, without the prior written consent of Wells Fargo Securities, LLC (which consent may be withheld at the sole discretion of Wells Fargo Securities, LLC), directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or establish an open "put equivalent position" within the meaning of Rule 16a-1 under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any debt securities of the Company or securities exchangeable for or convertible into debt securities of the Company (other than as contemplated by this Agreement).

(j) **No Integration.** The Company agrees that it will not and will cause its Affiliates not to make any offer or sale of securities of the Company of any class if, as a result of the doctrine of “integration” referred to in Rule 502 under the Securities Act, such offer or sale would render invalid (for the purpose of (i) the sale of the Securities by the Company to the Initial Purchasers, (ii) the resale of the Securities by the Initial Purchasers to Subsequent Purchasers or (iii) the resale of the Securities by such Subsequent Purchasers to others) the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof or by Rule 144A or by Regulation S thereunder or otherwise.

(k) **No General Solicitation or Directed Selling Efforts.** The Company agrees that it will not and will not permit any of its Affiliates or any other person acting on its or their behalf (other than the Initial Purchasers, as to which no covenant is given) to (i) solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act or (ii) engage in any directed selling efforts with respect to the Securities within the meaning of Regulation S, and the Company will and will cause all such persons to comply with the offering restrictions requirement of Regulation S with respect to the Securities.

(l) **No Restricted Resales.** During the one-year period after the Closing Date (or such shorter period as may be provided for in Rule 144), the Company will not permit any of its affiliates (as defined in Rule 144 under the Securities Act) to resell any of the Notes that have been reacquired by the Company or such affiliates.

(m) **Legended Securities.** Each certificate for a Note will bear the legend contained in “Notice to Investors” in the Preliminary Offering Memorandum for the time period and upon the other terms stated in the Preliminary Offering Memorandum.

Wells Fargo Securities, LLC, on behalf of the several Initial Purchasers, may, in its sole discretion, waive in writing the performance by the Company or any Guarantor of any one or more of the foregoing covenants or extend the time for their performance.

SECTION 4. Payment of Expenses. Each of the Company and the Guarantors agrees to pay all costs, fees and expenses incurred in connection with the performance of its obligations hereunder and in connection with the transactions contemplated hereby, including, without limitation, (i) all expenses incident to the issuance and delivery of the Securities (including all printing and engraving costs), (ii) all necessary issue, transfer and other stamp taxes in connection with the issuance and sale of the Securities to the Initial Purchasers, (iii) all fees and expenses of the Company's and the Guarantors' counsel, independent public or certified public accountants and other advisors, (iv) all costs and expenses incurred in connection with the preparation, printing, filing, shipping and distribution of the Pricing Disclosure Package and the Final Offering Memorandum (including financial statements and exhibits), and all amendments and supplements thereto, this Agreement, the Indenture, the DTC Agreement, the Notes and Guarantees, the Security Documents and the Intercreditor Agreement, (v) all filing fees, attorneys' fees and expenses incurred by the Company, the Guarantors or the Initial Purchasers in connection with qualifying or registering (or obtaining exemptions from the qualification or registration of) all or any part of the Securities for offer and sale under the securities laws of the several states of the United States, the provinces of Canada or other jurisdictions designated by the Initial Purchasers (including, without limitation, the cost of preparing, printing and mailing preliminary and final blue sky or legal investment memoranda and any related supplements to the Pricing Disclosure Package or the Final Offering Memorandum, (vi) the reasonable fees and expenses of the Trustee, including the reasonable fees and disbursements of counsel for the Trustee in connection with the Indenture, the Securities, the Security Documents and the Intercreditor Agreement, (vii) any fees payable in connection with the rating of the Securities with the ratings agencies, (viii) all Company expenses incident to the "road show" for the offering of the Securities, including the cost of any chartered airplane or other transportation (it being understood that the Initial Purchasers, collectively, shall bear their own transportation and other "road show" travel expenses and one-half of the documented costs associated with any chartered aircraft), (ix) all fees, costs and expenses (including the reasonable and documented expenses of counsel for the Initial Purchasers related thereto) of creating and perfecting security in interests in the Collateral, including all filing, recording and post-closing fees and expenses and related taxes with respect thereto, as set forth in the Security Documents and (x) all fees and expenses (including reasonable fees and expenses of counsel) of the Company and the Guarantors in connection with approval of the Securities by the Depositary for "book-entry" transfer, and the performance by the Company and the Guarantors of their respective other obligations under this Agreement. Except as provided in this Section 4 and Sections 6, 8 and 9 hereof, the Initial Purchasers shall pay their own expenses, including the fees and disbursements of their counsel.

SECTION 5. Conditions of the Obligations of the Initial Purchasers. The obligations of the several Initial Purchasers to purchase and pay for the Securities as provided herein on the Closing Date shall be subject to the accuracy of the representations and warranties on the part of the Company and the Guarantors set forth in Section 1 hereof as of the date hereof and as of the Closing Date as though then made and to the timely performance by the Company of its covenants and other obligations hereunder, and to each of the following additional conditions:

(a) **Accountants' Comfort Letters.** On the date hereof, the Initial Purchasers shall have received from each of SingerLewak LLP and Crowe Horwath LLP, the former and current independent registered public accounting firm for the Company, respectively, a "comfort letter" dated the date hereof addressed to the Initial Purchasers, in form and substance satisfactory to the Representative, covering the financial information in the Pricing Disclosure Package and other customary matters. In addition, on the Closing Date, the Initial Purchasers shall have received from such accountants, a "bring-down comfort letter" dated the Closing Date addressed to the Initial Purchasers, in form and substance satisfactory to the Representative, in the form of the "comfort letter" delivered on the date hereof, except that (i) it shall cover the financial information in the Final Offering Memorandum and any amendment or supplement thereto and (ii) procedures shall be brought down to a date no more than 3 Business Days prior to the Closing Date.

(b) **No Material Adverse Change or Ratings Agency Change.** For the period from and after the date of this Agreement and prior to the Closing Date:

(i) in the judgment of the Representative there shall not have occurred any Material Adverse Change that makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Securities on the Closing Date on the terms and in the manner contemplated by this Agreement and in the Pricing Disclosure Package (exclusive of any amendments or supplements thereto after the Time of Sale), as applicable; and

(ii) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded the Company or any of its subsidiaries or any of their securities or indebtedness by any "nationally recognized statistical rating organization" registered under Section 15E of the Exchange Act.

(c) **Opinion of Counsel for the Company.** On the Closing Date, the Initial Purchasers shall have received an opinion and letter of K&L Gates LLP, counsel for the Company, and an opinion of Christopher J. Henderson, General Counsel of the Company, dated as of such Closing Date in the forms attached as Exhibits A-1, A-2 and A-3, respectively or otherwise in form and substance reasonably satisfactory to the Representative.

(d) **Opinion of Special FCC Counsel for the Company and Local Counsel.** On the Closing Date, the Initial Purchasers shall have received (i) the favorable opinion of Fletcher, Heald & Hildreth, PLC, special FCC counsel for the Company or such other counsel as is reasonably satisfactory to the Representative, dated as of the Closing Date in the form attached as Exhibit A-4 or otherwise in form and substance reasonably satisfactory to the Representative, and (ii) the opinions of local counsel in the jurisdictions of the States of Colorado, Kentucky, Ohio and Tennessee, each in form and substance reasonably satisfactory to the Representative.

(e) **Opinion of Counsel for the Initial Purchasers.** On the Closing Date the Initial Purchasers shall have received the favorable opinion of Cahill Gordon & Reindel llp, counsel for the Initial Purchasers, dated as of such Closing Date, with respect to such matters as may be reasonably requested by the Initial Purchasers.

(f) **Officers' Certificate.** On the Closing Date the Initial Purchasers shall have received a written certificate executed by the Chairman of the Board, Chief Executive Officer or President of the Company and the Chief Financial Officer or Chief Accounting Officer of the Company, dated as of the Closing Date, to the effect set forth in Section 5(b)(ii) hereof, and further to the effect that:

(i) for the period from and after the date of this Agreement and prior to the Closing Date there has not occurred any Material Adverse Change;

(ii) the representations, warranties and covenants of the Company and each Guarantor set forth in Section 1 hereof were true and correct as of the date hereof and are true and correct as of the Closing Date with the same force and effect as though expressly made on and as of the Closing Date; and

(iii) the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date.

(g) **Indenture.** The Company and the Guarantors shall have executed and delivered the Indenture, in form and substance consistent with the Offering Memorandum, and the Initial Purchasers shall have received executed copies thereof.

(h) **Security Documents and Intercreditor Agreement.** The Company and the Guarantors shall have executed and delivered perfection certificates dated as of the Closing Date (the "**Perfection Certificates**") in form and substance reasonably satisfactory to the Initial Purchasers. Except as otherwise provided for in the Security Agreement, the Indenture or the other documents entered into pursuant to the Transactions, the Representative and the Collateral Agent shall have received each of the Security Documents and the Intercreditor Agreement, in form and substance reasonably satisfactory to the Initial Purchasers, and all other certificates, agreements or instruments necessary to perfect the Collateral Agent's security interest in all of the Collateral to the extent required as described in the Offering Memorandum and pursuant to the Security Documents, and each such document shall be in full force and effect and evidence that all of the liens on the Collateral other than Permitted Liens have been released. The Representative shall also have received (i) copies of Uniform Commercial Code searches for the Company and each Guarantor and (ii) tax and judgment lien searches or equivalent reports or searches, and a copy of searches at the United States Patent and Trademark Office for the Company and each Guarantor to the extent reasonably requested by the Representative, in each case (i) and (ii), as of a recent date listing all effective financing statements, lien notices or comparable documents that name the Company or any Guarantor as debtor and that are required by the Perfection Certificates or that the Representative deems reasonably necessary or appropriate, none of which encumber the Collateral covered or intended to be covered by the Security Documents (other than Permitted Collateral Liens).

(i) **Senior Credit Facility.** The Senior Credit Facility shall have been executed and delivered by the parties thereto, and the initial borrowings thereunder shall have occurred or shall occur substantially concurrently with the issuance of the Securities.

(j) **Additional Documents.** On or before the Closing Date, the Initial Purchasers and counsel for the Initial Purchasers shall have received such information, documents and opinions as they may reasonably require for the purposes of enabling them to pass upon the issuance and sale of the Securities as contemplated herein, or in order to evidence the accuracy of any of the representations and warranties, or the satisfaction of any of the conditions or agreements, herein contained.

If any condition specified in this Section 5 is not satisfied when and as required to be satisfied, this Agreement may be terminated by the Representative by notice to the Company at any time on or prior to the Closing Date, which termination shall be without liability on the part of any party to any other party, except that Sections 4, 6, 8 and 9 hereof shall at all times be effective and shall survive such termination.

SECTION 6. Reimbursement of Initial Purchasers' Expenses. If this Agreement is terminated by the Representative pursuant to Section 5 or 10 hereof, including if the sale to the Initial Purchasers of the Securities on the Closing Date is not consummated because of any refusal, inability or failure on the part of the Company to perform any agreement herein or to comply with any provision hereof, the Company agrees to reimburse the Initial Purchasers, severally, upon demand for all out-of-pocket expenses that shall have been reasonably incurred by the Initial Purchasers in connection with the proposed purchase and the offering and sale of the Securities, including, without limitation, reasonable and documented fees and disbursements of counsel, printing expenses, travel expenses, postage, facsimile and telephone charges.

SECTION 7. Offer and Sale Procedures. Each of the Initial Purchasers, on the one hand, and the Company and each of the Guarantors, on the other hand, hereby agree to observe the following procedures in connection with the offer and sale of the Securities:

- (a) Offers and sales of the Securities will be made only by the Initial Purchasers or Affiliates thereof qualified to do so in the jurisdictions in which such offers or sales are made. Each such offer or sale shall only be made to persons whom the offeror or seller reasonably believes to be Qualified Institutional Buyers or non-U.S. persons outside the United States to whom the offeror or seller reasonably believes offers and sales of the Securities may be made in reliance upon Regulation S upon the terms and conditions set forth in Annex I hereto, which Annex I is hereby expressly made a part hereof.
- (b) No general solicitation or general advertising (within the meaning of Rule 502 under the Securities Act) will be used in the United States in connection with the offering of the Securities.
- (c) Upon original issuance by the Company, and until such time as the same is no longer required under the applicable requirements of the Securities Act, the Notes (and all securities issued in exchange therefor or in substitution thereof) shall bear the following legend:

“THE SECURITY (OR ITS PREDECESSOR) EVIDENCED HEREBY WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER SECTION 5 OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THE SECURITY EVIDENCED HEREBY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THE SECURITY EVIDENCED HEREBY IS HEREBY NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THE SECURITY EVIDENCED HEREBY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) SUCH SECURITY MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (1)(a) INSIDE THE UNITED STATES TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (b) OUTSIDE THE UNITED STATES TO A FOREIGN PERSON IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (c) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF APPLICABLE) OR (d) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY IF THE COMPANY SO REQUESTS), (2) TO THE COMPANY OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH IN CLAUSE (A) ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALE OF THE SECURITY EVIDENCED HEREBY.”

Following the sale of the Securities by the Initial Purchasers to Subsequent Purchasers pursuant to the terms hereof, the Initial Purchasers shall not be liable or responsible to the Company for any losses, damages or liabilities suffered or incurred by the Company, including any losses, damages or liabilities under the Securities Act, arising from or relating to any resale or transfer of any Security.

SECTION 8. Indemnification.

(a) **Indemnification of the Initial Purchasers.** Each of the Company and the Guarantors, jointly and severally, agrees to indemnify and hold harmless each Initial Purchaser, its affiliates, directors, officers and employees, and each person, if any, who controls any Initial Purchaser within the meaning of the Securities Act and the Exchange Act against any loss, claim, damage, liability or expense, as incurred, to which such Initial Purchaser, affiliate, director, officer, employee or controlling person may become subject, under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based: (i) upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; or (ii) in whole or in part upon any failure of the Company to perform its obligations hereunder or under law; *provided, however*, that the foregoing indemnity agreement shall not apply, with respect to an Initial Purchaser, to any loss, claim, damage, liability or expense to the extent, but only to the extent, arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by such Initial Purchaser through the Representative expressly for use in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto). The indemnity agreement set forth in this Section 8(a) shall be in addition to any liabilities that the Company may otherwise have.

(b) **Indemnification of the Company and the Guarantors.** Each Initial Purchaser agrees, severally and not jointly, to indemnify and hold harmless the Company, each Guarantor, each of their respective directors, officers and employees and each person, if any, who controls the Company or any Guarantor within the meaning of the Securities Act or the Exchange Act, against any loss, claim, damage, liability or expense, as incurred, to which the Company, any Guarantor or any such director, officer, employee or controlling person may become subject, under the Securities Act, the Exchange Act, or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of such Initial Purchaser), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto), in reliance upon and in conformity with written information furnished to the Company by such Initial Purchaser through the Representative expressly for use therein; and to reimburse the Company, any Guarantor and each such director, officer, employee or controlling person for any and all expenses (including the fees and disbursements of counsel) as such expenses are reasonably incurred by the Company, any Guarantor or such director, officer, employee or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action. Each of the Company and the Guarantors hereby acknowledges that, for all purposes under this Agreement, the only information that the Initial Purchasers through the Representative have furnished to the Company expressly for use in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto) are the statements set forth in (i) the second sentence of the sixth paragraph, (ii) the seventh paragraph, (iii) the ninth paragraph and (iv) the fourteenth paragraph under the caption "Plan of Distribution" in the Preliminary Offering Memorandum and the Final Offering Memorandum. The indemnity agreement set forth in this Section 8(b) shall be in addition to any liabilities that each Initial Purchaser may otherwise have.

(c) **Notifications and Other Indemnification Procedures.** Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party hereunder for contribution or otherwise than under the indemnity agreement contained in this Section 8 or to the extent it is not prejudiced (through the forfeiture of substantive rights and defenses) as a result of such failure and shall not relieve the indemnifying party from any liability that the indemnifying party may have to an indemnified party otherwise than under the provisions of this Section 8 and Section 9. In case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in and, to the extent that it shall elect, jointly with all other indemnifying parties similarly notified, by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; *provided, however*, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that a conflict may arise between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of such indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with local counsel (in each jurisdiction)), approved by the indemnifying party (Wells Fargo Securities, LLC in the case of Sections 8(b) and 9 hereof), representing the indemnified parties who are parties to such action) or (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying party.

(d) **Settlements.** The indemnifying party under this Section 8 shall not be liable for any settlement of any proceeding effected without its written consent, which will not be unreasonably withheld, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party against any loss, claim, damage, liability or expense by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by this Section 8, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request or disputed in good faith the indemnified party's entitlement to such reimbursement prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement, compromise or consent to the entry of judgment in any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity was or could have been sought hereunder by such indemnified party, unless such settlement, compromise or consent (i) includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding and (ii) does not include any statements as to or any findings of fault, culpability or failure to act by or on behalf of any indemnified party.

SECTION 9. Contribution. If the indemnification provided for in Section 8 hereof is for any reason held to be unavailable to or otherwise insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount paid or payable by such indemnified party, as incurred, as a result of any losses, claims, damages, liabilities or expenses referred to therein (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, in connection with the statements or omissions or inaccuracies in the representations and warranties herein which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company, and the total discount received by the Initial Purchasers bear to the aggregate initial offering price of the Securities. The relative fault of the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact or any such inaccurate or alleged inaccurate representation or warranty relates to information supplied by the Company and the Guarantors, on the one hand, or the Initial Purchasers, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or inaccuracy.

The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 8 hereof, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The provisions set forth in Section 8 hereof with respect to notice of commencement of any action shall apply if a claim for contribution is to be made under this Section 9; *provided, however*, that no additional notice shall be required with respect to any action for which notice has been given under Section 8 hereof for purposes of indemnification.

The Company, the Guarantors and the Initial Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Initial Purchasers were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 9.

Notwithstanding the provisions of this Section 9, no Initial Purchaser shall be required to contribute any amount in excess of the discount received by such Initial Purchaser in connection with the Securities distributed by it. No person guilty of fraudulent misrepresentation (within the meaning of Section 11 of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Initial Purchasers' obligations to contribute pursuant to this Section 9 are several, and not joint, in proportion to their respective commitments as set forth opposite their names in Schedule A. For purposes of this Section 9, each affiliate, director, officer and employee of an Initial Purchaser and each person, if any, who controls an Initial Purchaser within the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as such Initial Purchaser, and each director and officer of the Company or any Guarantor, and each person, if any, who controls the Company or any Guarantor with the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as the Company and the Guarantors.

SECTION 10. Termination of this Agreement. Prior to the Closing Date, this Agreement may be terminated by Wells Fargo Securities, LLC by notice given to the Company if at any time: (i) trading or quotation in any of the Company's securities shall have been suspended or limited by the Commission or by the Nasdaq Global Market, or trading in securities generally on either the Nasdaq Stock Market or the New York Stock Exchange shall have been suspended or limited, or minimum or maximum prices shall have been generally established on any of such quotation system or stock exchange by the Commission or FINRA; (ii) a general banking moratorium shall have been declared by any of federal, New York or Delaware authorities; (iii) there shall have occurred any outbreak or escalation of national or international hostilities or any crisis or calamity, or any change in the United States or international financial markets, or any substantial change or development involving a prospective substantial change in United States' or international political, financial or economic conditions, as in the judgment of Wells Fargo Securities, LLC is material and adverse and makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Securities in the manner and on the terms described in the Pricing Disclosure Package or to enforce contracts for the sale of securities; (iv) in the judgment of Wells Fargo Securities, LLC there shall have occurred any Material Adverse Change; or (v) the Company shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as in the judgment of Wells Fargo Securities, LLC interferes materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured. Any termination pursuant to this Section 10 shall be without liability on the part of (i) the Company or any Guarantor to any Initial Purchaser, except that the Company and the Guarantors shall be obligated to reimburse the expenses of the Initial Purchasers pursuant to Sections 4 and 6 hereof, (ii) any Initial Purchaser to the Company, or (iii) any party hereto to any other party except that the provisions of Sections 8 and 9 hereof shall at all times be effective and shall survive such termination.

SECTION 11. Representations and Indemnities to Survive Delivery. The respective indemnities, agreements, representations, warranties and other statements of the Company, the Guarantors, their respective officers and the several Initial Purchasers set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Initial Purchaser, the Company, any Guarantor or any of their partners, officers or directors or any controlling person, as the case may be, and will survive delivery of and payment for the Securities sold hereunder and any termination of this Agreement.

SECTION 12. Notices. All communications hereunder shall be in writing and shall be mailed, hand delivered, couriered or facsimiled and confirmed to the parties hereto as follows:

If to the Initial Purchasers:

Wells Fargo Securities, LLC
550 S. Tryon Street, 5th Floor
Charlotte, North Carolina 28202
Facsimile: (704) 410-4874
Attention: High Yield Syndicate

with a copy to:

Cahill Gordon & Reindel llp
80 Pine Street
New York, NY 10005
Facsimile: (212) 269-5420
Attention: James J. Clark, Esq.
Michael Ohler, Esq.

If to the Company or the Guarantors:

Salem Media Group, Inc.
4880 Santa Rosa Road
Camarillo, CA 93012
Facsimile: (805) 384-4505
Attention: Christopher J. Henderson, General Counsel

with a copy to:

K&L Gates LLP
1 Park Plaza, 12th Floor
Irvine, CA 92614
Facsimile: (949) 623-4508
Attention: David C. Lee

Any party hereto may change the address or facsimile number for receipt of communications by giving written notice to the others.

SECTION 13. **Successors.** This Agreement will inure to the benefit of and be binding upon the parties hereto, and to the benefit of the indemnified parties referred to in Sections 8 and 9 hereof, and in each case their respective successors, and no other person will have any right or obligation hereunder. The term “successors” shall not include any Subsequent Purchaser or other purchaser of the Securities as such from any of the Initial Purchasers merely by reason of such purchase.

SECTION 14. **Authority of Wells Fargo Securities, LLC.** Any action by the Initial Purchasers hereunder may be taken by Wells Fargo Securities, LLC on behalf of the Initial Purchasers, and any such action taken by Wells Fargo Securities, LLC shall be binding upon the Initial Purchasers.

SECTION 15. **Partial Unenforceability.** The invalidity or unenforceability of any section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other section, paragraph or provision hereof. If any section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

SECTION 16. **Governing Law Provisions and Consent to Jurisdiction.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN SUCH STATE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THEREOF.

Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby (“**Related Proceedings**”) may be instituted in the federal courts of the United States of America located in the City and County of New York or the courts of the State of New York in each case located in the City and County of New York (collectively, the “**Specified Courts**”), and each party irrevocably submits to the exclusive jurisdiction (except for suits, actions, or proceedings instituted in regard to the enforcement of a judgment of any Specified Court in a Related Proceeding, as to which such jurisdiction is non-exclusive) of the Specified Courts in any Related Proceeding. Service of any process, summons, notice or document by mail to such party’s address set forth above shall be effective service of process for any Related Proceeding brought in any Specified Court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any Related Proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim in any Specified Court that any Related Proceeding brought in any Specified Court has been brought in an inconvenient forum.

SECTION 17. Default of One or More of the Several Initial Purchasers. If any one or more of the several Initial Purchasers shall fail or refuse to purchase Securities that it or they have agreed to purchase hereunder on the Closing Date, and the aggregate number of Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase does not exceed 10% of the aggregate number of the Securities to be purchased on such date, the other Initial Purchasers shall be obligated, severally, in the proportions that the number of Securities set forth opposite their respective names on Schedule A bears to the aggregate number of Securities set forth opposite the names of all such non-defaulting Initial Purchasers, or in such other proportions as may be specified by the Initial Purchasers with the consent of the non-defaulting Initial Purchasers, to purchase the Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase on the Closing Date. If any one or more of the Initial Purchasers shall fail or refuse to purchase Securities and the aggregate number of Securities with respect to which such default occurs exceeds 10% of the aggregate number of Securities to be purchased on the Closing Date, and arrangements satisfactory to the Initial Purchasers and the Company for the purchase of such Securities are not made within 48 hours after such default, this Agreement shall terminate without liability of any non-defaulting party except that the provisions of Sections 4, 6, 8 and 9 hereof shall at all times be effective and shall survive such termination. In any such case either the Initial Purchasers or the Company shall have the right to postpone the Closing Date, as the case may be, but in no event for longer than seven days in order that the required changes, if any, to the Final Offering Memorandum or any other documents or arrangements may be effected.

As used in this Agreement, the term **"Initial Purchaser"** shall be deemed to include any person substituted for a defaulting Initial Purchaser under this Section 17. Any action taken under this Section 17 shall not relieve any defaulting Initial Purchaser from liability in respect of any default of such Initial Purchaser under this Agreement.

SECTION 18. No Advisory or Fiduciary Responsibility. Each of the Company and the Guarantors acknowledges and agrees that: (i) the purchase and sale of the Securities pursuant to this Agreement, including the determination of the offering price of the Securities and any related discounts and commissions, is an arm's-length commercial transaction between the Company and the Guarantors, on the one hand, and the several Initial Purchasers, on the other hand, and the Company and the Guarantors are capable of evaluating and understanding and understand and accept the terms, risks and conditions of the transactions contemplated by this Agreement; (ii) in connection with each transaction contemplated hereby and the process leading to such transaction each Initial Purchaser is and has been acting solely as a principal and is not the agent or fiduciary of the Company, Guarantors or their respective affiliates, stockholders, creditors or employees or any other party; (iii) no Initial Purchaser has assumed or will assume an advisory or fiduciary responsibility in favor of the Company or any Guarantor with respect to any of the transactions contemplated hereby or the process leading thereto (irrespective of whether such Initial Purchaser has advised or is currently advising the Company or any Guarantor on other matters) or any other obligation to the Company and the Guarantors except the obligations expressly set forth in this Agreement; (iv) the several Initial Purchasers and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company and the Guarantors and that the several Initial Purchasers have no obligation to disclose any of such interests by virtue of any fiduciary or advisory relationship; and (v) the Initial Purchasers have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company and the Guarantors have consulted their own legal, accounting, regulatory and tax advisors to the extent they deemed appropriate.

This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company, the Guarantors and the several Initial Purchasers, or any of them, with respect to the subject matter hereof. The Company and the Guarantors hereby waive and release, to the fullest extent permitted by law, any claims that the Company and the Guarantors may have against the several Initial Purchasers with respect to any breach or alleged breach of fiduciary duty.

SECTION 19. General Provisions. This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior written or oral and all contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof. This Agreement may be executed in two or more counterparts, each one of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier, facsimile or other electronic transmission (i.e., a “pdf” or “tif”) shall be effective as delivery of a manually executed counterpart thereof. This Agreement may not be amended or modified unless in writing by all of the parties hereto, and no condition herein (express or implied) may be waived unless waived in writing by each party whom the condition is meant to benefit. The section headings herein are for the convenience of the parties only and shall not affect the construction or interpretation of this Agreement.

SECTION 20. Waiver of Jury Trial. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to the Company the enclosed copies hereof, whereupon this instrument, along with all counterparts hereof, shall become a binding agreement in accordance with its terms.

Very truly yours,

SALEM MEDIA GROUP, INC.

By: /s/ Christopher J. Henderson
Name: Christopher J. Henderson
Title: Senior Vice President, General Counsel and Secretary

EAGLE PRODUCTS, LLC

as a Guarantor

By: CARON BROADCASTING, INC.,
as Managing Member

By: /s/ Christopher J. Henderson
Name: Christopher J. Henderson
Title: Senior Vice President, General Counsel and Secretary

INSPIRATION MEDIA OF TEXAS, LLC
SALEM MEDIA OF ILLINOIS, LLC
SALEM MEDIA OF MASSACHUSETTS, LLC
SALEM MEDIA OF NEW YORK, LLC
SALEM RADIO OPERATIONS, LLC
SALEM SATELLITE MEDIA, LLC
SALEM WEB NETWORK, LLC
SCA-PALO ALTO, LLC

as Guarantors

By: SCA LICENSE CORPORATION,
as Managing Member

By: /s/ Christopher J. Henderson
Name: Christopher J. Henderson
Title: Senior Vice President, General Counsel and Secretary

[Signature Page to Purchase Agreement]

**AIR HOT, INC.
BISON MEDIA, INC.
CARON BROADCASTING, INC.
COMMON GROUND BROADCASTING, INC.
INSPIRATION MEDIA, INC.
NEW INSPIRATION BROADCASTING COMPANY, INC.
NI ACQUISITION CORP.
PENNSYLVANIA MEDIA ASSOCIATES, INC.
REACH SATELLITE NETWORK, INC.
SALEM CONSUMER PRODUCTS, INC.
SALEM COMMUNICATIONS HOLDING CORPORATION
SALEM MEDIA OF COLORADO, INC.
SALEM MEDIA OF HAWAII, INC.
SALEM MEDIA OF KENTUCKY, INC.
SALEM MEDIA OF OHIO, INC.
SALEM MEDIA OF OREGON, INC.
SALEM MEDIA OF TEXAS, INC.
SALEM MEDIA OF VIRGINIA, INC.
SALEM MEDIA REPRESENTATIVES, INC.
SALEM PUBLISHING, INC.
SALEM RADIO NETWORK INCORPORATED
SALEM RADIO PROPERTIES, INC.
SCA LICENSE CORPORATION
SOUTH TEXAS BROADCASTING, INC.
SRN NEWS NETWORK, INC.
SRN STORE, INC.**

as Guarantors

By: /s/ Christopher J. Henderson
Name: Christopher J. Henderson
Title: Senior Vice President, General Counsel and Secretary

[Signature Page to Purchase Agreement]

The foregoing Purchase Agreement is hereby confirmed and accepted by the Initial Purchasers as of the date first above written.

Wells Fargo Securities, LLC
Acting on behalf of itself
and as the Representative of
the several Initial Purchasers

By: /s/ Peter Daniel
Name: Peter Daniel
Title: Managing Director

[Signature Page to Purchase Agreement]

SCHEDULE A

Initial Purchasers		Aggregate Principal Amount of Securities to be Purchased
Wells Fargo Securities, LLC	\$	209,230,769
Barclays Capital Inc.	\$	39,230,769
Noble Capital Market, Inc.	\$	6,538,462
Total	\$	255,000,000

SCHEDULE B

1. California
 2. Colorado
 3. Delaware
 4. Kentucky
 5. Ohio
 6. Oregon
 7. Pennsylvania
 8. Tennessee
 9. Texas
 10. Virginia
 11. Washington
-

[Form of opinion of K&L Gates LLP to be delivered pursuant to Section 5 of the Purchase Agreement]

[Form of negative assurance letter from K&L Gates LLP to be delivered pursuant to Section 5 of the Purchase Agreement]

[Form of opinion of general counsel of the Company to be delivered pursuant to Section 5 of the Purchase Agreement]

[Form of opinion of Fletcher, Heald & Hildreth, PLC to be delivered pursuant to Section 5(d) of the Purchase Agreement]

EXHIBIT A
SALEM STATION LIST
(Sorted by Call Sign)

<i>Station</i>	<i>Fac. ID</i>	<i>Community</i>	<i>Licensee</i>
KAIM-FM	10950	HONOLULU, HI	SALEM MEDIA OF HAWAII, INC.
KBIQ(FM)	73073	MANITOU SPRINGS, CO	BISON MEDIA, INC.
KBJD(AM)	87151	DENVER, CO	SALEM MEDIA OF COLORADO, INC.*
KCBQ(AM)	13509	SAN DIEGO, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KCRO(AM)	54902	OMAHA, NE	SALEM MEDIA OF ILLINOIS, LLC
KDAR(FM)	3077	OXNARD, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KDIS(FM)	47309	LITTLE ROCK, AR	SOUTH TEXAS BROADCASTING, INC.
KDIZ(AM)	10828	GOLDEN VALLEY, MN	COMMON GROUND BROADCASTING, INC.
KDMT(AM)	86619	ARVADA, CO	SALEM MEDIA OF COLORADO, INC.
KDOW(AM)	65485	PALO ALTO, CA	SCA-PALO ALTO, LLC
KDZR(AM)	86618	LAKE OSWEGO, OR	SALEM MEDIA OF OREGON, INC.
KEXB(AM)	49320	PLANO, TX	INSPIRATION MEDIA OF TEXAS, LLC
KFAX(AM)	24510	SAN FRANCISCO, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KFIA(AM)	50300	CARMICHAEL, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KFIS(FM)	50553	SCAPPOOSE, OR	CARON BROADCASTING, INC.
KFSH-FM	2195	LA MIRADA, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KGBI-FM	24713	OMAHA, NE	PENNSYLVANIA MEDIA ASSOCIATES, INC.

<i>Station</i>	<i>Fac. ID</i>	<i>Community</i>	<i>Licensee</i>
KGFT(FM)	20579	PUEBLO, CO	BISON MEDIA, INC.
KGNW(AM)	28819	BURIEN-SEATTLE, WA	INSPIRATION MEDIA, INC.
KGU(AM)	53705	HONOLULU, HI	SALEM MEDIA OF HAWAII, INC.
KGU-FM	641	HONOLULU, HI	SALEM MEDIA OF HAWAII, INC.
KHCM(AM)	10934	HONOLULU, HI	SALEM MEDIA OF HAWAII, INC.
KHCM-FM	34620	HONOLULU, HI	SALEM MEDIA OF HAWAII, INC.
KHNR(AM)	16742	HONOLULU, HI	SALEM MEDIA OF HAWAII, INC.
KHTE(FM)	40746	ENGLAND, AR	CRAIN MEDIA GROUP, LLC – OPERATED BY SOUTH TEXAS BROADCASTING, INC.
KKFS(FM)	56366	LINCOLN, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KKHT-FM	57801	LUMBERTON, TX	SALEM MEDIA OF ILLINOIS, LLC
KKLA-FM	48453	LOS ANGELES, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KKMS(AM)	18518	RICHFIELD, MN	COMMON GROUND BROADCASTING, INC.
KKNT(AM)	13508	PHOENIX, AZ	COMMON GROUND BROADCASTING, INC.
KKOL(AM)	20355	SEATTLE, WA	INSPIRATION MEDIA, INC.**
KKOL-FM	70384	AIEA, HI	SALEM MEDIA OF HAWAII, INC.
KKSP(FM)	39751	BRYANT, AR	SOUTH TEXAS BROADCASTING, INC.
KLFE(AM)	12031	SEATTLE, WA	INSPIRATION MEDIA, INC.*
KLTY(FM)	2809	ARLINGTON, TX	INSPIRATION MEDIA OF TEXAS, LLC
KLUP(AM)	34975	TERRELL HILLS, TX	SOUTH TEXAS BROADCASTING, INC.
KNTH(AM)	61174	HOUSTON, TX	SOUTH TEXAS BROADCASTING, INC.

<i>Station</i>	<i>Fac. ID</i>	<i>Community</i>	<i>Licensee</i>
KNTS(AM)	87153	SEATTLE, WA	INSPIRATION MEDIA, INC.*
KNUS(AM)	42377	DENVER, CO	SALEM MEDIA OF COLORADO, INC.
KOTK(AM)	50307	OMAHA, NE	PENNSYLVANIA MEDIA ASSOCIATES, INC.
KPDQ(AM)	58628	PORTLAND, OR	SALEM MEDIA OF OREGON, INC.
KPDQ-FM	58629	PORTLAND, OR	SALEM MEDIA OF OREGON, INC.
KPRZ(AM)	54461	SAN MARCOS-POWAY, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KPXQ(AM)	55912	GLENDALE, AZ	COMMON GROUND BROADCASTING, INC.
KRDY(AM)	26310	SAN ANTONIO, TX	SOUTH TEXAS BROADCASTING, INC.
KRKS(AM)	58632	DENVER, CO	SALEM MEDIA OF COLORADO, INC.*
KRKS-FM	58631	LAFAYETTE, CO	SALEM MEDIA OF COLORADO, INC.
KRLA(AM)	61267	GLENDALE, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KRYP(FM)	82062	GLADSTONE, OR	SALEM MEDIA OF OREGON, INC.
KSAC-FM	51220	DUNNIGAN, CA	CARON BROADCASTING, INC.
KSKY(AM)	6591	BALCH SPRINGS, TX	BISON MEDIA, INC.
KSLR(AM)	58634	SAN ANTONIO, TX	SALEM MEDIA OF TEXAS, INC.
KTEK(AM)	10827	ALVIN, TX	SOUTH TEXAS BROADCASTING, INC.
KTIE(AM)	58808	SAN BERNARDINO, CA	CARON BROADCASTING, INC.
KTKZ(AM)	59599	SACRAMENTO, CA	NEW INSPIRATION BROADCASTING COMPANY, INC.
KTNO(AM)	34562	UNIVERSITY PARK, TX	INSPIRATION MEDIA OF TEXAS, LLC

<i>Station</i>	<i>Fac. ID</i>	<i>Community</i>	<i>Licensee</i>
KTRB(AM)	66246	SAN FRANCISCO, CA	EAST BAY BROADCASTING, LLC – OPERATED BY NEW INSPIRATION BROADCASTING COMPANY, INC.
KWRD-FM	6560	HIGHLAND VILLAGE, TX	INSPIRATION MEDIA OF TEXAS, LLC
KXFN(AM)	74579	ST. LOUIS, MO	CARON BROADCASTING, INC.
KXXT(AM)	54742	TOLLESON, AZ	COMMON GROUND BROADCASTING, INC.
KYCR(AM)	35504	GOLDEN VALLEY, MN	COMMON GROUND BROADCASTING, INC.
KZNT(AM)	70825	COLORADO SPRINGS, CO	BISON MEDIA, INC.
WAFS(AM)	72111	ATLANTA, GA	SOUTH TEXAS BROADCASTING, INC.
WAVA(AM)	54465	ARLINGTON, VA	SALEM MEDIA OF VIRGINIA, INC.
WAVA-FM	4644	ARLINGTON, VA	SALEM MEDIA OF VIRGINIA, INC.
WBIX(AM)	48403	BOSTON, MA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WBOZ(FM)	15531	WOODBURY, TN	REACH SATELLITE NETWORK, INC.
WBZW(AM)	1185	APOPKA, FL	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WDTK(AM)	68641	DETROIT, MI	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WDWD (AM)	8623	ALTANTA, GA	SOUTH TEXAS BROADCASTING, INC.
WDYZ(AM)	23442	ORLANDO, FL	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WEZE(AM)	3594	BOSTON, MA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WFFH(FM)	68347	SMYRNA, TN	CARON BROADCASTING, INC.
WFFI(FM)	18714	KINGSTON SPRINGS, TN	CARON BROADCASTING, INC.
WFHM-FM	54778	CLEVELAND, OH	SALEM MEDIA OF MASSACHUSETTS, LLC

<i>Station</i>	<i>Fac. ID</i>	<i>Community</i>	<i>Licensee</i>
WFIA-FM	48371	NEW ALBANY, IN	SALEM MEDIA OF KENTUCKY, INC.
WFIL(AM)	52193	PHILADELPHIA, PA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WFSH-FM	56390	ATHENS, GA	SOUTH TEXAS BROADCASTING, INC.
WGKA(AM)	65976	ATLANTA, GA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WGTK(AM)	63936	LOUISVILLE, KY	SALEM MEDIA OF KENTUCKY, INC.
WGTK-FM	73296	GREENVILLE, SC	CARON BROADCASTING, INC.
WGUL(AM)	1177	DUNEDIN, FL	CARON BROADCASTING, INC.
WHIM(AM)	74165	CORAL GABLES, FL	CARON BROADCASTING, INC.
WHK(AM)	72299	CLEVELAND, OH	COMMON GROUND BROADCASTING, INC.
WHKW(AM)	14772	CLEVELAND, OH	CARON BROADCASTING, INC.
WHKZ(AM)	57235	WARREN, OH	SALEM MEDIA OF MASSACHUSETTS, LLC
WIND(AM)	67068	CHICAGO, IL	SALEM MEDIA OF ILLINOIS, LLC
WJIE(AM)	55504	LOUISVILLE, KY	SALEM MEDIA OF MASSACHUSETTS, LLC
WKAT(AM)	27713	NORTH MIAMI, FL	CARON BROADCASTING, INC.
WLCC(AM)	71212	BRANDON, FL	SOUTH TEXAS BROADCASTING, INC.
WLQV(AM)	42081	DETROIT, MI	CARON BROADCASTING, INC.
WLSS(AM)	59126	SARASOTA, FL	CARON BROADCASTING, INC.
WLTA(AM)	42660	ALPHARETTA, GA	SOUTH TEXAS BROADCASTING, INC.
WLTE-FM	170949	PENDLETON, SC	CARON BROADCASTING, INC.
WMCA(AM)	58626	NEW YORK, NY	SALEM MEDIA OF NEW YORK, LLC

<i>Station</i>	<i>Fac. ID</i>	<i>Community</i>	<i>Licensee</i>
WNIV(AM)	23607	ATLANTA, GA	SOUTH TEXAS BROADCASTING, INC.
WNTP(AM)	52194	PHILADELPHIA, PA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WNYM(AM)	58635	HACKENSACK, NJ	SALEM MEDIA OF NEW YORK, LLC
WOCN(AM)	43034	MIAMI, FL	CARON BROADCASTING, INC.
WORD-FM	58627	PITTSBURGH, PA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WORL(AM)	21810	ALTAMONTE SPRINGS, FL	SALEM MEDIA OF ILLINOIS, LLC
WPGP(AM)	65691	PITTSBURGH, PA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WPIT(AM)	58624	PITTSBURGH, PA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WRCW(AM)	53368	WARRENTON, VA	SALEM MEDIA OF VIRGINIA, INC.
WRFD(AM)	58630	COLUMBUS-WORTHINGTON, OH	SALEM MEDIA OF OHIO, INC.
WROL(AM)	9139	BOSTON, MA	SALEM MEDIA OF MASSACHUSETTS, LLC
WRTH(FM)	73241	GREENVILLE, SC	CARON BROADCASTING, INC.
WSDZ(AM)	4622	BELLEVILLE, IL	CARON BROADCASTING, INC.
WTBN(AM)	51985	PINELLAS PARK, FL	COMMON GROUND BROADCASTING, INC.
WTLN(AM)	48731	ORLANDO, FL	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WTOH-FM	73972	UPPER ARLINGTON, OH	SALEM MEDIA OF OHIO, INC.
WTWD(AM)	26145	PLANT CITY, FL	SOUTH TEXAS BROADCASTING, INC.
WWDJ(AM)	25051	BOSTON, MA	PENNSYLVANIA MEDIA ASSOCIATES, INC.
WWMI(AM)	11954	ST. PETERSBURG, FL	SOUTH TEXAS BROADCASTING, INC.
WWRC(AM)	8681	WASHINGTON, DC	SALEM MEDIA OF VIRGINIA, INC.
WWTC(AM)	9676	MINNEAPOLIS, MN	SALEM MEDIA OF MASSACHUSETTS, LLC
WYLL(AM)	28630	CHICAGO, IL	SALEM MEDIA OF MASSACHUSETTS, LLC
WZAB(AM)	21763	SWEETWATER, FL	CARON BROADCASTING, INC.

*KBJD and KRKS, Denver, CO, are paired AM stations, KBJD in the AM expanded band and KRKS in the existing AM band. KNTS and KLFE, Seattle, WA, are related in the same way. It is likely that at a future date, presently not predictable, the Salem subsidiary licensees will be required to dispose of one station of each pair. Because of this relationship, the KBJD and KRKS license renewal applications have remained in pending status. The KNTS and KLFE license renewal applications were granted, but with a condition on each license potentially limiting its duration to less than a full license term.

**A petition for reconsideration of the grant in January 2007, of a license to cover the construction of new broadcast transmission facilities for KKOL(AM), Seattle, WA, was filed by U.S. Oil and Refining Co. That petition was opposed by KKOL's licensee, Inspiration Media, Inc. ("Inspiration"). Inspiration and the petitioner entered into a settlement agreement, pursuant to which a minor modification will be made to the transmission facilities as initially licensed. The settlement agreement has been submitted to the FCC for its approval, which is pending. No objection to the settlement has been filed with the FCC.

Resale Pursuant to Regulation S or Rule 144A. Each Initial Purchaser understands that:

Such Initial Purchaser agrees that it has not offered or sold and will not offer or sell the Securities in the United States or to, or for the benefit or account of, a U.S. Person (other than a distributor), in each case, as defined in Rule 902 of Regulation S (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering of the Securities pursuant hereto and the Closing Date, other than in accordance with Regulation S or another exemption from the registration requirements of the Securities Act. Such Initial Purchaser agrees that, during such 40-day restricted period, it will not cause any advertisement with respect to the Securities (including any "tombstone" advertisement) to be published in any newspaper or periodical or posted in any public place and will not issue any circular relating to the Securities, except such advertisements as are permitted by and include the statements required by Regulation S.

Such Initial Purchaser agrees that, at or prior to confirmation of a sale of Securities by it to any distributor, dealer or person receiving a selling concession, fee or other remuneration during the 40-day restricted period referred to in Rule 903 of Regulation S, it will send to such distributor, dealer or person receiving a selling concession, fee or other remuneration a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of your distribution at any time or (ii) otherwise until 40 days after the later of the date the Securities were first offered to persons other than distributors in reliance upon Regulation S and the Closing Date, except in either case in accordance with Regulation S under the Securities Act (or in accordance with Rule 144A under the Securities Act or to accredited investors in transactions that are exempt from the registration requirements of the Securities Act), and in connection with any subsequent sale by you of the Securities covered hereby in reliance on Regulation S under the Securities Act during the period referred to above to any distributor, dealer or person receiving a selling concession, fee or other remuneration, you must deliver a notice to substantially the foregoing effect. Terms used above have the meanings assigned to them in Regulation S under the Securities Act."

I, Edward G. Atsinger III, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 7, 2017

/s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

President and Chief Executive Officer

I, Evan D. Masyr, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 7, 2017

/s/ EVAN D. MASYR

Evan D. Masyr

Executive Vice President and Chief Financial Officer

**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 President and 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 Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2017 (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: August 7, 2017

By: /s/ EDWARD G. ATSINGER III
Edward G. Atsinger III
President and Chief Executive Officer

**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 Quarterly report of the Company on Form 10-Q for the period ended June 30, 2017 (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: August 7, 2017

By: /s/ EVAN D. MASZR

Evan D. Masyr

Executive Vice President and Chief Financial Officer
