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 MARCH 31, 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 ☐ (Do not check if a Smaller Reporting Company)	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 May 4, 2017
Common Stock, $0.01 par value per share	20,468,322 shares

Class B	Outstanding at May 4, 2017
Common Stock, $0.01 par value per share	5,553,696 shares

SALEM MEDIA GROUP, INC.
INDEX

		PAGE NO.
COVER PAGE		
INDEX		
FORWARD LOOKING STATEMENTS		2
PART I - FINANCIAL INFORMATION		
Item 1.	Condensed Consolidated Financial Statements.	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	49
Item 4.	Controls and Procedures.	49
PART II - OTHER INFORMATION		50
Item 1.	Legal Proceedings.	50
Item 1A.	Risk Factors.	50
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	53
Item 3.	Defaults Upon Senior Securities.	53
Item 4.	Mine Safety Disclosures.	53
Item 5.	Other Information.	53
Item 6.	Exhibits.	53
SIGNATURES		54
EXHIBIT INDEX		55

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)	**March 31, 2017 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 130	**$ 83**
Trade accounts receivable (net of allowances of $10,420 in 2016 and $10,263 in 2017)	37,260	**33,951**
Other receivables (net of allowances of $260 in 2016 and $105 in 2017)	751	**923**
Inventories (net of reserves of $2,226 in 2016 and $1,516 in 2017)	670	**841**
Prepaid expenses	6,287	**6,144**
Deferred income taxes current	9,411	**—**
Land held for sale	1,000	**1,000**
Total current assets	55,509	**42,942**
Notes receivable (net of allowance of $564 in 2016 and $531 in 2017)	65	**17**
Property and equipment (net of accumulated depreciation of $156,024 in 2016 and $158,915 in 2017)	102,790	**102,558**
Broadcast licenses	388,517	**388,663**
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 $43,728 in 2017)	14,408	**13,348**
Deferred financing costs	82	**65**
Deferred income taxes non-current	—	**1,877**
Other assets	2,952	**3,104**
Total assets	$ 590,268	**$ 578,515**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,968	**$ 5,795**
Accrued expenses	15,658	**12,087**
Accrued compensation and related expenses	8,133	**9,712**
Accrued interest	77	**41**
Current portion of deferred revenue	9,491	**9,365**
Income taxes payable	223	**257**
Current portion of long-term debt and capital lease obligations	590	**2,095**
Total current liabilities	39,140	**39,352**
Long-term debt and capital lease obligations, less current portion	261,084	**255,519**
Fair value of interest rate swap	514	**157**
Deferred income taxes	60,769	**53,859**
Deferred rent expense	9,596	**9,656**
Deferred revenue less current portion	5,252	**5,253**
Other long-term liabilities	67	**65**
Total liabilities	376,422	**363,861**
Commitments and contingencies (Note 18)		
Stockholders' Equity:		
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 22,593,130 and 22,783,972 issued and 20,275,480 and 20,466,322 outstanding at December 31, 2016 and March 31, 2017, respectively	226	**226**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2016 and March 31, 2017	56	**56**
Additional paid-in capital	243,607	**245,046**
Accumulated earnings	3,963	**3,332**
Treasury stock, at cost (2,317,650 shares at December 31, 2016 and March 31, 2017)	(34,006)	**(34,006)**
Total stockholders' equity	213,846	**214,654**
Total liabilities and stockholders' equity	$ 590,268	**$ 578,515**

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 March 31,	
	2016	**2017**
Net broadcast revenue	$ 48,745	**$ 47,804**
Net digital media revenue	11,010	**10,686**
Net publishing revenue	4,820	**6,490**
Total net revenue	64,575	**64,980**
Operating expenses:		
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including $408 and $424 for the three months ended March 31, 2016 and 2017, respectively, paid to related parties)	36,150	**35,836**
Digital media operating expenses, exclusive of depreciation and amortization shown below	9,024	**8,702**
Publishing operating expenses, exclusive of depreciation and amortization shown below	4,948	**6,351**
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including $98 and $92 for the three months ended March 31, 2016 and 2017, respectively, paid to related parties)	4,213	**5,125**
Depreciation	2,992	**2,980**
Amortization	1,143	**1,142**
Change in the estimated fair value of contingent earn-out consideration	(128)	**1**
Impairment of indefinite-lived long-term assets other than goodwill	—	**19**
Loss on the sale or disposal of assets	150	**5**
Total operating expenses	58,492	**60,161**
Operating income	6,083	**4,819**
Other income (expense):		
Interest income	1	**1**
Interest expense	(3,796)	**(3,430)**
Change in the fair value of interest rate swap	(1,758)	**357**
Loss on early retirement of long-term debt	(9)	**(41)**
Net miscellaneous income and expenses	—	**—**
Net income before income taxes	521	**1,706**
Provision for income taxes	168	**646**
Net income	$ 353	**$ 1,060**
Basic earnings per share data:		
Basic earnings per share	$ 0.01	**$ 0.04**
Diluted earnings per share data:		
Diluted earnings per share	$ 0.01	**$ 0.04**
Distributions per share	$ —	**$ 0.07**
Basic weighted average shares outstanding	25,485,234	**25,901,801**
Diluted weighted average shares outstanding	25,802,958	**26,290,926**

See accompanying notes

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

(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	**2017**
OPERATING ACTIVITIES		
Net income	$ 353	**$ 1,060**
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	199	**1,381**
Tax benefit related to stock options exercised	(10)	**—**
Depreciation and amortization	4,135	**4,122**
Amortization of deferred financing costs	160	**149**
Accretion of financing items	52	**48**
Accretion of acquisition-related deferred payments and contingent consideration	29	**12**
Provision for bad debts	135	**388**
Deferred income taxes	121	**624**
Change in the fair value of interest rate swap	1,758	**(357)**
Change in the estimated fair value of contingent earn-out consideration	(128)	**1**
Impairment of indefinite-lived long-term assets other than goodwill	—	**19**
Loss on early retirement of long-term debt	9	**41**
Loss on the sale or disposal of assets	150	**5**
Changes in operating assets and liabilities:		
Accounts receivable	7,484	**2,804**
Inventories	22	**(171)**
Prepaid expenses and other current assets	145	**143**
Accounts payable and accrued expenses	(1,796)	**(1,171)**
Deferred rent	(128)	**26**
Deferred revenue	(1,801)	**(119)**
Other liabilities	—	**(2)**
Income taxes payable	189	**34**
Net cash provided by operating activities	11,078	**9,037**
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances	(2,427)	**(2,586)**
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(200)	**(48)**
Escrow deposits related to acquisitions	(122)	**(42)**
Purchases of broadcast assets and radio stations	—	**(98)**
Purchases of digital media businesses and assets	(2,700)	**(245)**
Purchases of publishing businesses assets	(3)	**—**
Other	(226)	**(111)**
Net cash used in investing activities	(5,678)	**(3,130)**
FINANCING ACTIVITIES		
Payments under Term Loan B	(1,559)	**(5,000)**
Proceeds from borrowings under Revolver	12,902	**6,266**
Payments on Revolver	(13,207)	**(5,514)**
Payments of acquisition-related contingent earn-out consideration	(83)	**(9)**
Payments of deferred installments due from acquisition activity	(2,521)	**(200)**
Proceeds from the exercise of stock options	31	**58**
Payments of capital lease obligations	(27)	**(33)**
Payment of cash distributions on common stock	—	**(1,691)**
Book overdraft	(950)	**169**
Net cash used in financing activities	(5,414)	**(5,954)**
Net increase in cash and cash equivalents	(14)	**(47)**
Cash and cash equivalents at beginning of year	98	**130**
Cash and cash equivalents at end of period	$ 84	**$ 83**

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	$	3,547	**$**	**3,244**
Cash received for income taxes	$	(131)	**$**	**(30)**
Other supplemental disclosures of cash flow information:				
Barter revenue	$	1,040	**$**	**1,329**
Barter expense	$	1,055	**$**	**1,294**
Non-cash investing and financing activities:				
Capital expenditures reimbursable under tenant improvement allowances	$	200	**$**	**48**
Current value of deferred cash payments (short-term)	$	1,300	$	—

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.

Information with respect to the three months ended March 31, 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, 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.

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 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, 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.

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 is a traditional book publisher that has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, David Limbaugh, Ed Klein, Mark Steyn and Dinesh D'Souza; (2) Salem Author Services, our self-publishing services for authors through Xulon Press and 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 March 31, 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;
- sales returns and allowances;
- barter transactions;
- inventory reserves;
- reserves for royalty advances;
- fair value of equity awards;
- self-insurance reserves;
- estimated lives for tangible and intangible assets;
- income tax valuation allowances; and
- uncertain tax positions.

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications include the 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 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 standardon our financial position, results of operations, cash flows, or presentation thereof.

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

NOTE 2. IMPAIRMENT OF GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

Approximately 72% of our total assets as of March 31, 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 ending March 31, 2017 that did not meet management's expectations, we decided to cease publishing Preaching Magazine™ , YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon delivery of the May 2017 print publications. 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 lives, we performed impairment tests as of March 31, 2017. We 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 has 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 other indications of impairment present as of the period ending March 31, 2017.

NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

During the three month period ended March 31, 2017, we completed or entered into the following transactions:

Debt

On February 28, 2017, we repaid $3.0 million principal on our term loan of $300.0 million ("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 bank loan fees 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 bank loan fees associated with the principal repayment.

Equity

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 contain transfer restrictions under which they cannot be sold, pledged, transferred or assigned until three months from vesting date. Recipients of these restricted stock awards are 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 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 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 three month period ended March 31, 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:

Acquisition Date	Description	Total Cost	
		(Dollars in thousands)	
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**
		$	**363**

The operating results of our business acquisitions and asset purchases are included in our consolidated results of operations from their respective closing date or the date that we began operating them under an LMA or TBA. Under the acquisition method of accounting as specified in FASB ASC Topic 805, "*Business Combinations*," the total acquisition consideration is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction.

Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. Acquisitions may include contingent consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts. We may retain a third-party appraiser to estimate the fair value of the acquired net assets as of the acquisition date. As part of the valuation and appraisal process, the third-party appraiser prepares a report assigning estimated fair values to the various asset categories in our financial statements. These fair value estimates are subjective in nature and require careful consideration and judgment. Management reviews the third party reports for reasonableness of the assigned values.

We believe that these valuations and analysis provide appropriate estimates of the fair value for the net assets acquired as of the acquisition date. These initial valuations are subject to refinement during the measurement period, which may be up to one year from the acquisition date. During this measurement period we may retroactively record adjustments to the net assets acquired based on additional information obtained for items that existed as of the acquisition date. Upon the conclusion of the measurement period any adjustments are reflected in our Condensed Consolidated statements of operations. We have not to date recorded adjustments to our estimated fair values used in our acquisition consideration during or after the measurement period.

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment. Costs associated with acquisitions, such as consulting and legal fees, are expensed as incurred in corporate operating expenses. We recognized costs associated with acquisitions of $24,000 during the three month period ended March 31, 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 three month period ended March 31, 2017:

Description	Total Consideration	
	(Dollars in thousands)	
Cash payments made upon closing	**$**	**343**
Escrow deposits paid in prior years		**20**
Total purchase price consideration	**$**	**363**

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	$ —	$ 148	$ 148
Broadcast licenses	118	—	118
Goodwill	—	15	15
Domain and brand names	—	56	56
Customer lists and contracts	—	26	26
	$ 118	**$ 245**	**$ 363**

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.

FM translators or FM translator construction permits purchase agreements pending as of period ending March 31, 2017 include the following:

Date APA Entered	Permit or ID	Authorized Site - Current	Purchase Price	Escrow Deposits	Date Closed	Market
			(Dollars in thousands)			
7/25/2016	K283CA	Festus, Missouri *	40	8	-	St. Louis, Missouri
7/26/2016	K276FZ	Eaglemount, Washington *	40	8	-	Portland, Oregon

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

Divestitures

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

Due to operating results during the three months ending March 31, 2017 that did not meet management's expectations, we decided to cease publishing Preaching Magazine™ , YouthWorker Journal™ , FaithTalk Magazine™ and Homecoming® The Magazine upon delivery of the May 2017 print publications.

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.

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 $66,000, which approximated the discounted present value due to the earn-out period of less than one year. The discount is being accreted to interest expense over the one-year earn-out period. We believe that our experience with digital subscriptions and websites provides a reasonable basis for our estimates.

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual subscriber revenues achieved and projected to the estimated subscriber revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of $0.1 million. There were no changes in our estimates of the fair value of the contingent earn-out consideration as of the three month period ending March 31, 2017. To date, no payments have been made to the seller and we have estimated the fair value of our contingent earn-out consideration to be approximately $51,000.

Daily Bible Devotion

We acquired Daily Bible Devotion mobile applications on May 6, 2015. We paid $1.1 million in cash upon closing and may pay up to an additional $0.3 million in contingent earn-out consideration payable over the next two years based upon on the achievement of cumulative session benchmarks for each mobile application. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Bible Devotional Applications to achieve the session benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $165,000, which was recorded at the discounted present value of $142,000. The discount is being accreted to interest expense over the two-year earn-out period. We believe that our experience with digital mobile applications and websites provides a reasonable basis for our estimates.

We review the fair value of the contingent earn-out consideration quarterly over the two-year earn-out period to compare actual cumulative sessions achieved to the estimated cumulative sessions used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of $0.3 million less any amounts paid or expired to date. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. There were no changes in our estimates of the fair value of the contingent earn-out consideration as of the three month period ending March 31, 2017. To date, we have paid $75,000 to the seller and we have estimated the fair value of our remaining contingent earn-out consideration to be approximately $4,000.

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 $86,000 to the seller of which approximately $9,000 was paid during the three month period ended March 31, 2017. We recorded a net increase of $1,000 to the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for the three months ending March 31, 2017, due to actual net subscription revenues that were slightly higher than our prior estimate. The final payment due to the seller of approximately $5,000 is reflected in other current liabilities as of March 31, 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 month period ended March 31, 2017 and 2016:

	Three Months Ending March 31, 2017		
	Short-Term Accrued Expenses	**Long-Term Other Liabilities**	**Total**
		(Dollars in thousands)	
Beginning Balance as of January 1, 2017	**$ 66**	**$ —**	**$ 66**
Acquisitions	—	—	—
Accretion of acquisition-related contingent earn-out consideration	**2**	—	**2**
Change in the estimated fair value of contingent earn-out consideration	**1**	—	**1**
Reclassification of payments due in next 12 months to short-term	—	—	—
Payments	**(9)**	—	**(9)**
Ending Balance as of March 31, 2017	**$ 60**	$ —	**$ 60**

	Three Months Ending March 31, 2016		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of January 1, 2016	$ 173	$ 602	$ 775
Acquisitions	—	—	—
Accretion of acquisition-related contingent earn-out consideration	3	7	10
Change in the estimated fair value of contingent earn-out consideration	(74)	(54)	(128)
Reclassification of payments due in next 12 months to short-term	522	(522)	—
Payments	(83)	—	(83)
Ending Balance as of March 31, 2016	$ 541	$ 33	$ 574

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 March 31, 2017**
	(Dollars in thousands)	
Regnery Publishing book inventories	$ 2,473	**$ 1,911**
Reserve for obsolescence – Regnery Publishing	(2,104)	**(1,399)**
Inventory, net - Regnery Publishing	369	**512**
Wellness products	$ 423	**$ 446**
Reserve for obsolescence – Wellness products	(122)	**(117)**
Inventory, net - Wellness products	301	**329**
Consolidated inventories, net	$ 670	**$ 841**

NOTE 7. BROADCAST LICENSES

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

Broadcast Licenses	Twelve Months Ending December 31, 2016	**Three Months Ending March 31, 2017**
	(Dollars in thousands)	
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	393,031	**388,517**
Acquisitions of radio stations	74	—
Acquisitions of FM translators	1,645	**118**
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	**494,204**
Accumulated loss on impairment	(105,541)	**(105,541)**
Balance, end of period after cumulative loss on impairment	$ 388,517	**$ 388,663**

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 Ending December 31, 2016	**Three Months Ending March 31, 2017**
	(Dollars in thousands)	
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	24,563	**25,613**
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	$ 25,613	**$ 25,628**

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 March 31, 2017**
	(Dollars in thousands)	
Land	$ 32,402	**$ 32,405**
Buildings	29,070	**28,865**
Office furnishings and equipment	37,386	**38,471**
Office furnishings and equipment under capital lease obligations	228	**228**
Antennae, towers and transmitting equipment	84,144	**84,279**
Antennae, towers and transmitting equipment under capital lease obligations	795	**795**
Studio, production and mobile equipment	28,668	**29,917**
Computer software and website development costs	20,042	**21,359**
Record and tape libraries	27	**27**
Automobiles	1,373	**1,375**
Leasehold improvements	14,696	**18,419**
Construction-in-progress	9,983	**5,333**
	$ 258,814	**$ 261,473**
Less accumulated depreciation	(156,024)	**(158,915)**
	$ 102,790	**$ 102,558**

Depreciation expense was approximately $3.0 million, for each of the three month periods ending March 31, 2017 and 2016, respectively, which includes depreciation of $13,000 for each of the periods on a radio station tower valued at $0.8 million under a capital lease obligation. Accumulated depreciation associated with the capital lease was $530,000 and $517,000 at March 31, 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 March 31, 2017		
	Cost	Accumulated Amortization	**Net**
	(Dollars in thousands)		
Customer lists and contracts	**$ 22,577**	$ (20,240)	**$ 2,337**
Domain and brand names	**19,517**	(13,120)	**6,397**
Favorable and assigned leases	**2,379**	(1,990)	**389**
Subscriber base and lists	**6,481**	(3,996)	**2,485**
Author relationships	**2,771**	(1,954)	**817**
Non-compete agreements	**2,018**	(1,095)	**923**
Other amortizable intangible assets	**1,333**	(1,333)	**—**
	$ 57,076	$ (43,728)	**$ 13,348**

	As of December 31, 2016		
	Cost	Accumulated Amortization	**Net**
	(Dollars in thousands)		
Customer lists and contracts	$ 22,599	$ (20,070)	$ 2,529
Domain and brand names	19,821	(12,970)	6,851
Favorable and assigned leases	2,379	(1,972)	407
Subscriber base and lists	7,972	(5,304)	2,668
Author relationships	2,771	(1,824)	947
Non-compete agreements	2,018	(1,012)	1,006
Other amortizable intangible assets	1,336	(1,336)	—
	$ 58,896	$ (44,488)	$ 14,408

Amortization expense was approximately $1.1 million for each of the three month periods ending March 31, 2017 and 2016. Based on the amortizable intangible assets as of March 31, 2017, we estimate amortization expense for the next five years to be as follows:

Year Ended December 31,	**Amortization Expense**
	(Dollars in thousands)
2017 (April – Dec)	$ 3,227
2018	3,933
2019	3,364
2020	2,072
2021	520
Thereafter	232
Total	$ 13,348

NOTE 11. LONG-TERM DEBT

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

Term Loan B and Revolving Credit Facility

On March 14, 2013, we entered into a senior secured credit facility, consisting of a term loan of $300.0 million (“Term Loan B”) and a revolving credit facility of $25.0 million (“Revolver”). The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. During the three month period ended March 31, 2017 and 2016, approximately $48,000 and $52,000, respectively, of the discount has been recognized as interest expense.

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

We made the following payments or prepayments of the Term Loan B during the year ending December 31, 2016 and the three month period ending March 31, 2017, including interest through the payment date as follows:

Date	Principal Paid	Unamortized Discount
	(Dollars in Thousands)	
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 issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. During the three month period ending March 31, 2017 and 2016, approximately $132,000 and $142,000, respectively of the debt issue costs associated with the Term Loan B were recognized as interest expense.

Debt issue costs associated with the Revolver are recorded as an asset in accordance with ASU 2015-15. These costs are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%. During the three month period ending March 31, 2017 and 2016, we recorded amortization of deferred financing costs of approximately $17,000 and $18,000, respectively.

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

Borrowings under the Term Loan B may be made at LIBOR (subject to a floor of 1.00%) plus a spread of 3.50% or Wells Fargo Bank, National Association’s (“Wells Fargo”) base rate plus a spread of 2.50%. Borrowings under the Revolver may be made at LIBOR or Wells Fargo’s base rate plus a spread determined by reference to our leverage ratio, as set forth in the pricing grid below. If an event of default occurs under the credit agreement, the applicable interest rate may increase by 2.00% per annum. At March 31, 2017, the blended interest rate on amounts outstanding under the Term Loan B and Revolver, including the impact of the interest rate swap agreement, was 4.88%.

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

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

With respect to financial covenants, the credit agreement includes a minimum interest coverage ratio, which started at 1.50 to 1.0 and stepped up to 2.50 to 1.0 and a maximum leverage ratio, which started at 6.75 to 1.0 and stepped down periodically and is now 5.75 to 1.0. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the credit agreement, restrict the ability of Salem and its subsidiary guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; or (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party. As of March 31, 2017, our leverage ratio was 4.98 to 1 compared to our compliance covenant of 5.75 and our interest coverage ratio was 3.58 compared to our compliance ratio of 2.50. We were in compliance with our debt covenants under the credit facility at March 31, 2017.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	December 31, 2016	**March 31, 2017**
	(Dollars in thousands)	
Term Loan B principal amount	$ 263,000	**$ 258,000**
Less unamortized discount and debt issuance costs based on an imputed interest rate of 4.78%	(2,371)	**(2,149)**
Term Loan B net carrying value	260,629	**255,851**
Revolver	477	**1,228**
Capital leases and other loans	568	**535**
	261,674	**257,614**
Less current portion	(590)	**(2,095)**
	$ 261,084	**$ 255,519**

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of March 31, 2017:

- Outstanding borrowings of $258.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%.
- Outstanding borrowings of $1.2 million under the Revolver, with interest payments due at LIBOR plus 2.75% or at prime rate plus 1.75%.
- Commitment fees of 0.375% on any unused portion of the Revolver.
- Quarterly interest payments on $150.0 million notional amount interest rate swap agreement with Wells Fargo based on a LIBOR floor of 0.625% and a fixed rate of 1.645%.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2016 and March 31, 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 March 31, 2017 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended March 31,	**Amount** *(Dollars in thousands)*
2018	$ 2,095
2019	3,101
2020	252,205
2021	110
2022	103
Thereafter	—
	$ 257,614

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 months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2016	**2017**
	(Dollars in thousands)	
Stock option compensation expense included in corporate expenses	$ 121	**$ 71**
Restricted stock shares compensation expense included in corporate expenses	24	**875**
Stock option compensation expense included in broadcast operating expenses	28	**28**
Restricted stock shares compensation expense included in broadcast operating expenses	-	**224**
Stock option compensation expense included in digital media operating expenses	25	**14**
Restricted stock shares compensation expense included in digital media operating expenses	-	**124**
Stock option compensation expense included in publishing operating expenses	1	**9**
Restricted stock shares compensation expense included in publishing operating expenses	-	**36**
Total stock-based compensation expense, pre-tax	$ 199	**$ 1,381**
Tax benefit (expense) for stock-based compensation expense	(80)	**(552)**
Total stock-based compensation expense, net of tax	$ 119	**$ 829**

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 are 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 three month period ending March 31, 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 month period ending March 31, 2016:

	Three Months Ended March 31,	
	2016	2017
Expected volatility	47.03%	—
Expected dividends	5.36%	—
Expected term (in years)	7.5	—
Risk-free interest rate	1.66%	—

Activity with respect to the company's option awards during the three month period ending March 31, 2017 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)				
Outstanding at January 1, 2017	1,720,000	$ 5.12	$ 2.89	4.5 years	$ 2,428
Granted	—	—	—		
Exercised	(12,250)	4.75	2.96		
Forfeited or expired	(117,250)	5.89	3.06		
Outstanding at March 31, 2017	**1,590,500**	**$ 5.07**	**$ 2.87**	**4.3 years**	**$ 3,809**
Exercisable at March 31, 2017	**1,083,497**	**$ 5.40**	**$ 3.54**	**3.4 years**	**$ 2,234**
Expected to Vest	**481,399**	**$ 5.07**	**$ 2.89**	**4.3 years**	**$ 1,528**

The aggregate intrinsic value represents the difference between the company's closing stock price on March 31, 2017 of $7.45 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 three month period ending March 31, 2017 and 2016 was $0.9 million and $1.1 million, respectively.

During the three month period ending March 31, 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 contain transfer restrictions under which they cannot be sold, pledged, transferred or assigned until three months from vesting date. Recipients of these restricted stock awards are 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 three month period ending March 31, 2017 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)			
Outstanding at January 1, 2017	—	$ —	—	$ —
Granted	**178,592**	**7.05**	**0.2 years**	**1,331**
Lapsed	—	—	—	—
Forfeited	—	—	—	—
Outstanding at March 31, 2017	**178,592**	$ 7.05	**0.2 years**	**$ 1,331**

As of March 31, 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 1.9 years.

NOTE 13. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, "*Compensation-Stock Compensation*." As a result, $1.4 million and $0.2 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three months ending March 31, 2017 and 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 with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations included with this quarterly report on Form 10-Q.

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

Announcement Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)
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 months ending March 31, 2017, are included in the weighted average number of common shares used to compute basic earnings per share because these restricted stock awards contain 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 1,590,500 and 2,061,996 shares of Class A common stock were outstanding at March 31, 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 March 31, 2017 and 2016 there were 389,125 and 317,724 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%. The swap expires on March 28, 2019 at a fixed rate of 1.645%. The interest rate swap agreement was not designated as a cash flow hedge, and as a result, all changes in the fair value are recognized in the current period statement of operations rather than through other comprehensive income. We recorded a long-term liability of $0.2 million as of March 31, 2017, representing the fair value of the interest rate swap agreement. The swap was valued based on observable inputs for similar assets and liabilities and other observable inputs for interest rates and yield curves, which are classified within Level 2 inputs in the fair value hierarchy described below and in Note 16.

	As of December 31, 2016	As of March 31, 2017
	(Dollars in thousands)	
Fair value of interest rate swap	$ 514	$ 157

NOTE 16. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820 "*Fair Value Measurements and Disclosures,*" established a hierarchal 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 March 31, 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:

	March 31, 2017			
		Fair Value Measurement Category		
	Total Fair Value and Carrying Value on Balance Sheet	Level 1	Level 2	Level 3
	(Dollars in thousands)			
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	60	—	—	60
Long-term debt and capital lease obligations less unamortized discount and debt issuance costs	257,614	—	257,614	—
Fair value of interest rate swap	157	—	157	—

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 March 31, 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 2012 through 2015.

The amortization of our indefinite-lived intangible assets for tax purposes but not for book purposes creates deferred tax liabilities. A reversal of deferred tax liabilities may occur when indefinite-lived intangibles: (1) become impaired; or (2) are sold, which would typically only occur in connection with the sale of the assets of a station or groups of stations or the entire company in a taxable transaction. Due to the amortization for tax purposes and not book purposes of our indefinite-lived intangible assets, we expect to continue to generate deferred tax liabilities in future periods exclusive of any impairment losses in future periods. These deferred tax liabilities and net operating loss carryforwards result in differences between our provision for income tax and cash paid for taxes.

Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of $4.5 million as of March 31, 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.

During the third quarter of 2016, we reclassed 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 howour 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 March 31, 2017 and 2016 based on the newcomposition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Three Months Ended March 31, 2017					
Net revenue	$ 47,804	$ 10,686	$ 6,490	$ —	$ 64,980
Operating expenses	35,836	8,702	6,351	5,125	56,014
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	$ 11,968	$ 1,984	$ 139	$ (5,125)	$ 8,966
Depreciation	1,819	777	194	190	2,980
Amortization	17	818	307	—	1,142
Change in the estimated fair value of contingent earn-out consideration	—	1	—	—	1
Impairment of indefinite-lived long-term assets other than goodwill	—	—	19	—	19
(Gain) loss on disposal of assets	(2)	—	7	—	5
Net operating income (loss)	$ 10,134	$ 388	$ (388)	$ (5,315)	$ 4,819
Three Months Ended March 31, 2016					
Net revenue	$ 48,745	$ 11,010	$ 4,820	$ —	$ 64,575
Operating expenses	36,150	9,024	4,948	4,213	54,335
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and (gain) loss on disposal of assets	$ 12,595	$ 1,986	$ (128)	$ (4,213)	$ 10,240
Depreciation	1,862	767	150	212	2,992
Amortization	23	1,049	72	—	1,143
Change in the estimated fair value of contingent earn-out consideration	—	(70)	(58)	—	(128)
(Gain) loss on disposal of assets	179	(14)	(18)	3	150
Net operating income (loss)	$ 10,531	$ 254	$ (274)	$ (4,428)	$ 6,083

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
As of March 31, 2017					
Inventories, net	$ —	$ 329	$ 512	$ —	$ 841
Property and equipment, net	86,350	6,595	1,537	8,076	102,558
Broadcast licenses	388,663	—	—	—	388,663
Goodwill	3,581	20,151	1,888	8	25,628
Other indefinite-lived intangible assets	—	—	313	—	313
Amortizable intangible assets, net	389	9,192	3,761	6	13,348
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

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 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 alsoqualify as reportable segments. Our operating segments reflect howour 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 reclassed 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; and
- publishing fees from authors.

Broadcasting

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network® ("SRN"), SRN News Network ("SNN"), Today's Christian Music ("TCM"), Singing News Network (formerly Solid Gospel Network), and Salem Media Representatives™ ("SMR"). SRN, SNN, 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. In each of the three month period ending March 31, 2017, and 2016, 97% of our broadcast revenue was sold for cash.

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

Digital Media

Web-based and digital content has been a growth area for Salem and continues to be a focus of future development. Our digital media-based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Salem Web Network™ ("SWN") websites include Christian content websites: OnePlace.com, Christianity.com, Crosswalk.com®, GodVine.com, 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 numerous Christian and conservative opinion print magazines including *Singing News*®. After the May 2017 issue is distributed, *Preaching Magazine*™, *YouthWorker Journal*™, *FaithTalk Magazine*™ and *Homecoming® The Magazine* will no longer be published. 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 has been impacted by elections as they generate higher levels of interest and demand for publications containing conservative and political based opinions.

The primary operating expenses incurred by our Publishing businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses, (iv) printing and production costs, including paper costs, (v) cost of goods sold, (vi) fulfillment costs, (vii) author royalties, and (viii) 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 14.1% and 19.1%, respectively, of our net broadcast advertising revenue for the three month period ending March 31, 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.

RESULTS OF OPERATIONS

Three months ended March 31, 2017 compared to the three months ended March 31, 2016

The following factors affected our results of operations and cash flows for the three months ended March 31, 2017 as compared to the same period of the prior year:

Financing

- 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 bank loan fees 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 bank loan fees associated with the principal repayment.

Acquisitions

- 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

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Net Broadcast Revenue	$ 48,745	$ 47,804	$ (941)	(1.9)%	75.5%	73.6%
Same Station Net Broadcast Revenue	$ 48,311	$ 47,559	$ (752)	(1.6)%		

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

	Three Months Ended March 31,			
	2016		2017	
	(Dollars in thousands)			
Block program time:				
National	$ 12,082	24.8%	$ 12,255	25.6%
Local	9,118	18.7%	8,826	18.5%
	21,200	43.5%	21,081	44.1%
Broadcast Advertising:				
National	3,450	7.1%	3,293	6.9%
Local	15,321	31.4%	14,207	29.7%
	18,771	38.5%	17,500	36.6%
Station Digital	1,608	3.3%	1,623	3.5%
Infomercials	623	1.3%	596	1.2%
Network	4,262	8.7%	4,349	9.1%
Other Revenue	2,281	4.7%	2,655	5.5%
Net Broadcast Revenue	$ 48,745	100.0%	$ 47,804	100.0%

The net decline in block programming revenue of $0.1 million reflects the impact of the LMA for our Louisville market that generated revenue of $0.3 million in the prior year offset by a $0.2 million increase in the number of national programmers, particularly on our News Talk stations.

Advertising revenue, net of agency commissions, decreased by $1.3 million including a $0.7 million decline in political advertising due to the timing of the election cycle, $0.4 million decline in advertising on our CCM stations, particularly in our Dallas market due to higher competition for advertising sales from agencies and what we believe to be a shift in advertisers toward a younger demographic, and a $0.3 million decrease on our Christian Teaching and Talk stations due to decreases in demand from our local advertisers. We have undertaken efforts to retool our music, image and promotions to capture more of the younger audience demographic on our CCM stations.

Digital revenue generated from our radio station websites increased slightly, which reflects an increase in the volume of sales. Rates charged were consistent with those during the same period of the prior year.

Declines in infomercial revenue were not significant. We continue efforts to feature programming that is tailored to our listeners and consistent with our company values. While we continue to seek alternatives to infomercial programs that we believe are not of interest to our listeners, we may continue to place programs that are categorized as infomercials.

Network revenue increased by $0.1 million, including a $0.4 million increase in advertising sales due to increased exposure from our presence in the 2016 presidential debates and $0.2 million in revenue generated from a revenue share agreement that was offset by a $0.3 million decline in political advertising.

Other revenues increased $0.4 million due to a $0.2 million increase in listener purchase program revenue due to a higher demand from our audience with respect to participation in sales incentives and discount programs and a $0.2 million increase in event revenue due to higher ticket sales and attendance at local events, including concerts and speaking events.

On a Same Station basis, net broadcast revenue increased $0.8 million, which reflects these items net of the impact of stations with acquisitions and format changes.

Net Digital Media Revenue

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Net Digital Media Revenue	$ 11,010	$ 10,686	$ (324)	(2.9)%	17.0%	16.4%

	Three Months Ended March 31,			
	2016		2017	
	(Dollars in thousands)			
Digital Advertising, Net	$ 6,115	55.5%	$ 6,199	58.0%
Digital Streaming	1,120	10.2	1,142	10.7
Digital Subscriptions	1,067	9.7	1,226	11.5
Digital Downloads	2,079	18.9	1,590	14.9
e-commerce	567	5.1	485	4.5
Other Revenue	62	0.6	44	0.4
Net Digital Media Revenue	$ 11,010	100.0%	$ 10,686	100.0%

On a consolidated basis, digital advertising revenue, net of agency commissions, increased $0.1 million. Salem Web Network generated a $0.2 million increase in net digital advertising revenue that was offset by a $0.1 million decline in political revenue. The increase in revenue from Salem Web Network was attributable to growth in page views including growth in page views generated from the use of mobile applications.

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

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

Digital subscription revenue increased by $0.2 million due to higher distribution levels from the acquisitions of Retirement Watch and Turner Investment Products in 2016. There were no changes in subscriber rates during this period.

Digital download revenue decreased $0.5 million due to a lower volume of downloads generated as compared to the prior year. Of this decrease, $0.4 million was attributable to WorshipHouseMedia.com and $0.1 million was attributable to SermonSpice.com, both of which were impacted by 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 includes sales of wellness products through Eagle Wellness, which is an online e-commerce site offering complimentary health advice and sales of nutritional products. Wellness product sales declined by $0.1 million due to a 15.8% reduction in the number of products sold with no change in retail prices. However, based on the composite mix of products sold, there was a 0.7% reduction in the average unit price per unit.

Net Publishing Revenue

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Net Publishing Revenue	$ 4,820	$ 6,490	$ 1,670	34.6%	7.5%	10.0%

	Three Months Ended March 31,			
	2016		2017	
	(Dollars in thousands)			
Book Sales	$ 2,695	55.9%	$ 4,692	72.3%
Estimated Sales Returns & Allowances	(695)	(14.4)	(1,258)	(19.4)
E-Book Sales	407	8.5	426	6.6
Self-Publishing Fees	1,433	29.7	1,534	23.6
Print Magazine Subscriptions	337	7.0	299	4.6
Print Magazine Advertisements	345	7.1	344	5.3
Other Revenue	298	6.2	453	7.0
Net Publishing Revenue	$ 4,820	100.0%	$ 6,490	100.01%

On a consolidated basis, sales of print books increased by $2.0 million comprised of a $1.3 million increase in sales of Regnery Publishing printed books and a $0.7 million increase in book sales through Salem Author Services, our self-publishing operations of Xulon Press and Mill City Press. The $0.7 million increase in book sales generated from Salem Author Services included a $0.5 million increase from Mill City Press, which we acquired on August 1, 2016, and a $0.2 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 $0.6 million increase in estimated sales returns and allowances was due to the increase in Regnery Publishing print books sales.

Regnery Publishing e-book sales were consistent with that of the prior year in both sales volume and fee rates. 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.

Net self-publishing fees increased $0.1 million which included a $0.3 million increase in volume due to the acquisition of Mill City Press that was offset by a decline of $0.2 million due to sales volume generated from Xulon 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.

Print magazine revenue continues to decline with a reduction in the number of subscribers and a corresponding decline in advertising revenues based on reduced demand and reduced rates due to lower distribution levels. We continue to explore cost reductions in this segment to offset the eroding revenue base including the decision to cease publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon delivery of the May 2017 print publications.

Broadcast Operating Expenses

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Broadcast Operating Expenses	$ 36,150	$ 35,836	$ (314)	(0.9)%	56.0%	55.1%
Same Station Broadcast Operating Expenses	$ 35,705	$ 35,430	$ (275)	(0.8)%		

Broadcast operating expenses decreased $0.3 million including a $0.4 million decrease in sales-based commissions and incentives consistent with lower revenues and the $0.7 million favorable impact of a litigation matter that was offset by a $0.3 million increase in benefit costs due to a higher volume of claims under our health insurance plan, a $0.2 million increase in bad debt expense, a $0.2 million increase in non-cash stock-based compensation expense and a $0.2 million increase in payroll related costs associated with annual rate increases.

On a same-station basis, broadcast operating expenses decreased by $0.3 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.

Digital Media Operating Expenses

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Digital Media Operating Expenses	$ 9,024	$ 8,702	$ (322)	(3.6)%	14.0%	13.4%

The $0.3 million decrease in digital media operating expenses includes a $0.3 million decrease in royalties, a $0.2 million decrease in commissions and bonuses and a $0.1 million decrease in advertising and promotional costs that were offset with a $0.1 million increase in payroll related costs across all business from higher staffing levels, a $0.1 million increase in non-cash stock-based compensation expense associated with restricted stock granted to management, a $0.1 million increase in employee benefit costs due to an increase in the volume of claims under our health insurance plan and a $0.1 million increase in rent.

Publishing Operating Expenses

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Publishing Operating Expenses	$ 4,948	$ 6,351	$ 1,403	28.4%	7.7%	9.8%

Publishing operating expenses reflect a $0.5 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 increased to 84% for the three months ended March 31, 2017 as compared to 72% for the same period of the prior year. Cost of goods sold associated with book sales from Regnery Publishing increased $0.5 million due to an increase in the number of print books sold. The gross profit margin for Regnery Publishing was 41% for the three months ended March 31, 2017 as compared to 38% 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.

Mill City Press was acquired on August 1, 2016, and generated approximately $0.7 million of operating expenses during the three months ending March 31, 2017. In addition, there was a $0.1 million increase in rent expense under a new lease agreement, a $0.1 million increase in advertising and promotional expenses, a $0.1 million increase in payroll related expenses and a $0.1 million increase in employee benefit costs.

Unallocated Corporate Expenses

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Unallocated Corporate Expenses	$ 4,213	$ 5,125	$ 912	21.6%	6.5%	7.9%

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 $0.9 million includes a $0.8 million non-cash stock-based compensation charge associated with a restricted stock award, a $0.1 million increase in net payroll related costs due to increased employee headcount and annual rate increases, a $0.1 million increase in employee benefit costs due to an increase in volume of claims under our health insurance plan and life insurance costs, offset by a $0.1 million decrease in professional fees associated with legal and accounting services.

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

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% 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 March 31, 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 recorded an impairment charge of $19,000 associated with mastheads.

Depreciation Expense

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Depreciation Expense	$ 2,992	$ 2,980	$ (12)	(0.4)%	4.6%	4.6%

Depreciation expense was consistent with that of the prior year. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Amortization Expense	$ 1,143	$ 1,142	$ (1)	(0.1)%	1.8%	1.8%

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 March 31, 2017, compared to generating amortization expense of $0.4 million during the prior year that were offset with the $0.4 million amortization of intangible assets acquired related to 2016 acquisitions of King James Bible in March 2016, Cycle Prophet in September 2016 and Mill City Press in September 2016.

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

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Change in the estimated fair value of contingent earn-out consideration	$ (128)	$ 1	$ 129	(100.8)%	(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 ending March 31, 2017, we increased the estimated fair value of our contingent earn-out liabilities by $1,000 compared to a net decrease of $128,000 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.

Loss on the Sale or Disposal of Assets

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Loss on the sale or disposal of assets	$ 150	$ 5	$ (145)	(96.7)%	0.2%	—%

The net loss on the sale or disposal of assets for the three month period ending March 31, 2017 and for the same period of the prior year, represents various fixed asset disposals, with no single transaction that was significant.

Other Income (Expense)

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Interest income	$ 1	$ 1	$ —	—%	—%	—%
Interest expense	(3,796)	(3,430)	366	(9.6)%	(5.9)%	(5.3)%
Change in the fair value of interest rate swap	(1,758)	357	2,115	(120.3)%	(2.7)%	(0.5)%
Loss on early retirement of long-term debt	(9)	(41)	(32)	355.6%	—%	(0.1)%

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

Interest expense includes interest due on outstanding debt balances, interest due on our swap agreement and non-cash interest accretion related to deferred payments related to our acquisition activity and from our contingent earn-out consideration. The $0.4 million decline in interest expense is due to a lower principal balance outstanding on the Term Loan B and a lower average outstanding balance on the Revolver.

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

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

Provision for Income Taxes

	Three Months Ended March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Provision for income taxes	$ 168	$ 646	$ 478	284.5%	0.3%	1.0%

In accordance with FASB ASC Topic 740, "*Income Taxes*," our tax provision for income taxes increased to $0.6 million for the three months ending March 31, 2017 compared to $0.2 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 37.8% for the three months ended March 31, 2017 compared to 32.2% 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 March 31,					
	2016	2017	Change $	Change %	2016	2017
	(Dollars in thousands)				% of Total Net Revenue	
Net Income	$ 353	$ 1,060	$ 707	200.3%	0.5%	1.6%

We recognized net income of $1.1 million for the three month period ending March 31, 2017 compared to $0.4 million in the same period of the prior year. During this period, our net operating income decreased by $1.3 million due to a $1.7 million increase in net operating expenses that was offset by a $0.4 million increase in net revenues. We also recognized a $2.2 million benefit based on the change in the fair value of our interest rate swap agreement and a $0.4 million decrease in interest expense.

NON-GAAP FINANCIAL MEASURES

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

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

Item 10(e) of Regulation S-K defines and prescribes the conditions under which certain non-GAAP financial information may be presented in this report. We closely monitor EBITDA, Adjusted EBITDA, Station Operating Income ("SOI"), Same Station net broadcast revenue, Same Station broadcast operating expenses, Same Station Operating Income, Digital Media Operating Income, and Publishing Operating Income (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 measures to SOI), because it is generally recognized by the radio broadcasting industry as a tool in measuring performance and in applying valuation methodologies for companies in the media, entertainment and communications industries. SOI is commonly used by investors and analysts who report on the industry to provide comparisons between broadcasting groups. We use SOI as one of the key measures of operating efficiency and profitability, including our internal reviews associated with impairment analysis of our indefinite-lived intangible assets. SOI does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash activity in accordance with GAAP and our income statement presents our financial performance prepared in accordance with GAAP. Our definition of SOI is not necessarily comparable to similarly titled measures reported by other companies.

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

We apply a similar methodology to our digital media and publishing group. Digital Media Operating Income is defined as net digital media revenue less digital media operating expenses. Publishing Operating Income (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 gains or losses on the sale or disposal of assets, before changes in the estimated fair value of contingent earn-out consideration, before gains on bargain purchases, before the change in fair value of interest rate swaps, before impairments, before net miscellaneous income and expenses, before loss on early retirement of debt, before (gain) loss from discontinued operations and before non-cash compensation expense. EBITDA and Adjusted EBITDA are commonly used by the broadcast and media industry as important measures of performance and are used by investors and analysts who report on the industry to provide meaningful comparisons between broadcasters. EBITDA and Adjusted EBITDA are not measures of liquidity or of performance in accordance with GAAP and should be viewed as a supplement to and not a substitute for or superior to our results of operations and financial condition presented in accordance with GAAP. Our definitions of EBITDA and Adjusted EBITDA are not necessarily comparable to similarly titled measures reported by other companies.

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

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

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES:

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

	Three Months Ended March 31,	
	2016	2017
	(Dollars in thousands)	
Reconciliation of Net Broadcast Revenue to Same Station Net Broadcast Revenue		
Net broadcast revenue	$ 48,745	$ 47,804
Net broadcast revenue – acquisitions	—	(160)
Net broadcast revenue – dispositions	(402)	(42)
Net broadcast revenue – format change	(32)	(43)
Net broadcast revenue – Same Station	$ 48,311	$ 47,559
Reconciliation of Broadcast Operating Expenses To Same Station Broadcast Operating Expenses		
Broadcast operating expenses	$ 36,150	$ 35,836
Broadcast operating expenses – acquisitions	—	(275)
Broadcast operating expenses – dispositions	(400)	(78)
Broadcast operating expenses – format change	(45)	(53)
Broadcast operating expenses – Same Station	$ 35,705	$ 35,430
Reconciliation of Operating Income to Same Station Operating Income		
Station Operating Income	$ 12,595	$ 11,968
Station operating income – acquisitions	—	115
Station operating income (loss) – dispositions	(2)	36
Station operating income – format change	13	10
Station Operating Income – Same Station	$ 12,606	$ 12,129

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 March 31, 2016	Three Months Ended March 31, 2017
	(Dollars in thousands)	
Calculation of Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)		
Net broadcast revenue	$ 48,745	$ 47,804
Less broadcast operating expenses	(36,150)	(35,836)
Station Operating Income	$ 12,595	$ 11,968
Net digital media revenue	$ 11,010	$ 10,686
Less digital media operating expenses	(9,024)	(8,702)
Digital Media Operating Income	$ 1,986	$ 1,984
Net publishing revenue	$ 4,820	$ 6,490
Less publishing operating expenses	(4,948)	(6,351)
Publishing Operating Income (Loss)	$ (128)	$ 139

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 March 31, 2016	Three Months Ended March 31, 2017
	(Dollars in thousands)	
Reconciliation of Net Income to Operating Income and Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)		
Net income	$ 353	$ 1,060
Plus provision for income taxes	168	646
Plus net miscellaneous income and (expenses)	—	—
Plus loss on early retirement of long-term debt	9	41
Plus change in fair value of interest rate swap	1,758	(357)
Plus interest expense, net of capitalized interest	3,796	3,430
Less interest income	(1)	(1)
Net operating income	$ 6,083	$ 4,819
Plus gain (loss) on the sale or disposal of assets	150	5
Plus change in the estimated fair value of contingent earn-out consideration	(128)	1
Plus impairment of indefinite-lived long-term assets other than goodwill	—	19
Plus depreciation and amortization	4,135	4,122
Plus unallocated corporate expenses	4,213	5,125
Combined Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)	$ 14,453	$ 14,091
Station Operating Income	$ 12,595	$ 11,968
Digital Media Operating Income	1,986	1,984
Publishing Operating Income (Loss)	(128)	139
	$ 14,453	$ 14,091

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 March 31,	
	2016	2017
	(Dollars in thousands)	
Reconciliation of Adjusted EBITDA to EBITDA to Net Income		
Net income	$ 353	$ 1,060
Plus interest expense, net of capitalized interest	3,796	3,430
Plus provision for income taxes	168	646
Plus depreciation and amortization	4,135	4,122
Less interest income	(1)	(1)
EBITDA	$ 8,451	$ 9,257
Plus gain (loss) on the sale or disposal of assets	150	5
Plus change in the estimated fair value of contingent earn-out consideration	(128)	1
Plus impairment of indefinite-lived long-term assets other than goodwill	—	19
Plus changes the fair value of interest rate swap	1,758	(357)
Plus net miscellaneous income and expenses	—	—
Plus loss on early retirement of long-term debt	9	41
Plus non-cash stock-based compensation	199	1,381
Adjusted EBITDA	$ 10,439	$ 10,347

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 March 31, 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.

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

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

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 increase to our estimated contingent earn-out liabilities of $1,000 for the three months ending March 31, 2017 and net decrease of $128,000 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 maters, 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 month period ending March 31, 2017 and 2016 was approximately $1.3 million and $1.0 million, respectively. Barter expenses included in broadcast operating expense for the three month period ending March 31, 2017 and 2016 was approximately $1.2 million and $1.0 million, respectively. Barter advertising revenue included in digital media revenue for the three month period ending March 31, 2017 and 2016 was approximately $25,000 and $2,300, respectively. Barter expenses included in digital media operating expense for the three month period ending March 31, 2017 and 2016 was approximately $0.1 million and $6,700, 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 $0.7 million and $0.8 million at March 31, 2017 and December 31, 2016, respectively. 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 March 31, 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 three month period ending March 31, 2017, we did not recognize liabilities associated with uncertain tax positions. Accordingly, we have no liabilities for uncertain tax positions recorded at March 31, 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 was unchanged at $0.1 million as of March 31, 2017 and December 31, 2016. Working capital decreased $12.8 million to $3.6 million at March 31, 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 $3.3 million decrease in net trade accounts receivable and a $1.5 million increase in the current portion of long-term debt offset by a $1.2 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 three month period ending March 31, 2017 decreased by $2.1 million to $9.0 million compared to $11.1 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 increased to $1.1 million compared to $0.4 million for the same period of the prior year;
- Net accounts receivable decreased $3.3 million;
- Our Day's Sales Outstanding, or the average number of days to collect cash from the date of sale, increased to 62 days at March 31, 2017 compared to 60 days for the same period of the prior year;
- Net accounts payable and accrued expenses decreased $2.7 million to $17.9 million for the three month period ending March 31, 2017 compared to a decrease of $1.0 million to $15.4 million for the same period of the prior year; and
- Net inventories on hand increased $0.2 million to $0.8 million at March 31, 2017 compared to remaining constant at March 31, 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.

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

- We have the option to acquire radio station KHTE-FM, Little Rock, Arkansas, for $1.2 million in cash during our 36-month TBA that is extendable to 48 months. The TBA began on April 1, 2015, at which time we began programming the station. The accompanying 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.

- We entered into agreements to acquire FM translators or FM translator construction permits during the applicable windows of the FCC AM Revitalization program, or "AMR." that included several initiatives intended to benefit AM broadcasters. We believe that securing these FM translators allows us to increase our listening audience by providing enhanced coverage and reach of our existing AM broadcasts. As of March 31, 2017, we have $16,000 of cash deposited into escrow accounts associated with APA's for these FM translator and FM translator construction permits as follows:

Date APA Entered	Permit or ID	Authorized Site - Current	Purchase Price	Escrow Deposits	Date Closed	Market
			(Dollars in thousands)			
7/25/2016	K283CA	Festus, Missouri *	40	8	-	St. Louis, Missouri
7/26/2016	K276FZ	Eaglemount, Washington *	40	8	-	Portland, Oregon
* Indicates that the purchase is for an FM translator construction permit.						

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses, expand our digital and web-based offerings, improve our facilities and upgrade our computer infrastructures. The nature and timing of these upgrades and expenditures can be delayed or scaled back at the discretion of management. Based on our current plans, we expect to incur capital expenditures of approximately $8.8 million during 2017.

Net cash used in investing activities during the three month period ending March 31, 2017 decreased $2.6 million to $3.1 million compared to $5.7 million during the same period of the prior year. The increase in cash used for investing activities includes:

- Cash paid for acquisitions decreased $2.4 million to $0.3 million compared to $2.7 million during the same period of the prior year;
- Cash paid for capital expenditures increased $0.2 million to $2.6 million compared to $2.4 million during the same period of the prior year; and
- Capital expenditures for leasehold improvements that are reimbursable as tenant improvement allowances decreased $0.1 million to $0.1 million compared to $0.2 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 three month period ending March 31, 2017, we paid $9,000 in cash for contingent earn-out consideration due under acquisition agreements and $0.2 million in cash for the deferred installments.

During the three month period ending March 31, 2017, the principal balances outstanding under our credit facilities ranged from $258.0 million to $263.5 million. These outstanding balances were ordinary and customary based on our operating and investing cash needs during this time.

Based on the number of shares of Class A and Class B common stock currently outstanding we expect to pay total annual equity distributions of approximately $6.8 million in 2017. However, the actual declaration of dividends and equity distributions, as well as the establishment of per share amounts, dates of record, and payment dates are subject to final determination by our Board of Directors and depend upon future earnings, cash flows, financial and legal requirements, and other factors. The current policy of the Board of Directors is to review each of these factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations included in this quarterly report on Form 10-Q.

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

Net cash used in financing activities during the three month period ending March 31, 2017 increased by $0.6 million to $6.0 million from $5.4 million during the same period of the prior year. The increase in cash used for financing activities includes:

- We repaid $5.0 million of principal outstanding on the Term Loan B compared to $1.6 million of principal during the same period of the prior year;
- We paid $0.2 million of cash against deferred installments due under our purchase agreements during the three month period ending March 31, 2017 compared to $2.5 million during the same period of the prior year;
- The impact of our book overdraft of a $0.2 million source as of the period ending March 31, 2017 compared to a $1.0 million use for the same period of the prior year;
- We paid $9,000 of cash due for amounts earned under the contingent earn-out provision of our purchase agreements during the three month period ending March 31, 2017 compared to $0.1 million during the same period of the prior year; and
- We paid cash equity distributions of $1.7 million on our Class A and Class B common stock compared to the prior period when our equity distribution cash funding was made after the period end.

Term Loan B and Revolving Credit Facility

On March 14, 2013, we entered into a senior secured credit facility, consisting of a term loan of $300.0 million (“Term Loan B”) and a revolving credit facility of $25.0 million (“Revolver”). The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. During the three month period ended March 31, 2017 and 2016, approximately $48,000 and $52,000, respectively, of the discount has been recognized as interest expense.

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

We made the following payments or prepayments of the Term Loan B during the year ending December 31, 2016 and the three month period ending March 31, 2017, including interest through the payment date as follows:

Date	Principal Paid	Unamortized Discount
	(Dollars in Thousands)	
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 issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For the three month period ending March 31, 2017 and 2016, approximately $132,000 and $142,000, of the debt issue costs associated with the Term Loan B were recognized as interest expense.

Debt issue costs associated with the Revolver are recorded as an asset in accordance with ASU 2015-15. These costs are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%. For the three month period ending March 31, 2017 and 2016, we recorded amortization of deferred financing costs of approximately $17,000 and $18,000.

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

Borrowings under the Term Loan B may be made at LIBOR (subject to a floor of 1.00%) plus a spread of 3.50% or Wells Fargo Bank, National Association’s (“Wells Fargo”) base rate plus a spread of 2.50%. Borrowings under the Revolver may be made at LIBOR or Wells Fargo’s base rate plus a spread determined by reference to our leverage ratio, as set forth in the pricing grid below. If an event of default occurs under the credit agreement, the applicable interest rate may increase by 2.00% per annum. At March 31, 2017, the blended interest rate on amounts outstanding under the Term Loan B and Revolver including the impact of the interest rate swap agreement was 4.88%.

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

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

With respect to financial covenants, the credit agreement includes a minimum interest coverage ratio, which started at 1.50 to 1.0 and stepped up to 2.50 to 1.0 and a maximum leverage ratio, which started at 6.75 to 1.0 and stepped down periodically and is now 5.75 to 1.0. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the credit agreement, restrict the ability of Salem and its subsidiary guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; or (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party. As of March 31, 2017, our leverage ratio was 4.98 to 1 compared to our compliance covenant of 5.75 and our interest coverage ratio was 3.58 compared to our compliance ratio of 2.50. We were in compliance with our debt covenants under the credit facility at March 31, 2017.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2016	As of March 31, 2017
	(Dollars in thousands)	
Term Loan B principal amount	$ 263,000	$ 258,000
Less unamortized discount and debt issuance costs based on an imputed interest rate of 4.78%	(2,371)	(2,149)
Term Loan B net carrying value	260,629	255,851
Revolver	477	1,228
Capital leases and other loans	568	535
	261,674	257,614
Less current portion	(590)	(2,095)
	$ 261,084	$ 255,519

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of March 31, 2017:

- Outstanding borrowings of $258.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%.
- Outstanding borrowings of $1.2 million under the Revolver, with interest payments due at LIBOR plus 2.75% or at prime rate plus 1.75%.
- Commitment fees of 0.375% on any unused portion of the Revolver.
- Quarterly interest payments on $150.0 million notional amount interest rate swap agreement with Wells Fargo based on a LIBOR floor of 0.625% and a fixed rate of 1.645%.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2016 and March 31, 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 March 31, 2017 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended March 31,	Amount (Dollars in thousands)
2018	$ 2,095
2019	3,101
2020	252,205
2021	110
2022	103
Thereafter	—
	$ 257,614

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 months ending March 31, 2017 that did not meet management's expectations, we decided to cease 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 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 do not violate the covenants on the 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 March 31, 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 use derivative instruments only for the purpose of managing risk associated with an asset, liability, committed transaction, or probable forecasted transaction that is identified by management. Our use of derivative instruments may result in short-term gains or losses that may increase the volatility of our earnings.

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

On March 27, 2013, we entered into an interest rate swap agreement with Wells Fargo Bank, N.A. that began on March 28, 2014 with a notional principal amount of $150.0 million. The agreement was entered to offset risks associated with the variable interest rate on the Term Loan B. Payments on the swap are due on a quarterly basis with a LIBOR floor of 0.625%. The swap expires on March 28, 2019 at a fixed rate of 1.645%. The interest rate swap agreement was not designated as a cash flow hedge, and as a result, all changes in the fair value are recognized in the current period statement of operations rather than through other comprehensive income. We recorded a long-term liability of $0.2 million as of March 31, 2017, representing the fair value of the interest rate swap agreement. The swap was valued based on observable inputs for similar assets and liabilities and other observable inputs for interest rates and yield curves, which are classified within Level 2 inputs in the fair value hierarchy described below and in Note 16.

	As of December 31, 2016	As of March 31, 2017
	(Dollars in thousands)	
Fair value of interest rate swap liability	$ 514	$ 157

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.

Changes In Internal Control Over Financial Reporting. As disclosed in our Form 10-Q for the period ended September 30, 2016 and Form 10-K for the year ended December 31, 2016, management concluded that a control deficiency with respect to the precision of the review of the calculation of our valuation allowance for certain deferred tax assets constituted a material weakness in internal control over financial reporting and that such material weakness had not been fully remediated and was still present as of December 31, 2016 as the remedial measures undertaken by management had not operated effectively for a sufficient period of time for management to conclude, through testing, that the applicable controls had operated effectively for a sufficient period of time.

Management has since implemented the following remedial measures to improve the precision of the review of the calculation of the provision for income taxes:

1. The Company has hired a Tax Director to prepare the income tax provision.

2. The Company developed a detailed set of checklists to outline and more clearly identify the review procedures that need to be performed specifically by the company's management, including the Tax Director, and by the third party tax expert as part of their independent and combined reviews. The checklists include procedures designed to verify the accuracy and completeness of data, to identify additional areas of potential tax and accounting issues, set minimum thresholds of items to review, assess qualifications and establish minimum review procedures with respect to the calculation of our valuation allowance for certain deferred tax assets that need to be performed.

The combination of hiring a Tax Director and the creation of the checklists utilized in the review have strengthened the Company's documentation process and the overall communication among management, the independent income tax provision preparer, and the independent third party tax specialist assisting with the review, resulting in the improved precision of the review of the calculation with respect to the calculation of our valuation allowance for certain deferred tax assets and an improved evaluation of the tax provision.

Based on our assessment, management concluded that the material weakness related to the precision of the review of the calculation of the provision for income taxes has been remediated as of March 31, 2017, as the implemented remedial controls have been operating effectively for a sufficient period of time.

There has been no further change in our internal control over financial reporting during the quarter ended March 31, 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.

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.

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 (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.

CERTAIN FACTORS AFFECTING SALEM

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

As of March 31, 2017, Edward G. Atsinger III, our Chief Executive Officer, Stuart W. Epperson, our Chairman of the Board, Nancy A. Epperson, the wife of our Chairman of the Board, and Edward C. Atsinger, the son of our Chief Executive Officer, controlled approximately 83.7% in aggregate of the voting power of our capital stock, including all the outstanding shares of our Class B Common Stock, each share of which is entitled to ten votes on matters subject to a stockholder vote. Thus, these four stockholders have the ability to control fundamental corporate transactions requiring stockholder approval, including but not limited to, the election of all of our directors, approval of merger transactions involving Salem and the sale of all or substantially all of Salem’s assets. The interests of any of these controlling stockholders may differ from the interests of our other security holders, including the purchasers of notes in this offering, in a material manner.

RISKS ASSOCIATED WITH BUSINESS OPERATIONS

FACTORS AFFECTING REVENUE AND AUDIENCE GROWTH

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

We derive a substantial part of our revenues from the sale of advertising. For the years ended December 31, 2016, 2015 and 2014, 38.3%, 39.2% and 40.0% of our net broadcast revenues, respectively, and for the three months ended March 31, 2017 and 2016, 36.6% and 38.5% of our net broadcast revenues, respectively, were generated from the sale of broadcast advertising. For the years ended December 31, 2016, 2015 and 2014, 58.4%, 54.7% and 52.9% of net digital media revenues, respectively, and for the three months ended March 31, 2017 and 2016, 58.0% and 55.5% of our net digital media revenues, respectively, were generated from the sale of advertising.

We are particularly dependent on advertising revenue from our Los Angeles and Dallas markets, which generated 15.1% and 20.8%, respectively, of our net broadcast advertising revenue for the year ended December 31, 2016, 14.7% and 24.5%, respectively, of our net broadcast advertising revenue for the year ended December 31, 2015, 14.3% and 24.0%, respectively, for the year ended December 31, 2014 and 14.1% and 19.1%, respectively, of our net broadcast advertising revenue for the three months ended March 31, 2017.

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

As of March 31, 2017, we had deferred tax assets of $79.5 million, net of valuation allowances of $4.5 million. We expect to utilize these deferred tax assets to reduce consolidated income tax liabilities over future periods. However, our ability to fully utilize these benefits is dependent upon levels of future taxable income and related income tax liabilities. Contingent upon our future results of operations, we may be required to record an additional valuation allowance against these deferred tax assets if we believe that we are unable to utilize them, which may have a material adverse effect on our results of operations and financial position.

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

The financial success of each of our radio stations that feature Christian Teaching and Talk programming is significantly dependent upon our ability to generate revenue from the sale of block programming time to national and local religious and educational organizations. Block programming accounted for 42.7% of our net broadcast revenue for the year ended December 31, 2016, 41.9% of our net broadcast revenue for the year ended December 31, 2015, 41.0% of our net broadcast revenue for the year ended December 31, 2014, 44.1% of our net broadcast revenue for the three months ended March 31, 2017 and 43.5% of our net broadcast revenue for the three months ended March 31, 2016. We compete for this program revenue with a number of commercial and non-commercial radio stations. Due to the significant competition for this block programming, we may not be able to maintain or increase our current block programming revenue, in which case, our business, financial condition and results of operations may be materially and adversely affected.

TECHNOLOGICAL ADVANCES

Technologies, software and applications that block our ability to deliver Internet-based advertisements could harm our operating results.

We derive a substantial part of our digital media revenues from the sale of advertising. Technologies, software and applications have been developed, and are likely to continue to be developed, for personal computers and mobile devices that can block or allow users to opt out of display advertising, delete or block cookies used to deliver advertising, or move advertising to less optimal placements to suppress view-ability. As a result, these ad-blocking technologies, software and applications could reduce the number of our advertisements that we are able to deliver, which could result in reductions in our digital media advertising revenue.

ACQUISITIONS AND CAPITAL INVESTMENTS

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

Acquisitions may have a substantial impact on our revenues, costs, cash flows, and financial position. We spent $10.1 million, $17.3 million, $18.7 million and $0.4 million on acquisitions during the years ended December 31, 2016, 2015 and 2014 and the three months ended March 31, 2017, respectively. We expect to make additional acquisitions of radio stations, FM transmitters, digital businesses and publishing businesses. Acquisitions involve risks and uncertainties, including difficulties in integrating acquired operations and in realizing expected opportunities; diversions of management resources and loss of key employees; challenges with respect to operating new businesses; debt incurred in financing such acquisitions; and other unanticipated problems and liabilities. There can be no assurance that we will be able to successfully integrate the operations or management of acquired radio stations and businesses and realize anticipated revenue synergies, or the operations or management of stations and businesses that may be acquired in the future.

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

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

A majority of the purchase price for broadcast stations is allocated to FCC licenses. We may also record goodwill based on our acquisition activity. Approximately 72% of our total assets at March 31, 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 have incurred significant impairment losses in prior years with regard to our indefinite-lived intangible assets.

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

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

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 decided to cease publishing Preaching Magazine™, YouthWorker Journal™, FaithTalk Magazine™ and Homecoming® The Magazine upon delivery of the May 2017 print publications. We have received purchase offers from third parties interested in acquiring rights to continue to publish Preaching Magazine™. 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 tests as of March 31, 2017. Due to reductions in forecasted operating cash flows and indications of interest from potential buyers, we 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 has been fully depreciated.

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

FINANCIAL REPORTING

We previously identified a material weakness in our internal control over financial reporting, which we have remediated. If we fail to maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of the notes could be negatively affected.

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

As disclosed in "Controls and Procedures" under Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, our management concluded that a control deficiency with respect to the precision of the review of the calculation of our valuation allowance for certain deferred tax assets constituted a material weakness in internal control over financial reporting and that such material weakness had not been fully remediated and was still present as of December 31, 2016 as the remedial measures undertaken by our management had not operated effectively for a sufficient period of time for our management to conclude, through testing, that the applicable controls had operated effectively for a sufficient period of time. Due to such material weakness, we received an adverse opinion from our independent registered public accounting firm on our internal control over financial reporting as of December 31, 2016. Our management has since implemented the following remedial measures to improve the precision of the review of the calculation of the provision for income taxes: (1) we have hired a Tax Director to prepare the income tax provision, and (2) we have developed a detailed set of checklists to outline and more clearly identify the review procedures that need to be performed specifically by our management, including the Tax Director, and by the third party tax expert as part of their independent and combined reviews. The checklists include procedures designed to verify the accuracy and completeness of data, to identify additional areas of potential tax and accounting issues, set minimum thresholds of items to review, assess qualifications and establish minimum review procedures that need to be performed.

The combination of hiring a Tax Director and the creation of the checklists utilized in the review have strengthened our documentation process and the overall communication among management, the independent income tax provision preparer, and the independent third party tax specialist assisting with the review, resulting in the improved precision of the review of the calculation and an improved evaluation of the tax provision.

Based on our assessment, management concluded that the material weakness related to the precision of the review of the calculation of the provision for income taxes has been remediated as of March 31, 2017, as the implemented remedial controls have been operating effectively for a sufficient period of time.

While we believe that the material weakness discussed above has been remediated, if we fail to maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of the notes could be negatively affected. Additionally, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

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.

	SALEM MEDIA GROUP, INC.
May 8, 2017	
	By: /s/ EDWARD G. ATSINGER III
	Edward G. Atsinger III Chief Executive Officer (Principal Executive Officer)
May 8, 2017	
	By: /s/ EVAN D. MASYR
	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
10.1	Lease Agreement dated January 25, 2017 between Caron Broadcasting, Inc. 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	01/27/2017	10.1	
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 months ended March 31, 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

EXHIBIT 31.1

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: May 8, 2017

/s/ EDWARD G. ATSINGER III

Edward G. Atsinger III
President and Chief Executive Officer

EXHIBIT 31.2

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: May 8, 2017

/s/ EVAN D. MASYR
Evan D. Masyr
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, in his capacity as 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 March 31, 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: May 8, 2017

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

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, in his capacity as Executive Vice President and Chief Financial Officer of Salem Media Group, Inc. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on his knowledge:

- the Quarterly report of the Company on Form 10-Q for the period ended March 31, 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: May 8, 2017

By: /s/ EVAN D. MASYR
Evan D. Masyr
Executive Vice President and Chief Financial Officer