SALEM MEDIA GROUP, INC. /DE/
Form 10-Q
November 09, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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	**77-0121400**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

4880 SANTA ROSA ROAD	
CAMARILLO, CALIFORNIA	**93012**
(ADDRESS OF PRINCIPAL	(ZIP CODE)
EXECUTIVE OFFICES)	

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 x 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 x No ¨

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

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

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

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock, $0.01 par value per share	Outstanding at November 3, 2016 20,269,730 shares
Class B Common Stock, $0.01 par value per share	Outstanding at November 3, 2016 5,553,696 shares

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CERTAIN DEFINITIONS

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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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, 2015 (Note 1)	September 30, 2016 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98	$ 80
Trade accounts receivable (net of allowances of $13,479 in 2015 and $11,423 in 2016)	36,029	36,444
Other receivables (net of allowances of $371 in 2015 and $262 in 2016)	1,981	1,001
Inventories (net of reserves of $1,855 in 2015 and $2,150 in 2016)	893	746
Prepaid expenses	6,285	7,003
Deferred income taxes	9,813	9,813
Assets held for sale	1,700	1,000
Total current assets	56,799	56,087
Notes receivable (net of allowances of $528 in 2015 and $582 in 2016)	173	96
Property and equipment (net of accumulated depreciation of $162,382 in 2015 and $152,982 in 2016)	105,483	103,322
Broadcast licenses	393,031	394,043
Goodwill	24,563	25,724
Other indefinite-lived intangible assets	833	833
Amortizable intangible assets (net of accumulated amortization of $39,454 in 2015 and $43,127 in 2016)	11,481	15,690
Deferred financing costs	151	99
Other assets	2,500	3,179
Total assets	$ 595,014	$ 599,073
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 5,177	$ 5,821
Accrued expenses	11,301	11,648
Accrued compensation and related expenses	8,297	10,424
Accrued interest	16	44
Current portion of deferred revenue	13,128	10,739
Income taxes payable	73	179
Current portion of long-term debt and capital lease obligations	5,662	2,681
Total current liabilities	43,654	41,536
Long-term debt and capital lease obligations, less unamortized discount and debt issuance costs, net of current portion	269,093	265,368
Fair value of interest rate swap	798	2,124
Deferred income taxes	57,082	62,766
Deferred revenue, less current portion	13,930	14,832
Other long-term liabilities	636	34
Total liabilities	385,193	386,660

Commitments and contingencies (Note 16)		
Stockholders' Equity:		
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 22,246,134 and 22,587,380 issued and 19,928,484 and 20,269,730 outstanding at December 31, 2015 and September 30, 2016, respectively	223	226
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2015 and September 30, 2016, respectively	56	56
Additional paid-in capital	241,780	243,468
Accumulated earnings	1,768	2,669
Treasury stock, at cost (2,317,650 shares at December 31, 2015 and September 30, 2016)	(34,006)	(34,006)
Total stockholders' equity	209,821	212,413
Total liabilities and stockholders' equity	$ 595,014	$ 599,073

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Net broadcast revenue	$49,451	$51,052	$145,609	$149,768
Net digital media revenue	11,128	11,999	32,859	34,056
Net publishing revenue	6,912	8,221	18,172	19,802
Total net revenue	67,491	71,272	196,640	203,626
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including $366 and $412 for the three months ended September 30, 2015 and 2016, respectively, and $1,096 and $1,231 for the nine months ended September 30, 2015 and 2016, respectively, paid to related parties)	35,538	37,434	104,958	109,455
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,630	9,172	26,081	26,815
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,966	8,020	17,932	19,951
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including $0 and $147 for the three months ended September 30, 2015 and 2016, respectively, and $69 and $254 for the nine months ended September 30, 2015 and 2016, respectively, paid to related parties)	3,697	4,147	11,206	11,928
Depreciation	3,136	2,976	9,368	8,950
Amortization	1,330	1,341	3,974	3,673
Change in the estimated fair value of contingent earn-out consideration	(603)	(196)	(792)	(458)
Impairment of long-lived assets	—	—	—	700
(Gain) loss on the sale or disposal of assets	(3)	(457)	156	(2,008)
Total operating expenses	58,691	62,437	172,883	179,006
Operating income	8,800	8,835	23,757	24,620
Other income (expense):				
Interest income	3	1	6	4
Interest expense	(3,900)	(3,726)	(11,578)	(11,252)
Change in the fair value of interest rate swap	(1,510)	856	(2,486)	(1,325)
Loss on early retirement of long-term debt	—	(18)	(41)	(32)
Net miscellaneous income and expenses	1	7	8	7
Income from operations before income taxes	3,394	5,955	9,666	12,022
Provision for income taxes	1,317	3,763	3,771	6,121
Net income	$2,077	$2,192	$5,895	$5,901

Basic earnings per share data:				
Basic earnings per share Class A and Class B common stock	$0.08	$0.08	$0.23	$0.23
Diluted earnings per share data:				
Diluted earnings Class A and Class B common stock	$0.08	$0.08	$0.23	$0.23
Distributions per share Class A and Class B common stock	$0.07	$0.07	$0.20	$0.20
Basic weighted average Class A and Class B shares outstanding	25,459,962	25,815,242	25,411,862	25,617,307
Diluted weighted average Class A and Class B shares outstanding	25,907,651	26,183,182	25,886,087	26,012,930

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2016
OPERATING ACTIVITIES		
Net income	$5,895	$5,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	657	458
Tax benefit related to stock options exercised	114	264
Depreciation and amortization	13,342	12,623
Amortization of debt issuance costs	471	475
Accretion of discount on Term Loan B	140	155
Accretion of acquisition-related deferred payments and contingent consideration	286	55
Provision for bad debts	1,746	688
Deferred income taxes	3,489	5,684
Change in the fair value of interest rate swap	2,486	1,325
Change in the estimated fair value of contingent earn-out consideration	(792)	(458)
Loss on early retirement of long-term debt	41	32
Impairment of long-lived assets	—	700
(Gain) loss on the sale or disposal of assets	156	(2,008)
Changes in operating assets and liabilities:		
Accounts receivable	1,896	3,632
Inventories	(487)	147
Prepaid expenses and other current assets	(2,044)	(718)
Accounts payable and accrued expenses	(1,457)	4,143
Deferred revenue	(801)	(6,695)
Other liabilities	448	—
Income taxes payable	(154)	106
Net cash provided by operating activities	25,432	26,509
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances and non-cash transactions from trade agreements	(6,317)	(7,240)
Capital expenditures reimbursable under tenant improvement allowances and non-cash transactions from trade agreements	(2,735)	(486)
Escrow deposits related to acquisitions	(112)	(228)
Purchases of broadcast assets and radio stations	(8,686)	(718)
Purchases of digital media businesses and assets	(4,329)	(3,153)
Purchases of publishing businesses assets	—	(3,318)
Proceeds from sale of broadcast assets	10	3,147
Other	(429)	(398)

Net cash used in investing activities	(22,598)	(12,394)
FINANCING ACTIVITIES		
Payments under Term Loan B	(2,000)	(5,000)
Proceeds from borrowings under Revolver	44,330	35,601
Payments under Revolver	(40,059)	(37,837)
Payments of acquisition-related contingent earn-out consideration	(1,193)	(99)
Payments of deferred installments on acquisitions	(935)	(3,421)
Proceeds from the exercise of stock options	314	969
Payments of capital lease obligations	(87)	(80)
Payment of cash distributions on common stock	(4,956)	(5,000)
Book overdraft	1,905	734
Net cash used in financing activities	(2,681)	(14,133)
Net increase (decrease) in cash and cash equivalents	153	(18)
Cash and cash equivalents at the beginning of year	33	98
Cash and cash equivalents at end of period	$ 186	$ 80

See accompanying notes

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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	$10,675	$10,644
Cash paid for income taxes	$327	$67
Other supplemental disclosures of cash flow information:		
Barter revenue	$4,701	$3,886
Barter expense	$4,358	$3,734
Non-cash investing and financing activities:		
Capital expenditures reimbursable under tenant improvement allowances	$2,709	$486
Non-cash capital expenditures for property & equipment acquired under trade agreements	$20	$—
Estimated present value of contingent earn-out consideration	$300	$—
Current value of deferred cash payments (short-term)	$—	$1,566

See accompanying notes

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

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements of Salem Media Group, Inc. ("Salem," "we," "us," "our" or the "company") includes the company and all wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Information with respect to the three and nine months ended September 30, 2016 and 2015 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, 2015. 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, 2015 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. There have been no material changes from Note 1, Summary of Significant Accounting Policies, as contained in our Form 10-K for the year ended December 31, 2015.

Description of Business

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

We have three operating segments, (1) Broadcast, (2) Digital Media, and (3) Publishing, which are discussed in Note 17 – 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"), Salem Music Network ("SMN"), Today's Christian Music ("TCM"), Singing News Network (formerly Solid Gospel Network) and Salem Media Representatives™ ("SMR"). SRN, SNN, SMN 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 ten U.S. cities, specializes in placing national advertising on religious and other commercial radio stations.

Web-based and digital content has been an area of growth for Salem and continues to be a focus of future development. Salem Web Network™ ("SWN") and our other web-based businesses provide Christian and conservative-themed content, audio and video streaming, and other resources digitally through the web. SWN's web portals include Christian content websites: OnePlace.com, Christianity.com, Crosswalk.com®, GodVine.com, Jesus.org and BibleStudyTools.com. Our conservative opinion websites, collectively known as Townhall Media, include Townhall.com™, HotAir.com, Twitchy.com, HumanEvents.com and RedState.com. We also issue digital newsletters, including Eagle Financial Publications, which provide general market analysis and non-individualized investment strategies from financial commentators on a subscription basis. Church product websites including WorshipHouseMedia.com, SermonSpice.com, and ChurchStaffing.com offer downloads and service platforms to pastors and other educators. Our web content is accessible through all of our radio station websites that feature content of interest to local listeners throughout the United States.

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

Our publishing operating segment is comprised of three businesses. 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. Xulon Press and Hillcrest Media provide self-publishing services to authors. Salem Publishing™ produces and distributes five print magazines and one digital magazine.

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 September 30, 2016, 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 adoption of FASB Accounting Standards Update (“ASU”) 2015-03 and ASU 2015-15 and the reclassification of Salem Consumer Products from e-commerce (digital) to broadcast. Under ASU 2015-03 and 2015-15, debt issuance costs, with the exception of costs associated with obtaining line-of-credit arrangements, are reported as a reduction of the debt liability rather than as a deferred cost asset. The adoption of ASU 2015-03 and ASU 2015-15 is reported as a change in accounting principle and discussed in detail in Note 9 – Notes Payable. The reclassification of Salem Consumer Products, our e-commerce business that sells books, DVD’s and editorial content developed by our on-air personalities, was made to assess the performance of each network program based on all revenue sources. Refer to Note 17 – Segment Data for an explanation of this reclassification.

Out-of-Period Adjustment

During the third quarter of 2016, we identified an error in our valuation allowance for certain deferred tax assets. We recorded an adjustment to increase our estimated deferred tax valuation allowance by $1.6 million for a portion of the deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized.

In evaluating the adjustment, we referred to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 99, including SAB Topic 1.M, which provides guidance on the assessment of materiality and states that "the omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." We also referred to SAB 108 for guidance on considering the effects of prior year misstatements when quantifying misstatements in current year financial statements and the assessment of materiality.

Our analysis of the materiality of the adjustment was performed by reviewing quantitative and qualitative factors. We determined based on this analysis that the adjustment was not material to the current period and any prior periods.

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

In November 2015, the FASB issued ASU 2015-17, "*Balance Sheet Classification of Deferred Taxes,"* to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption is permitted. We have not yet evaluated the impact of the adoption of this accounting standard on our financial position or presentation thereof.

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

In August 2014, the FASB issued ASU 2014-15, "*Disclosure of Uncertainties About an Entities Ability to Continue as a Going Concern*," which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures. The new standard provides management with specific guidance on the assessments and related disclosures as well as provides a longer look-forward period as one year from the financial statement issuance date. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)"* and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016 and May 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, respectively (ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12 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. Preliminarily, we plan to adopt Topic 606 in the first quarter of 2018 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 70% of our total assets as of September 30, 2016 consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. 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 broadcast licenses, 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 14. There were no indications of impairment present as of the period ending September 30, 2016.

NOTE 3. IMPAIRMENT OF LONG-LIVED ASSETS

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

Based on changes in management's planned usage, we classified land in Covina, California as held for sale as of June 2012. At that time we evaluated the land for impairment in accordance with guidance for impairment of long-lived assets held for sale. We determined that the carrying value of the land exceeded the estimated fair value less costs to sell and recorded an impairment charge of $5.6 million associated with the land based on our estimated sale price at that time. In December 2012, after several purchase offers for the land were terminated, we obtained a third-party valuation for the land. Based on the fair value determined by the third-party, we recorded an additional impairment charge of $1.2 million associated with the land. While we continue to market the land for sale and have no intention to use the land in our operations, we have not received successful offers. Based on the amount of time that the land has been held for sale, we obtained a third-party valuation for the land as of June 2016. Based on this fair value appraisal, we recorded an additional $0.7 million impairment charge associated with the land during the three months ended June 30, 2016.

The table below presents the fair value measurements used to value this asset.

		Fair Value Measurements Using: (Dollars in thousands)			
Description	As of September 30, 2016	Quoted prices in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Long-Lived Asset Held for Sale	$ 1,000			$ 1,000	$ (700)

NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

During the nine month period ending September 30, 2016, we completed or entered into the following transactions:

Debt

On September 30, 2016, we paid $2.3 million in principal on our term loan of $300.0 million ("Term Loan B"), of which $1.5 million was an early prepayment of principal, and paid interest due as of that date. We recorded a $3,900 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and $14,000 in bank loan fees associated with this principal prepayment.

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

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

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

Equity

On September 9, 2016, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution of $1.7 million was paid on September 30, 2016 to all Class A and Class B common stockholders of record as of September 19, 2016.

On June 2, 2016, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution of $1.6 million was paid on June 30, 2016 to all Class A and Class B common stockholders of record as of June 16, 2016.

On March 10, 2016, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution of $1.7 million was paid on April 5, 2016 to all Class A and Class B common stockholders of record as of March 22, 2016.

Related Party Transactions

On May 25, 2016, we entered into an APA to acquire an FM Translator in Lake City, Florida for $65,000 in cash from Delmarva Educational Association Corporation, a related party entity which Nancy A. Epperson the wife of the Chairman of the Board, and Stuart W. Epperson, Jr., the son of the

Chairman of the Board, serve as directors. The translator will be used by our WBZW-AM radio station in Orlando, Florida. The transaction closed on October 12, 2016.

On May 18, 2016, we entered into an APA to acquire a construction permit for an FM Translator in Palm Coast, Florida for $65,000 in cash from Delmarva Educational Association Corporation, a related party entity which Nancy A. Epperson the wife of the Chairman of the Board, and Stuart W. Epperson, Jr., the son of the Chairman of the Board, serve as directors. This translator will be used by our WTWD-AM radio station in Tampa, Florida. The transaction closed on October 19, 2016.

On March 2, 2016, we entered into a related party lease with trusts created for the benefit of Edward G. Atsinger III, Chief Executive Officer, and Stuart W. Epperson, Chairman of the Board. The lease is for real property located in Brighton, Colorado that is used to operate radio station KNUS-AM in our Denver, Colorado market. Our Nominating and Corporate Governance Committee reviewed the lease and lease terms and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm’s length dealings with an unrelated third party.

Acquisitions – Broadcast

The FCC permits AM and FM radio stations to operate FM Translators, or low power secondary stations that retransmit the programming of a radio station to portions of the station’s service area that the primary signal does not reach because of distance or terrain barriers. The FCC began an AM Revitalization program, or “AMR,” that included several initiatives intended to benefit AM broadcasters. One of these benefits, intended to promote the use of FM Translators by AM broadcasters, allows an AM station to relocate one FM translator up to 250 miles from its authorized site and operate the translator on any non-reserved band FM channel in the AM station’s market, subject to coverage and interference rules.

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

We entered into several agreements to acquire FM Translators or FM Translators construction permits during the applicable windows of the FCC AM R. Construction permits provide the station the authority to construct a new FM Translator or make changes in the existing facilities. We believe that securing these FM Translators allows us to increase our listening audience by providing enhanced coverage and reach of our existing AM broadcasts.

Our broadcast acquisitions include the following:

On June 24, 2016, we entered into an LMA to operate radio station KTRB-AM in San Francisco, California beginning on July 1, 2016.

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

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

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

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

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

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

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

Acquisitions – Digital Media

On September 13, 2016, we acquired Mike Turner’s line of investment products, including TurnerTrends.com, other domain names and related assets for $0.4 million in cash and the assumption of $0.1 million in deferred subscription liabilities. Under terms of the APA, we may pay up to an additional $0.1 million in contingent earn-out consideration payable upon the achievement of specific net revenue targets within twelve months from the closing date. Turner’s investment products offer stock trading advisory newsletters to individual subscribers. We recorded goodwill of approximately $7,200 associated with the expected synergies to be realized upon combining the operations of Turner’s line of investment products into our digital media platform with Eagle Financial Publications and from brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

On April 1, 2016, we acquired the Retirement Watch newsletter and websites for $0.1 million in cash and the assumption of $0.6 million in deferred subscription liabilities. Retirement Watch offers non-individualized research and strategies associated with retirement planning. We recorded goodwill of approximately $8,600 associated with the expected synergies to be realized upon combining the operations of Retirement Watch into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

On March 8, 2016, we acquired King James Bible mobile applications for $4.0 million, of which $2.7 million was paid in cash upon close and $1.3 million is due in deferred installments within one year from the closing date. The deferred installments were amended on May 17, 2016 to include the $0.3 million that was due upon finalization of banking arrangements with the deferred installments. The amended deferred payments of $1.3 million now consist of $0.6 million due within 90 days, $0.3 million due within 180 days and two deferred payments of $0.2 million each due 270 and 360 days from the closing date, respectively. During the nine month period ending September 30, 2016, we have paid $0.9 million in installments. We recorded goodwill of $0.2 million associated with the expected synergies to be realized from combining the operations of these applications into our existing digital media platform. The accompanying condensed consolidated statement of operations reflects the operating results of King James Bible mobile applications as of the closing date within our digital media operating segment.

Throughout the nine-month period ending September 30, 2016, we acquired domain names and other assets associated within our digital media operating segment for approximately $3,000 in cash.

Acquisitions – Publishing

On August 1, 2016, we acquired the assets of Hillcrest Media Group, Inc. (“Hillcrest”), for $3.5 million and the assumption of $1.1 million in deferred revenue liabilities. We paid $3.3 million in cash upon close with the remaining $0.2 million due within 90 days upon the finalization of deferred revenue obligations. Hillcrest provides self-publishing services for general market authors and will be operated within our existing Xulon Press business. We recorded goodwill of approximately $0.9 million associated with the expected synergies to be realized upon combining the operations of Hillcrest into our existing publishing platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

Throughout the nine month period ending September 30, 2016, we acquired domain names and other assets associated within our publishing operating segment for approximately $3,000 in cash.

A summary of our business acquisitions and asset purchases during the nine month period ended September 30, 2016, 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)
September 13, 2016		$ 416

	Mike Turner's investment products and domain names (business acquisition)	
August 1, 2016	Hillcrest Media Group, Inc. (business acquisition)	3,515
June 20, 2016	FM Translator, Columbus, Ohio (asset purchase)	345
June 10, 2016	FM Translator, Amherst, New York (asset purchase)	60
June 8, 2016	FM Translator construction permit, Charlotte, Michigan (asset purchase)	50
June 3, 2016	FM Translator construction permit, Atwood, Kentucky (asset purchase)	88
May 13, 2016	FM Translator construction permit, Kerrville, Texas (asset purchase)	50
May 2, 2016	FM Translator, Lincoln, Maine (asset purchase)	100
April 29, 2016	FM Translator construction permit, Emporia, Kansas (asset purchase)	25
April 1, 2016	Retirement Watch (business acquisition)	100
March 8, 2016	King James Bible mobile applications (business acquisition)	4,000
Various	Purchase of domain names and other assets (asset purchases)	6
		$ 8,755

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

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

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

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment. Costs associated with acquisitions, such as consulting and legal fees, are expensed as incurred in corporate operating expenses. We recognized total costs associated with acquisitions of $0.3 million during the nine month period ending September 30, 2016 compared to $0.2 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 14 - Fair Value Measurements.

The following table summarizes the total acquisition consideration for the nine month period ending September 30, 2016:

Description	Total Consideration (Dollars in thousands)
Cash payments made upon closing	$ 7,189
Deferred payments	1,566
Total purchase price consideration	$ 8,755

The total acquisition consideration was allocated to the net assets acquired as follows:

	Net Broadcast Assets Acquired	Net Digital Media Assets Acquired	Net Publishing Assets Acquired	Net Total Assets Acquired
	(Dollars in thousands)			
Assets				
Trade accounts receivable, net of allowances of $42	$—	$ —	$ 166	$ 166
Property and equipment	13	405	186	604
Broadcast licenses	705	—	—	705
Goodwill	—	237	924	1,161
Domain and brand names	—	1,129	2,121	3,250
Customer lists and contracts	—	3,101	526	3,627

Non-compete agreements	—	289	716	1,005
Liabilities				
Deferred revenue	—	(642)	(1,121)	(1,763)
	$718	$ 4,519	$ 3,518	$ 8,755

Divestitures

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

On June 10, 2016, we received $2.5 million in cash from the National Park Service in exchange for its claim under eminent domain for our tower site in Miami, Florida. We recognized a pre-tax gain of $1.9 million from this sale that is reported in (gain) loss on the sale or disposal of assets. We entered a limited terms of use agreement with the National Park Service to broadcast from the tower site for the next twenty years for a nominal fee.

Pending Transactions

On July 21, 2016, we entered into an APA to acquire radio station KXFN-AM in St. Louis, Missouri for $0.2 million. The transaction closed on October 20, 2016.

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 the period end September 30, 2016 include the following:

Date APA Entered	Permit or ID	Authorized Site - Current	Purchase Price	Escrow Deposits	Date Closed	Market
			(Dollars in thousands)			
5/18/2016	W267BW	Palm Coast, Florida* Related Party	$ 65	$ -	10/19/2016	Tampa, Florida
5/25/2016	W224BU	Lake City, Florida Related Party	65	-	10/12/2016	Orlando, Florida
6/2/2016	W284BO	Lake Placid, Florida	35	4	-	Orlando, Florida
6/15/2016	W267BW	Sebring, Florida	77	15	11/7/2016	Miami, Florida
7/25/2016	K296AL	Crested Butte, Colorado	39	8	-	Colorado Springs, Colorado
7/25/2016	K283CA	Festus, Missouri *	40	8	-	St. Louis, Missouri
7/26/2016	W263BS	Rhinelander, Wisconsin	50	25	-	Minneapolis, Minnesota
7/26/2016	K294CP	Roseburg, Oregon *	45	9	-	Portland, Oregon
7/26/2016	W279BK	Carbondale, Pennsylvania	75	15	-	Pittsburgh, Pennsylvania
7/26/2016	W283BR	Dansville, New York	75	15	-	New York, New York
7/26/2016	K228FC	Kingsville, Texas *	50	10	-	Houston, Texas
7/26/2016	K245AR	Little Fish Lake Valley, California	44	20	-	Sacramento, California
7/26/2016	K276FZ	Eaglemount, Washington *	40	8	-	Portland, Oregon
7/27/2016	W256CO	Angola, Indiana *	50	15	10/20/2016	Cleveland, Ohio
7/27/2016	W249CQ	Cofax, Indiana *	45	14	10/20/2016	St. Louis, Missouri
7/27/2016	W263CS	Battle Creek, Michigan *	50	15	10/20/2016	Cleveland, Ohio
7/27/2016	W227BT	Port St Lucie, Florida	100	10	-	Tampa, Florida
	W298AM	Aurora, Florida			-	Tampa, Florida
7/28/2016	K239CD	Lahaina, Hawaii *	110	11	-	Honolulu, Hawaii
	K241BZ	Kihei, Hawaii			-	Honolulu, Hawaii
8/25/2016	K278BH	Astoria, Oregon	33	6	-	Seattle, Washington
9/22/2016	K260CG	Mojave Valley, Arizona*	20	2	-	Phoenix, Arizona

* Indicates that the purchase is for a FM Translator Construction Permit.

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 14.

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.

Tuner Investment Products

We acquired Mike Turner's line of investment products, including TurnerTrends.com and other domain names and related assets on September 13, 2016. We paid $0.4 million in cash upon closing and may pay up to an additional $0.1 million in contingent earn-out consideration payable upon the achievement of specific net revenue targets within twelve months from the closing date. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Tuner's investment products to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $66,000, which approximates the discounted present value due to the earn-out of less than one year. We will 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. We believe that our experience with digital subscriptions and websites provides a reasonable basis for our estimates.

Daily Bible Devotion

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

We review the fair value of the contingent earn-out consideration quarterly over the two-year earn-out period to compare actual cumulative sessions achieved to the estimated cumulative sessions used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract, or $0.3 million less amounts paid or expired to date. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the nine month period ending September 30, 2016, we paid a total of $75,000 to the seller as contingent earn-out consideration for achieving benchmarks during the earn-out period to date, which was less than our original estimates. Due to declines in the cumulative sessions achieved during the nine month period ending September 30, 2016, we recorded a net decrease of $107,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

Bryan Perry Newsletters

On February 6, 2015, we acquired the assets and assumed the deferred subscription liabilities for Bryan Perry Newsletters, paying no cash to the seller upon closing. Future contingent earn-out consideration due to the seller is based upon net subscriber revenues achieved over a two-year period from date of close, of which we will pay the seller 50%. There is no minimum or maximum contractual amount due. Using a probability-weighted discounted cash flow model based on our revenue projections at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $171,000, which we recorded at the discounted present value of $158,000. The discount is being accreted to interest expense over the two-year earn-out period. We believe that our experience with digital publications and renewals provides a reasonable basis for our estimates.

We review the fair value of the contingent earn-out consideration quarterly over the two year earn-out period to compare actual subscription revenue earned to the estimated subscription revenue used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the nine month period ending September 30, 2016, we paid a total of $24,000 to the seller as contingent earn-out consideration for amounts earned, which was less than our original estimates. Due to declines in the number of subscriptions renewed during the nine month period ending September 30, 2016, we recorded a net decrease of $12,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

Eagle Publishing

On January 10, 2014, we acquired the entities of Eagle Publishing, including Regnery Publishing, HumanEvents.com, RedState.com, Eagle Financial Publications and Eagle Wellness. The base purchase price was $8.5 million, with $3.5 million paid in cash upon closing, and deferred payments of $2.5 million each due January 2015 and January 2016. As part of the purchase agreement, we may pay up to an additional $8.5 million of contingent earn-out consideration during the three year period from the closing date based upon the achievement of certain revenue benchmarks established for calendar years 2014, 2015 and 2016 for each of the Eagle entities. Using a probability-weighted discounted cash flow model based on the likelihood of achievement of the benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $2.4 million, which was recorded at the discounted present value of $2.0 million. The discount is being accreted to interest expense over the three-year earn-out period. We believe that our experience with publications, renewal rates and websites provide a reasonable basis for our estimates. We have paid $0.9 million to date and have one contingent earn-out period remaining through December 31, 2016.

We review the fair value of the contingent earn-out consideration quarterly over the three year earn-out period to compare actual operating revenues earned to the estimated revenue used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract, or $8.5 million less amounts paid or expired to date. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the nine month period ending September 30, 2016, no payments were made to the seller for amounts earned under the contingent earn-out consideration, which was less than our original estimates. Based on actual revenues for the period ending September 30, 2016 that were below those used in our prior estimates, we recorded a net decrease in the estimated fair value of the contingent earn-out consideration of $0.3 million that is reflected in our results of operations for this period.

The following table reflects the changes in the present value of our acquisition-related estimated contingent earn-out consideration during the three and nine month period ending September 30, 2016 and 2015:

	Three Months Ending September 30, 2016		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of July 1, 2016	$ 441	$ —	$ 441
Acquisitions	66	—	66
Accretion of acquisition-related contingent earn-out consideration	5	—	5
Change in the estimated fair value of contingent earn-out consideration	(196)	—	(196)
Reclassification of payments due in next 12 months to short-term	—	—	—
Payments	(11)	—	(11)
Ending Balance as of September 30, 2016	$ 305	$ —	$ 305

	Three Months Ending September 30, 2015		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of July 1, 2015	$ 1,190	$ 1,086	$ 2,276
Acquisitions	—	—	—
Accretion of acquisition-related contingent earn-out consideration	17	12	29
Change in the estimated fair value of contingent earn-out consideration	(418)	(185)	(603)
Reclassification of payments due in next 12 months to short-term	—	—	—
Payments	(16)	—	(16)
Ending Balance as of September 30, 2015	$ 773	$ 913	$ 1,686

	Nine Months Ending September 30, 2016		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of January 1, 2016	$ 173	$ 602	$ 775
Acquisitions	66	—	66
Accretion of acquisition-related contingent earn-out consideration	13	8	21
Change in the estimated fair value of contingent earn-out consideration	(404)	(54)	(458)

Reclassification of payments due in next 12 months to short-term	556	(556)	—
Payments	(99)	—	(99)
Ending Balance as of September 30, 2016	$ 305	$ —	$ 305

	Nine Months Ending September 30, 2015		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of January 1, 2015	$ 1,575	$ 1,710	$ 3,285
Acquisitions	176	124	300
Accretion of acquisition-related contingent earn-out consideration	48	38	86
Change in the estimated fair value of contingent earn-out consideration	(631)	(161)	(792)
Reclassification of payments due in next 12 months to short-term	798	(798)	—
Payments	(1,193)	—	(1,193)
Ending Balance as of September 30, 2015	$ 773	$ 913	$ 1,686

NOTE 6. INVENTORIES

Inventories consist of finished goods including books from Regnery Publishing and wellness products. All inventories are valued at the lower of cost or market as determined on a First-In First-Out ("FIFO") cost method and reported net of estimated reserves for obsolescence.

The following table provides details of inventory on hand by segment:

	December 31, 2015	September 30, 2016
	(Dollars in thousands)	
Regnery Publishing book inventories	$ 2,186	$ 2,490
Reserve for obsolescence – Regnery Publishing	(1,798)	(2,068)
Inventory net, Regnery Publishing	388	422
Wellness products	$ 562	$ 406
Reserve for obsolescence – Wellness products	(57)	(82)
Inventory, net Wellness products	505	324
Consolidated inventories, net	$ 893	$ 746

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NOTE 7. PROPERTY AND EQUIPMENT

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

	December 31, 2015	September 30, 2016
	(Dollars in thousands)	
Land	$31,565	$ 31,180
Buildings	25,448	25,362
Office furnishings and equipment	38,812	36,847
Office furnishings and equipment under capital lease obligations	228	228
Antennae, towers and transmitting equipment	83,501	83,256
Antennae, towers and transmitting equipment under capital lease obligations	795	795
Studio, production and mobile equipment	30,598	28,245
Computer software and website development costs	28,134	18,719
Record and tape libraries	55	27
Automobiles	1,298	1,349
Leasehold improvements	20,799	20,059
Construction-in-progress	6,632	10,237
	$267,865	$ 256,304
Less accumulated depreciation	(162,382)	(152,982)
	$105,483	$ 103,322

Depreciation expense was approximately $3.1 million and $3.0 million for each of the three month periods ending September 30, 2015 and 2016, respectively, and $9.4 million and $9.0 million for the nine month period ending September 30, 2015 and 2016, respectively. Included in these amounts is depreciation of $24,000 for each of the three month periods and $72,000 for each of the nine month periods related to assets held under capital lease obligations. Accumulated depreciation associated with assets under capital lease obligations was $639,000 and $566,000 at September 30, 2016 and December 31, 2015, respectively.

NOTE 8. AMORTIZABLE INTANGIBLE ASSETS

The following tables summarize the categories of our amortizable intangible assets by major category:

September 30, 2016
Accumulated

	Cost	Amortization	Net
	(Dollars in thousands)		
Customer lists and contracts	$22,435	$ (19,815)	$2,620
Domain and brand names	19,869	(12,468)	7,401
Favorable and assigned leases	2,379	(1,953)	426
Subscriber base and lists	7,988	(4,921)	3,067
Author relationships	2,771	(1,694)	1,077
Non-compete agreements	2,039	(940)	1,099
Other amortizable intangible assets	1,336	(1,336)	—
	$58,817	$ (43,127)	$15,690

	December 31, 2015		
		Accumulated	
	Cost	Amortization	Net
	(Dollars in thousands)		
Customer lists and contracts	$20,009	$ (18,914)	$1,095
Domain and brand names	16,619	(11,200)	5,419
Favorable and assigned leases	2,379	(1,887)	492
Subscriber base and lists	7,313	(3,808)	3,505
Author relationships	2,245	(1,523)	722
Non-compete agreements	1,034	(786)	248
Other amortizable intangible assets	1,336	(1,336)	—
	$50,935	$ (39,454)	$11,481

Based on the amortizable intangible assets as of September 30, 2016, we estimate amortization expense for the next five years to be as follows:

Year Ending December 31,	Amortization Expense
	(Dollars in thousands)
2016(Oct – Dec)	$ 1,395
2017	4,340
2018	3,901
2019	3,327
2020	2,027
Thereafter	700
Total	$ 15,690

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NOTE 9. 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 the Term Loan B of $300.0 million and $25.0 million Revolver. The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. For each of the three and nine months ended September 30, 2015 and 2016, approximately $47,000 and $140,000, respectively, and $51,000 and $155,000, 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 our Term Loan B with each prepayment applied ratably to each of the next four principal installments due within 12 months of the prepayment date in the direct order of maturity and thereafter to the remaining principal balance in reverse order of maturity.

We made the following payments or prepayments of our Term Loan B during the year ended December 31, 2015 and nine month period ending September 30, 2016, including interest through the payment date as follows:

Date	Principal Paid	Unamortized Discount
	(Dollars in thousands)	
September 30, 2016	$ 1,500	$ 4
September 30, 2016	750	—
June 30, 2016	441	1
June 30, 2016	750	—
March 31, 2016	750	—
March 17, 2016	809	2
January 30, 2015	2,000	15

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

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

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

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Debt issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For each of the three months ended September 30, 2015 and 2016, approximately $139,000 and $140,000, respectively, of the debt issue costs associated with the Term Loan B were recognized as interest expense. For each of the nine months ended September 30, 2015 and 2016, approximately $418,000 and $423,000, respectively, of the debt issue costs associated with the Term Loan B were recognized as interest expense.

We chose to continue the presentation of debt issue costs associated with our Revolver 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 each of the three and nine month periods ending September 30, 2015 and 2016, we recorded amortization of deferred financing costs of approximately $17,000 each and $52,000 each.

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

Borrowings under the Term Loan B may be made at LIBOR (subject to a floor of 1.00%) plus a spread of 3.50% or Wells Fargo Bank, National Association's ("Wells Fargo") base rate plus a spread of 2.50%. Borrowings under the Revolver may be made at LIBOR or Wells Fargo's base rate plus a spread determined by reference to our leverage ratio, as set forth in the pricing grid below. If an event of default occurs under the credit agreement, the applicable interest rate may increase by 2.00% per annum. At September 30, 2016, the blended interest rate on amounts outstanding under the Term Loan B and Revolver including the impact of the interest rate swap agreement was 5.07%. See Note 13- Derivative Instruments for a discussion of the interest rate swap agreement.

		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 steps down to 5.75 to 1.0 by 2017. The credit agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the credit agreement, restrict the ability of Salem and its subsidiary guarantors: (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens; (v) to sell assets; (vi) to enter into transactions with affiliates; or (vii) to merge or consolidate with, or dispose of all or substantially all assets to, a third party. As of September 30, 2016, our leverage ratio was 5.29 to 1 compared to our compliance covenant of 6.00 and our interest coverage ratio was 3.40 compared to our compliance ratio of 2.50. We were in compliance with our debt covenants under the credit facility at September 30, 2016.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2015 and September 30, 2016 represents the present value of future commitments under the capital lease agreements.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	December 31, 2015	September 30, 2016
	(Dollars in thousands)	
Term Loan B principal amount	$274,000	$ 269,000
Less unamortized discount and debt issuance costs based on imputed interest rate of 4.78%	(3,225)	(2,615)
Term Loan B net carrying value	270,775	266,385
Revolver	3,306	1,069
Capital leases and other loans	674	595
	274,755	268,049
Less current portion	(5,662)	(2,681)
	$269,093	$ 265,368

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of September 30, 2016:

- Outstanding borrowings of $269.0 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%; and

- Outstanding borrowings of $1.1 million under the Revolver, with interest payments due at LIBOR plus 3.00% or at prime rate plus 2.00%.

- Commitment fees of 0.50% on any unused portion of the Revolver.

- Quarterly interest payments on $150.0 million notional amount interest rate swap agreement with Wells Fargo based on a LIBOR floor of 0.625% and a fixed rate of 1.645%.

Maturities of Long-Term Debt and Capital Lease Obligations

Principal repayment requirements under all long-term debt agreements and capital lease obligations outstanding at September 30, 2016 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended September 30,	Amount (Dollars in thousands)
2017	$ 2,681
2018	3,108
2019	3,104
2020	258,988
2021	116
Thereafter	52
	$ 268,049

NOTE 10. STOCK INCENTIVE PLAN

Our Amended and Restated 1999 Stock Incentive Plan (the “Plan”) provides for grants of equity-based awards to employees, non-employee directors and officers, and advisors of the company (“Eligible Persons”). The Plan is designed to promote the interests of the company using equity investment interests to attract, motivate, and retain individuals.

A maximum of 5,000,000 shares of common stock are authorized under the Plan. All awards have restriction periods tied primarily to employment and/or service. The Plan allows for accelerated or continued vesting in certain circumstances as defined in the Plan including death, disability, a change in control, and termination or retirement. The company Board of Directors, or a committee appointed by the Board, has discretion subject to limits defined in the Plan, to modify the terms of any outstanding award.

The Plan does not allow insiders, or key employees and directors to exercise awards during pre-defined blackout periods. Insiders may participate in plans established pursuant to Rule 10b5-1 under the Exchange Act that allow them to exercise awards subject to pre-established criteria.

We recognize non-cash stock-based compensation expense based on the estimated fair value of awards in accordance with FASB ASC Topic 718 "*Compensation—Stock Compensation*." Stock-based compensation expense fluctuates over time as a result of the vesting periods for outstanding awards and the number of awards that actually vest. The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
	(Dollars in thousands)			
Stock option compensation expense included in corporate expenses	$97	$94	$ 413	$ 296
Restricted stock awards compensation expense included in corporate expenses	14	-	29	24
Stock option compensation expense included in broadcast operating expenses	30	19	107	67
Stock option compensation expense included in digital media operating expenses	20	12	75	51
Stock option compensation expense included in publishing operating expenses	9	9	33	20
Total stock-based compensation expense, pre-tax	$170	$134	$ 657	$ 458
Tax provision for stock-based compensation expense	(68)	(54)	(263)	(183)
Total stock-based compensation expense, net of tax	$102	$80	$ 394	$ 275

Stock option and restricted stock grants

Eligible employees may receive stock option awards annually with the number of shares and type of instrument generally determined by the employee's salary grade and performance level. Incentive and non-qualified stock option awards allow the recipient to purchase shares of the company common stock at a set price, not to be less than the closing market price on the date of award, for no consideration payable by the recipient. The related number of shares underlying the stock option is fixed at the time of the grant. Options generally vest over a four-year period with a maximum term of five years from the vesting date. In addition, certain management and professional level employees may receive stock option awards upon the commencement of employment.

The Plan also allows for awards of restricted shares, which are typically granted annually to non-employee directors of the company. Awards granted to non-employee directors are made in exchange for their services to the company as directors and therefore, the guidance in FASB ASC Topic 505-50 "*Equity Based Payments to Non Employees*" is not applicable. Restricted stock awards contain transfer restrictions under which they cannot be sold, pledged, transferred or assigned until the period specified in the award, generally one to five years. Restricted stock awards are independent of option grants and are granted at no cost to the recipient other than applicable taxes owed by the recipient. The awards are considered issued and outstanding from the date of grant.

The fair value of each award is estimated as of the date of the grant using the Black-Scholes valuation model. The expected volatility reflects the consideration of the historical volatility of our stock as determined by the closing price over a six to ten year term commensurate with the expected term of the award. Expected dividends reflect the amount of quarterly distributions authorized and declared on our Class A and Class B common stock as of the grant date. The expected term of the awards are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the award are based on the U.S. Treasury yield curve in effect during the period the options were granted. We use historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the valuation model.

The weighted-average assumptions used to estimate the fair value of the stock option and restricted stock awards using the Black-Scholes valuation model were as follows for the three and nine months ended September 30, 2015 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,			
	2015	2016	2015		2016	
Expected volatility	n/a	**n/a**	52.37	%	47.03	%
Expected dividends	n/a	**n/a**	4.28	%	5.36	%
Expected term (in years)	n/a	**n/a**	3.0		7.4	
Risk-free interest rate	n/a	**n/a**	0.85	%	1.64	%

Activity with respect to the company's option awards during the nine months ended September 30, 2016 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, 2016	1,581,123	$ 4.87	$ 3.39	4.3 years	$ 1,786
Granted	549,500	4.85	1.33		
Exercised	(331,246)	2.92	1.99		
Forfeited or cancelled	(3,500)	5.44	2.38		
Expired	(66,877)	8.16	6.11		
Outstanding at September 30, 2016	1,729,000	$ 5.11	$ 2.90	4.8 years	$ 2,047
Exercisable at September 30, 2016	848,375	$ 5.55	$ 3.94	3.1 years	$ 844
Expected to Vest	836,154	$ 4.69	$ 1.90	4.8 years	$ 1,174

Activity with respect to the company's restricted stock awards during the nine months ended September 30, 2016 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, 2016	8,000	$ 5.83	0.2 years	$ 40
Granted	—	—	—	—
Lapsed	(8,000)	5.83	—	52
Forfeited	—	—	—	—
Unvested outstanding at September 30, 2016	—	$ —	—	$ —

The aggregate intrinsic value represents the difference between the company's closing stock price on September 30, 2016 of $5.88 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 nine months ended September 30, 2015 and 2016 was $1.5 million and $1.1 million, respectively.

As of September 30, 2016, there was $0.6 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 1.97 years.

NOTE 11. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, "*Compensation-Stock Compensation*." As a result, $0.1 million and $0.5 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and nine months ended September 30, 2016, respectively, in comparison to $0.2 million and $0.7 million for the three and nine months ended September 30, 2015.

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 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.

The following table shows distributions that have been declared and paid since January 1, 2015:

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

Based on the number of shares of Class A and Class B currently outstanding, and the currently approved distribution amount, we expect to declare and pay total annual distributions of approximately $6.7 million during the year ending December 31, 2016.

NOTE 12. BASIC AND DILUTED NET EARNINGS PER SHARE

Basic net earnings per share has been computed using the weighted average number of Class A and Class B shares of common stock outstanding during the period. Diluted net earnings per share is computed using the weighted average number of shares of Class A and Class B common stock outstanding during the period plus the dilutive effects of stock options.

Options to purchase 1,628,534 and 1,729,000 shares of Class A common stock were outstanding at September 30, 2015 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

September 30, 2015 and 2016 there were 447,689 and 367,940 dilutive shares, respectively.

NOTE 13. 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 our Term Loan B. Payments on the swap are due on a quarterly basis with a LIBOR floor of 0.625%. The swap expires on March 28, 2019 at a fixed rate of 1.645%. The interest rate swap agreement was not designated as a cash flow hedge, and as a result, all changes in the fair value are recognized in the current period statement of operations rather than through other comprehensive income. We recorded a long-term liability of $2.1 million as of September 30, 2016, representing the fair value of the interest rate swap agreement. The swap was valued based on observable inputs for similar assets and liabilities and other observable inputs for interest rates and yield curves, which are classified within Level 2 inputs in the fair value hierarchy described below and in Note 14.

	December 31, 2015	September 30, 2016
	(Dollars in thousands)	
Fair value of interest rate swap liability	$ 798	$ 2,124

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NOTE 14. 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 September 30, 2016, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments.

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

	September 30, 2016			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
	(Dollars in thousands)			
Liabilities:				
Estimated fair value of contingent earn-out consideration included in accrued expenses	$305	$—	$—	$305
	268,049	—	268,049	—

Long-term debt and capital lease obligations less unamortized discount and debt issuance costs				
Fair value of interest rate swap	2,124	—	2,124	—

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of contingent earn-out consideration is estimated as the present value of the expected contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments. These fair value estimates use unobservable inputs that reflect our own assumptions as to the ability of the acquired business to meet the targeted benchmarks and discount rates used in the calculations. The carrying value of long-term debt and capital lease obligations approximates the fair value as the related interest rates approximate rates currently available to the company for similar debt instruments of comparable maturity. The fair value of the interest rate swap is based on market quotes from a major financial institution taking into consideration the most recent market activity.

NOTE 15. INCOME TAXES

We account for income taxes in accordance with FASB ASC Topic 740, "*Income Taxes*." We did not record adjustments to the balance of our unrecognized tax benefits as of September 30, 2016 and 2015. At December 31, 2015, we had $0.1 million in liabilities for unrecognized tax benefits. Included in this liability amount is approximately $20,000 of accrued interest, net of federal income tax benefits, and $6,000 for the related penalties recorded in income tax expense on our Condensed Consolidated Statements of Operations. We expect to reduce the reserve balance to zero over the next twelve months due to statute expirations.

Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of $4.4 million as of September 30, 2016 and $2.8 million as of December 31, 2015 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. 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. During the third quarter of 2016, we identified an error in our estimated valuation allowance for certain deferred tax assets. We recorded an out-of-period adjustment to increase our valuation allowance by $1.6 million for a portion of the deferred tax assets related to state net operating loss carryforwards that we determined were not more likely than not to be realized.

NOTE 16. COMMITMENTS AND CONTINGENCIES

The company enters into various agreements in the normal course of business that contain minimum guarantees. These minimum guarantees are often tied to future events, such as future revenue earned in excess of the contractual level. Accordingly, the fair value of these arrangements is zero.

The company also records contingent earn-out consideration representing the estimated fair value of future liabilities associated with acquisitions that may have additional payments due upon the achievement of certain performance targets. The fair value of the contingent earn-out consideration is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the expected payment amounts. We review the probabilities of possible future payments to estimate the fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable. Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

The company and its subsidiaries, incident to its business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. We evaluate claims based on what we believe to be both probable and reasonably estimable. With the exception of the matter described below, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. The company maintains insurance that may provide coverage for such matters.

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

The company believes, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon the company’s condensed consolidated financial position, results of operations or cash flows.

NOTE 17. 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 how our chief operating decision makers, which we define as a collective group of senior executives, assesses the performance of each operating segment and determines the appropriate allocations of resources to each segment. Our operating segments now meet the quantitative thresholds to qualify as reportable segments. We continually 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 September 30, 2016 and 2015 based on the new composition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
	(Dollars in thousands)				
Three Months Ended September 30, 2016					
Net revenue	$51,052	$11,999	$ 8,221	$ —	$ 71,272
Operating expenses	37,434	9,172	8,020	4,147	58,773
Operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and the (gain) loss on the sale or disposal of assets	$13,618	$2,827	$ 201	$ (4,147)	$ 12,499
Depreciation	1,753	840	174	209	2,976
Amortization	22	1,091	228	—	1,341
Change in the estimated fair value of contingent earn-out consideration	—	(13)	(183)	—	(196)
(Gain) loss on the sale or disposal of assets	(633)	176	—	—	(457)
Operating income (loss)	$12,476	$733	$ (18)	$ (4,356)	$ 8,835
Three Months Ended September 30, 2015					
Net revenue	$49,451	$11,128	$ 6,912	$ —	$ 67,491
Operating expenses	35,538	8,630	6,966	3,697	54,831
Operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and loss on disposal of assets	$13,913	$2,498	$ (54)	$ (3,697)	$ 12,660
Depreciation	1,947	820	153	216	3,136
Amortization	23	1,171	136	—	1,330
Change in the estimated fair value of contingent earn-out consideration	—	(105)	(498)	—	(603)
Loss on disposal of assets	35	11	(57)	8	(3)
Operating income (loss)	$11,908	$601	$ 212	$ (3,921)	$ 8,800
Nine Months Ended September 30, 2016					
Net revenue	$149,768	$34,056	$ 19,802	$ —	$ 203,626
Operating expenses	109,455	26,815	19,951	11,928	168,149
Operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairment of long-lived assets and (gain) loss on the sale or disposal of assets	$40,313	$7,241	$ (149)	$ (11,928)	$ 35,477
Depreciation	5,431	2,392	489	638	8,950
Amortization	67	3,233	372	1	3,673
Change in the estimated fair value of contingent earn-out consideration	—	(119)	(339)	—	(458)
Impairment of long-lived assets	700	—	—	—	700
(Gain) loss on the sale or disposal of assets	(2,175)	182	(21)	6	(2,008)
Operating income (loss)	$36,290	$1,553	$ (650)	$ (12,573)	$ 24,620